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COMPARATIVE ECONOMIC SYSTEMS

COMPARATIVE ECONOMIC SYSTEMS

Capitalism · Socialism
Communism · Fascism
Cooperation

by WILLIAM N. LOUCKS
Professor of Economics
and J. WELDON HOOT
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WHARTON SCHOOL
UNIVERSITY OF PENNSYLVANIA

THIRD EDITION



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H-Y

To

Olive L. Loucks

And

Evelyn M. Hoot

who, in harmony with the high traditions of the family — that unconsciously communistic social and economic unit in which income is produced according to ability and distributed according to need—have contributed a variety of services to the preparation of this volume

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FOREWORD TO THE FIRST EDITION

IT IS, perhaps, because "life is a swallow, and theory a snail," as Richard Tawney once wrote, that a text has not heretofore appeared for college and university courses in the field of comparative economics. The maze of economic experimentation and the rapidity of economic change have made it difficult to develop a mature point of view in this field. Recently, however, many courses have been established which deal with subjects covered in this volume. It is needless to say that we frankly regard the present book as a first effort in a difficult and controversial field, and that we shall welcome suggestions from teachers and students.

It is our hope that the pages which follow may show something of the fruits of free inquiry amid considerable difficulties in the gathering of facts swirled by the rip-tides of controversy. It should be clear that we advocate the principles of a liberal education. The purpose of such education is to free the mind from arbitrary restraints and to assist it in the arduous process of thinking. Training in how to think, rather than indoctrination in what to think, is more likely to develop a capable individual and one useful to society. The "ostrich principle" must be ruled out of education, so that facts may be faced without regard to their palatability. To do this is to face the future where the problems to be solved lie, and to avoid facing the past. In this connection it is well to recall Tawney's description of the ruling classes at the time of the French Revolution: "They walked reluctantly backward into the future, lest a worse thing should befall them." If one all-important conclusion is to be drawn from this volume it can be this: That if the pace of social and economic change of the past twenty years projects itself into the future, the central problem will be to make the economic adaptations which the course of events may require—without the loss of cherished freedoms.

. . . . . .

Many persons have rendered assistance in the preparation of this volume. Among these, our colleagues have been foremost in lending encouragement and criticism. Paul F. Gemmill read much of the manuscript and made many valuable suggestions. We were able to lean on the expert knowledge

of the Soviet Union possessed by Karl W. H. Scholz, whose criticisms have been indispensable. Others to whom we are greatly indebted are Philip L. Howell, S. Howard Patterson, Bradford W. West, and Kurt Woerner. The staff of the Lippincott Library of the Wharton School of Finance and Commerce has contributed generously and efficiently to the collection of data for this volume. Thanks are also due to Mrs. Margaret Gilfillan for the preparation of the manuscript.

Among those to whom we owe an especially heavy debt are those excellent and stimulating students of "Economics 4" who have taken the intellectual bit between their teeth and risen to the challenge of clear-headed thinking on controversial matters. To their credit let it be said that they have not always agreed with their instructors. Finally, it would be unfair and unrealistic if we were not formally to record the fact that the critical approach pursued throughout this volume would have been sufficient cause for its being banned under the authoritarian régimes described herein.

WILLIAM N. LOUCKS
J. WELDON HOOT

Philadelphia,
August, 1938.

FOREWORD TO THE THIRD EDITION

As this edition goes to press, the world seems to be in the position of a tightrope walker balancing himself against falling either to the right or to the left. Individually considered, the nations of the world can be placed somewhere between the two extremes represented by the United States and the Soviet Union. While the former is no longer a completely free-market, private-ownership economy, its institutions are basically capitalist and are subject to less government control than are those of any other important nation. At the opposite pole is the Soviet Union, with its almost completely collectivized economy. Midway between is the British program for a "twenty per cent nationalization" of her economy. From her position, the United States is attempting to stop or reverse recent world trends toward collectivism by immediate economic aid through the European Recovery (or "Marshall") Plan and by sponsorship of the International Trade Organization and its Charter, the International Monetary Fund, and the International Bank for Reconstruction and Development. Countering this effort, the program of the Soviet Union (the "Molotov Plan") aims to create a group of satellite nations by supplying them with needed goods—particularly grains—and establishing close economic and trade relationships with them.

A glance at a score of nations reveals that the tide of collectivism has been flowing strongly since the war.[1] The Balkan nations of Rumania, Bulgaria, Yugoslavia, and Albania are dominated economically and politically by the Soviet Union and their industry is rapidly moving toward complete nationalization. The land hunger of the Balkan peasant is being fed by land reforms which increase the number of private individual holdings —but in such small uneconomic acreages that the peasants may be driven to organize collective farms similar to those of the Soviet Union. In Bulgaria, for instance, a majority of the industrial and mining enterprises, with the exception of a few owned by foreign capital, were nationalized by the National Assembly on December 24, 1947, and the nationalization of banks and foreign trade is imminent. Bulgaria, like Yugoslavia, has laid out a

[1]The information which follows was collected from a variety of sources, but chiefly from a survey of the "Future of Free Enterprise" made by the staff of the New York *Times* and edited by Russell Porter. It appeared in the New York *Times* on March 3, 1947.

long-range economic plan which dovetails its economy with that of the Soviet Union. In near-by Greece, poverty-ridden after the war, industry still is privately owned. However, Soviet-dominated Communist forces have made one strong thrust for control and it remains to be seen whether industry and agriculture can be revived with private capital under the aegis of American assistance. To the east, in semi-industrialized Turkey, the lack of private capital and initiative has placed the government in the dominant role in all heavy production lines in order to create adequate industrial equipment. The pattern of this "state capitalism," however, is not copied from the Soviet Union. To the south, attempts to industrialize the Jewish portions of Palestine follow predominantly socialistic forms.

Farther to the west, Poland, controlled by a Communist government, has nationalized all basic industries, leaving in private hands the retail shops and small-scale textile, furniture, cement, glass, china, and porcelain enterprises. These "private" enterprises must follow plans laid down by the government, since their raw materials are allocated by its planners. In 1947, direction of Poland's economy was placed in the hands of a "State Council" of six men which, in turn, concentrated authority over industry and trade in the Minister of Industry. After her liberation in 1945, Czechoslovakia, under a socialistic coalition regime, undertook to restore industry through a mixed economy. It was agreed that large-scale and key industrial enterprises would be nationalized, while trade and some small-scale industries would be left for private ownership and operation. Also, the entire economy was to be guided by a series of economic plans, the first of which was instituted in 1947-1948. By the end of 1947, some 70 to 80 per cent of industrial capacity had been nationalized and was managed by 200 state trusts. Included were all mining, practically all iron and steel production and heavy industries, one-half of wool textiles, one-third of cotton and rayon textiles, one-half of cotton thread, two-thirds of agricultural machines, and four-fifths of electric motors. All important credit agencies also were nationalized. However, except for some important wholesale and retail enterprises integrated with large-scale nationalized concerns, trade remained in private hands. As the Communist party gained in strength during 1947, demands were made that various segments of private wholesale and retail trade be nationalized. These proposals were resisted until January, 1948, when the Cabinet empowered the Ministry of Internal Trade and the Ministry of Industry to nationalize the remaining private wholesale trade in the very important textile industry. The continuation of this trend and the final exclusion of all private industry and trade are presaged by the recent acquisition of full political control by the Communist party.

Hungary, largely agricultural, is dominated by the Soviet Union and private industry is "on the way out." Her coal mines and power plants were state-owned in early 1947; heavy industry was state-managed and the banks were in process of being nationalized. The oil, bauxite, river navigation,

and airlines were reported owned and operated by Russo-Hungarian companies in which the Russians owned controlling interests. All trade and industry are subject to control by the Supreme Economic Council under its three-year plan for the national economy. In September, 1946, a comprehensive nationalization act made the government the technical owner of 90 per cent of the Austrian commercial banking facilities, 85 per cent of river navigation, 90 per cent of coal mining, and 98 per cent of the iron and steel capacity. The government also owns all oil-producing and -refining facilities, and significant portions of other industries, such as those producing machinery and railroad equipment. But the implementing of the nationalization law proceeded slowly because citizens of Allied and neutral nations claimed ownership of many of these properties, the Soviet Union alone claiming 50 per cent of the industrial properties covered by the nationalization measure. Meanwhile, under a Works Council Law passed in March, 1947, elected representatives of workers in the respective industrial plants received extensive rights to participate in and challenge management decisions in those plants, and in December, 1947, the government created a national planning board.

The Prime Minister of Italy in August, 1946, said that "free capitalism can never rise again in Italy." In the post-war period government ownership and control have gained steadily at the expense of private industry, except in electric power. The government's Industrial Reconstruction Institute, formed under the Fascist regime in 1928, through extensions of credit to industrial enterprisers now controls 60 per cent of the steel industry, 90 per cent of the shipbuilding industry, all facilities of steamship passenger lines, and 35 per cent of electric power, as well as important segments of other heavy industries. The government for many years has owned and operated the railway, communications, tobacco, and salt industries. Nearly all portions of the Italian banking system are either owned directly by the government or controlled through equities held by the Industrial Reconstruction Institute. The situation in Germany is fluid because of the Allied occupation, but all available current evidence, plus the long-established trend toward government ownership in that country, indicates that much socialization will accompany the reconstruction of German industry. In Spain the Fascist regime intervenes more and more in industry. This occurs partly through increasing the government's direct ownership, partly through the National Institute of Industry which extends financial aid to infant and weak industries, and partially through the ubiquitous Franco-controlled "syndicates" under which the whole economy is organized. France has a mixed economy, with the post-war trend strongly in the direction of collectivism. Prior to the war, the postal, telegraph, telephone, and railway systems were owned and operated by the government. Since the war, aviation, the Bank of France and five other large banks, gas and electric utilities, some coal mines, an important automobile factory, and the large

insurance companies have been nationalized. The new Constitution declares that enterprises operating public services or monopolies should be socially owned. The degree to which private industry and trade are permitted to continue depends upon the future balance of French political forces.

In Belgium private industry predominates, but operates under numerous and close government controls, including price controls. No important nationalization measures appear in the offing, although government ownership of the coal mines has been before Parliament, the nationalization of the gas and electricity industries has been discussed, and the Communists propose taking over the banking system. In the Netherlands, strict government controls have been imposed, but no trend toward collectivism is evident. In Sweden, a socialistic government follows a policy of leaving the greater part of the economy under private ownership, while extending nationalization into those industrial areas where pragmatic tests of efficiency reveal need for control. As a result the government proposes to nationalize some of the nation's big industries. The sale of liquors, wines, and tobacco has been a government monopoly for some years. The government owns the bulk of waterfalls producing electricity, and recently acquired a monopoly of long-line distribution of electric power. It is the largest owner of forest lands and forest industries. The trunk railway facilities are government-owned and are rapidly absorbing the smaller private lines. In 1947 a government-appointed investigating committee recommended nationalization of the importation of petroleum and the sale of its derivatives. Other committees have been studying the desirability of nationalizing banking, insurance, and the shoe industry. The most active opposition to further nationalization comes from representatives of the strong cooperative movement.

Across the world, in Australia, the Labor party has been in power before, but the post-war Labor government has effectuated more socialization than its predecessors. The public ownership of railroads and utilities has been nearly completed. The government has been expanding its ownership of mines and is taking over privately owned airlines. Its most important socialist act was that nationalizing banking in December, 1947. It provided for government purchase of all the shares and assets of all Australian banks and their overseas branches and prohibited the conduct of banking business by private companies. The Act, however, has been challenged in the High (Supreme) Court as unconstitutional and invalid on other grounds. In Japan the old pattern of capitalism, under which a few family holdings controlled most of the important industries, was destroyed under the allied occupation policy. The family holding companies were dissolved and their securities are held by the government. The political strength of the socialists makes it probable that, whatever the eventual pattern of industrial organization, government planning and nationalization will be significant. Reports from China in late 1947 indicated that in the third of China con-

trolled by the Communist armies the ownership rights of all landlords were being abolished and the land divided among the families tilling the soil. This was said to be the most extensive change of landownership since the Revolution in Russia. "The days of capitalism in India appear to be slipping fast away," said a report from that country in late 1947. The Prime Minister made it clear that India's future economic policy would entail the nationalization of certain basic and key industries under a long-range industrial plan to be announced during 1948. The Pakistan government was planning to take over the armament industry, railways, the telegraph and postal systems, broadcasting, hydroelectric power, and mineral and oil rights.

These world trends are conclusive proof that today's college students should study and compare economic systems with the greatest diligence and sincerity. We hope that the third edition of this book will be of assistance in such endeavors. To this end, the chapters on the Soviet Union have been thoroughly revised to cover wartime and post-war changes, including the recent monetary reform and derationing. The treatment of Fascism in Italy and Germany has been revised and cast in historical perspective; an extended analysis of British Socialism has been included; and a discussion of full employment under capitalism has been added. The remaining chapters of the book have been brought up to date and revised when necessary.

W. N. L.
J. W. H.

Philadelphia,
May, 1948

Part I

Introduction

Chapter 1

A PREFACE TO ECONOMIC CONTROVERSY

The events which accompanied and followed the Second World War have set in a new light the comparative study of different types of economic systems. The economies controlled by fascist governments—Germany, Italy, and Japan—collapsed under the impact of military defeat. These were properly described as managed and controlled capitalist systems in which property was largely owned by private persons but with economic decision-making removed from a private to a public power. The future character of the German economy is as yet undetermined and is, in fact, a major point of disagreement among the occupying powers. This volume continues to deal with the fascist economies because valuable historical lessons may be drawn and because the political spirit which gave rise to these forms cannot be considered extinct.

In the post-war world three types of industrialized economic systems compete for attention. The first of these is the capitalist economy of the United States which recently demonstrated a remarkable capacity to expand production although as a result of an equally remarkable expansion of Federal debt. Whatever may be the future problem of internal debt it remains an undoubted fact that the economy of the United States discovered unsuspected powers to expand its national product to fifty per cent above 1939 figures. In the United States most property is privately owned and a wide range of freedom of enterprise, occupational choice, and consumers' choice is ordinarily provided. In this economy competition is relied upon to play a large part in stimulating production and in protecting the private interests of individuals. This kind of system is expected to operate with a high degree of automaticity so that a minimum of governmental interference or direction is required under normal conditions.

The second type of economic system is represented by the post-war economy of Great Britain for which the present government has received a voters' mandate to experiment with socialization on a national scale. While present plans for the conversion of private property in Great Britain into socialized property do not appear to extend beyond twenty per cent

of the national wealth, the government has continued many of the wartime controls and has announced certain over-all, long-run objectives of socialization which are theoretically a departure from the principles of capitalism and free enterprise. However, in both the economic and political sense the British system must be regarded as experimental. If successful, there seems to be every reason to expect that socialization will be expanded. What appears to be notably lacking in Great Britain is so great a disrespect for private property that its absolute destruction in the pattern of the Soviet Union is in order. It is conceivable that Great Britain may present the world with a system which will combine the basic principles of economic planning with retention of private property and without the loss of precious individual freedoms and rights.

The remaining type of economic system is the planned socialized economy of the Soviet Union. In this system the capital and natural resources used in large-scale production are socially owned by the government or by other collective agencies. Instead of leaving the organization of production and consumption to private enterprise the government plans the economy from a central source. Government enterprise replaces private enterprise.

If it were possible to view modern economic systems as objectively as an anthropologist studies the cultures of simple peoples, it would become clear that the world is divided into certain "culture areas." Each of these areas has a common set of ideas and doctrines which differ from those held in other areas. Each area tends to "export" its doctrines to others. Conflict follows when the exported doctrine is considered repugnant by the "importing" area. At the present time a line drawn through Europe from the Baltic to the Adriatic would separate one culture area under the domination of the Marxian socialism of the Soviet Union from the areas dominated by capitalist and liberal conceptions. Such a line does not adequately describe the area of conflict because in other countries which provide freedom of political association there exist contests between political parties representing opposed economic programs. It is anticipated that such contests will continue and will become the dominant political factor in the next decade. In this connection it should be noted that in Spain and Argentina there remain visible residues of fascism which can be counted upon to complicate the international political scene.

The Comparative Point of View

In the field of political science it has long been customary to compare and contrast political systems and forms of government. In recent years there has been a great variety of experimentation with economic systems and sufficient information has become available on systems other than capitalism to enable the student to compare and contrast the different systems. In making such comparisons the present text will utilize three

approaches to set the facts and principles in order. The first approach is to compare and contrast *planned and unplanned economies.* The thread of this discussion runs through the balance of the text. The subject is introduced in the present chapter and treated more fully in the sections which follow. The second approach relates to the fact that any type of economic system must be operated on the basis of certain *economic principles* if it is to conserve scarce agents of production and to produce efficiently an adequate national income. These principles are applicable to all types of economic systems whether planned or not and whether property is privately owned or socialized. Such principles are reviewed in the present chapter so that they can be used in the study of the various types of systems here presented. The third approach concerns the set of *economic institutions* by which an economic system is controlled and through which it operates. Economic institutions are of very great importance because they determine where the economic power (and also the political power) is to be located. The location of power through economic institutions is treated in the chapter which follows.

The Collectivist or Planned Economy

The chief economic controversy at the present time is the choice between the maintenance and development of the individualist type of economy represented by modern capitalist economies and the acceptance of the planned collectivist type of economy represented by the Soviet Union and, perhaps, in the future, by Great Britain. Before exploring the basic principles which must be applied to any type of economic system a clear statement of the differences between economies which are planned in the comprehensive sense and those which are not is in order.

Economic planning means the shaping of all economic activities into "group-defined spheres of action which are rationally mapped out and fitted, as parts of a mosaic, into a coordinated whole, for the purpose of achieving certain rationally conceived and socially comprehensive goals."[1] Because there is a plan based on a comprehensive goal every part of the economy and every individual is assigned a task which must be coordinated with the tasks of every other part of the economy and of every other individual. Because of this, individuals cannot be left free to act for themselves since their acts might interfere with, or not contribute to, the execution of "the plan." A high degree of centralized authority is therefore required and individuals have a correspondingly smaller list of economic acts which can be freely engaged in. It is, of course, conceivable that proposals for "the plan" might be made by political parties and the choice of voters followed. Once a plan is established, however, a very high centralization of

[1] W. N. Loucks, in *The Annals of the American Academy of Political and Social Science,* July, 1932, p. 114.

authority would be necessary. For example, strikes, and other refusals to supply, would of necessity have to be prohibited.

The most significant feature of a planned economy is the character of its price system. The prices of finished goods are made up of the prices of the raw materials, labor, and capital which are necessary to produce goods. Economic planners, in devising their plan, must take account of the incomes which individuals are to receive, the amounts of labor and materials to be employed in the production of various products, and the kinds and quantities of various products to be produced. Furthermore, prices on goods to be marketed must be fixed so that costs will be covered and goods sold. Forecasts of demand are therefore required. The planning authority, because the plan is *comprehensive,* must make its decisions relating to production, prices, and income distribution simultaneously. Such decisions must necessarily be arbitrary to a greater or less degree. They must also be accurate or the various parts will not fit into the "mosaic" and the plan will fail of accomplishment.

The Individualist or Free Economy

The free enterprise or capitalist economy operates, except in time of war, without a comprehensive plan. The total of its production is the result of decisions made by millions of persons who wish to gain livelihood by the production of commodities and services, usually for sale. This kind of an economy is sometimes referred to as a "market economy" because producers produce for the market and must therefore seek the favor of buyers. In the United States the production of income is organized by more than 10 million enterprisers of whom 7 million are farmers. Such overall figures conceal the large percentage of manufacturing which is carried on by, for instance, the 200 largest corporations, but nevertheless serve to emphasize the fact that millions of individuals participate in the decision-making which is necessary to organize production. The sum total of such decisions and the economic efforts of the population *result* in a comprehensive achievement which amounts to the "goal" of a free economy. This is in contrast to the planned economy which first sets forth its goal and then shapes individual actions accordingly. It should be noted that free economies are not always satisfied with the total results of the actions of individuals and may rely on the assistance of central authority. This is particularly true when there is unemployment or "depression" or where particular industries are distressed or at a disadvantage.

In further contrast to the principles of a planned economy is the operation of the price system. In a free economy (remembering that monopoly, unless legalized, has no proper place in capitalism) prices are determined by the free bids of independent buyers and sellers. Furthermore, such

prices are determined simultaneously in hundreds of thousands of instances.[2] The capitalist system of pricing begins with the payments to productive agents by enterprisers. These payments become costs of production which the enterpriser hopes to recover from the selling price. The selling price, in turn, reflects a demand for productive agents so that producers of goods which sell at the higher prices are able to attract land, labor, and capital and so to expand production. The production of goods which cannot be sold at satisfactory prices is correspondingly discouraged.

Because the basic institutions of capitalism are treated at length in the section on Capitalism it is necessary only to point out here that the institutions of free enterprise, private property, the profit motive, and competition are necessary institutions in a capitalist system because they give individuals power to act, incentives for action, and, in the case of competition, provide restraints on action.

THE ROLE OF ECONOMIC PRINCIPLES

Economic systems, regardless of type, must meet certain tests of efficiency. Modern economies must exert themselves to produce large national incomes efficiently and to see that the income is composed of beneficial commodities and services. In a day when economic equality is a popular concept they must provide also for a somewhat equal distribution of the income.[3]

In producing income, each type of economic system meets characteristic problems arising from production. This is true because there are certain well-established economic principles which must be followed if a large national income is to be produced efficiently. If these principles are violated, the least that can happen is the development of inefficiency; the worst result is an economic breakdown. Economic principles are frequently violated when national policies run counter to economic efficiency. However, the principles cannot be set aside without penalties being paid for their violation. An example of violation is the search for national self-sufficiency in a world which lends itself by nature to geographic specialization and international trade. It is possible to make a country self-sufficient, but only at a price. The effects of Germany's self-sufficiency policy showed up as early as 1935. The "sealing" of the German farmers' market from foreign competition raised the domestic price of wheat above the world price in the wholesale market by nearly 200 per cent and the price of sugar by 300 per cent. But sometimes a policy economical in peace-time

[2] The price system can be expressed by simultaneous equations in which prices and quantities are used. In a planned economy it would be necessary for the planners to know the prices and quantities which would balance if perfect planning were to be accomplished.

[3] These tests appear in R. T. Bye and W. W. Hewett, *Applied Economics*, Crofts, New York, 1938. Cf. p. 10.

is expensive in war-time. The transportation of petroleum from the southwestern United States to the eastern seaboard is cheaper by tanker than by rail or pipe line. Hence, economic efficiency encouraged the use of tankers —a policy which proved disastrous when the United States found herself at war.

The foregoing statements indicate that it is essential for the study and understanding of different types of economic systems to be based upon a knowledge of economic principles. For this reason certain of these principles will be reviewed.

Scarcity Common to All Economic Systems

The ability of an economic system to produce income is limited by the fundamental scarcity of agents of production. Land, labor, capital, and managing ability are scarce in relation to the possible uses to which they can be put.[4] Risk is an element common to all production and acts as a limiting factor on ability to produce. The limitations which the scarcity of the means of production place upon capacity to produce apply in every economic system, whether its resources are publicly or privately owned, and whether production is undertaken for profit by millions of business enterprises, or planned by the government. These limitations become strikingly clear in war-time when the withdrawal of men for the armed forces leaves a shortage of labor in the factories. This causes an unusual strain on production.

Because of the scarcity of the means of production there follow effects which give a logical framework to an economic system. This can be described in a series of statements as follows:

1. Agents of production (land, labor, capital, and managing ability) are scarce.
2. Since the agents of production are scarce, the goods and services which can be produced (the national product) will also be scarce.
3. Since the goods and services are scarce (and useful) they will be valuable and prices will be set upon them.
4. Since the various agents of production produce products which are valuable, they can receive payments from the value of the products which they produce. In this way, the agents of production share in the national product. Such payments become the personal incomes (as rent, wages, interest, or profits) of those who contribute services and

[4] "Scarcity" as an economic term refers to economic goods as distinguished from free goods. "Scarce" means scarce in relation to the demand for goods. Thus, in times of depression a surplus of unemployed labor is available and labor is relatively abundant, but it is not a free good since it cannot be obtained without payment. A quick test of an economic good is whether a price is set upon it. If so, it is an economic and not a free good.

those who use or lend their property for the production of the national product. Incomes received by persons thus become the costs of production of enterprisers.

Because the general structure of an economic system begins with scarce means of production and ends with the limited amount of goods available, a number of economic principles would be common to all economic systems. These principles must be of a sort which will make the economic system "work," that is, bring supplies of goods regularly to the markets to satisfy consumers' wants and the needs for capital goods, and decide by some acceptable principle how the scarce income is to be shared among the members of the economic system.

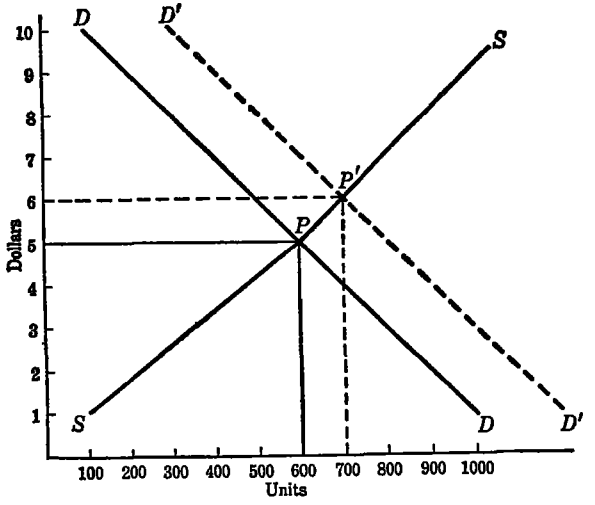
The Necessity for a Price System

It is only in a relatively simple utopia that goods are presumed to be produced and exchanged without prices. Under a condition of life in which each person would work altruistically for the common good and would use only that portion of the national income which he needs, a price system would be superfluous. But modern economic systems are not of this sort. Since most production is specialized, it is necessary to exchange the shoemaker's surplus shoes for the baker's surplus bread. This requires a set of ratios of exchange-value which become, when converted into money, a system of prices. Without such a price system, it would be impossible to transfer goods from persons who want them less to persons who want them more, thereby creating possession utilities. Furthermore, a system of prices allows the calculation of the consumers' willingness to purchase, and of the producers' costs of production. Prices determine whether consumers can afford to purchase and whether the necessary costs of production are covered. This is true whether the economy is one in which producers and consumers are free to buy and sell at prices determined by their own actions, or one in which prices are fixed by governmental authority.

Demand and Supply

In a capitalist economic system most goods are privately produced and are sold in markets where prices are set by the operation of the forces of demand and supply. Since prices must be determined with reference to these forces in all economic systems, it is important that the fundamental principles of demand and supply be recalled. In competitive markets, buyers will be prepared to purchase larger quantities at lower prices than at higher prices. Conversely, sellers will be willing to offer larger quantities for sale at higher prices than at lower prices. Between the opposing forces of demand and supply a "balance" is reached at which price the quantity demanded is equal to the amount supplied. At this price the market is in equilibrium because the quantities of goods offered and of goods de-

manded are equal and the market is "cleared." The accompanying price diagram is an illustration of this principle of supply and demand.



According to this diagram, buyers stand ready to purchase a series of quantities ranging from 100 at a price of $10 to 1000 at a price of $1. Sellers offer a quantity of 100 at $1 and a series of larger quantities at higher prices ranging to 1000 at $10. But a balance is struck between the willingness to buy and the willingness to sell at a price of $5 for a quantity of 600. At this point an equilibrium between supply and demand is reached at the point *P*, and the sales take place. If the equilibrium is distributed by an increase in demand, as shown by the dotted line *DD*, buyers will be willing to purchase 700 units at a price of $6 and a new equilibrium will be reached at that price. This is indicated in the new point of equilibrium, *P'*. Under competitive conditions such adjustments are made by the actions of independent buyers and sellers, each of whom is following his own interests.

While this explanation oversimplifies matters, it emphasizes the fundamental fact that the forces of supply and demand focus a multitude of economic influences on prices. Furthermore, it introduces the fact that a system of prices must operate (or be operated) in a way which will bring supply and demand into equilibrium. This is one of the major problems in a planned economy as well as in a competitive economy. Mistakes may be made in planning to produce and offer for sale a certain amount of product at a given price if attention is not paid to the probable amount which can be sold at each of a series of prices, and the probable costs of each of a series of quantities. Serious errors could result in unsold surpluses or shortages of commodities in much the same way that the misjudgments of business men in a capitalist system sometimes result in surpluses and

shortages. This assumes, of course, that consumers are allowed freedom of choice and that goods are not rationed.

In connection with the principles of supply and demand there are certain other matters which are significant under all types of economic systems. Inequalities of income tend to distribute buyers along demand curves according to the amounts of income received, since persons with larger incomes often are willing to pay more for a given commodity if they must than are persons with smaller incomes. But even if all incomes were equal,[5] demand curves would slope from the upper left of the graph to the lower right. In other words, larger quantities of goods would be sold at lower prices than at higher prices. One reason for this is the fact that more intense desires for a given commodity would impel some persons to pay higher prices for it than others with less intense desires would pay. Another reason is embodied in the principle of diminishing utility. This expresses the tendency for the usefulness of additional units of the same good to decline, and hence the willingness of the purchaser to pay only lower prices for additional units.

Furthermore, various demands would have different capacities for absorbing goods from the market. This would depend upon the relative elasticity or inelasticity of each. An elastic demand is one in which, as the price is reduced, the units sold increase so much that the gross receipts are greater when the price is low than when the price is high. In the United States the automobile industry has afforded an outstanding example of this principle, since, as reductions in production costs allowed reductions in prices, sales grew by leaps and bounds. In the case of inelastic demands, while more units are sold at a lower price than at a higher price, sales respond so slowly to price reductions that gross receipts are less at lower prices than at higher prices. Articles of necessity selling for low prices, such as salt, usually have inelastic demands. Of considerable importance is the fact that many agricultural crops have inelastic demands, causing bumper crops actually to put less money into the pockets of farmers than do short crops.

In a planned economy it would be necessary to work with, rather than against, such principles. Industries producing products for which demands were elastic would be capable over a period of time of absorbing relatively larger amounts of goods than would those with inelastic demands. This also would require that different amounts of capital goods be produced and allocated to industries with various types of demands. Failure to calculate accurately such relations between demand and supply would result in surpluses or shortages and corresponding inefficiencies. In capitalist economies such maladjustments occur, but are expected to be removed through the operation of a flexible price system in which surpluses are

[5] It should be noted that equality of income is assumed, since no existing economic system provides such equality.

cleared by falling prices and resulting losses, while rising prices make it profitable to remedy shortages. Such adjustments can also be made, of course, in a planned economy.

Economic Equilibrium

The principle of balance or equilibrium just discussed in connection with supply and demand has a wider application since it can be applied to the whole economic system. An economic system must achieve balances between the supply of and demand for particular commodities and among the prices of groups of commodities as, for example, the prices that farmers pay for manufactured goods which they buy and the prices that they receive for the products they have to sell. But the whole economy must achieve an approximate balance between the total payments to income receivers and the sums of the prices of the goods to be purchased. In the science of economics this is known as Say's law.[6] According to Say: "The total supply of products and the total demand for them must of necessity be equal, for the total demand is nothing but the whole mass of commodities which have been produced: a general congestion would consequently be an absurdity."[7] In elementary treatments of economic principles this law is frequently used to refute the popular belief that depressions are due to a general overproduction of goods. Its technical meaning is that, since effective demand for goods is created as payments are made to productive agents for the production of goods, as much income is paid out (or kept as profits) as the total values of the goods to be purchased. However, whether such payments neatly balance in capitalist economies has never been determined by research, although measurements of the national income from money incomes received and from the values of goods produced would indicate an approximate balance. It is possible, however, that dislocations of income payments, refusal to spend money incomes received (oversaving), or other occurrences might contribute to depressions on markets by upsetting the equilibrium.

An aid to understanding this conception of economic equilibrium is to be found in the income and expenditures statement commonly used in business for the calculation of profit and loss. Such a statement for the whole economy of the United States should show whether the economy were in or out of equilibrium for a given period. A statement of this kind has been prepared for the year 1939 and appears on the following page.

In contrast to the income and expenditures statement of the United States is the accompanying balance sheet of the Soviet Union.

It should be noted that the balance sheet for the United States is drawn in terms of an economy privately owned and shows the money incomes paid out as payments to productive agents and the purposes for which

[6] Named for Jean Baptiste Say, French economist, 1767–1832.

[7] Quoted from Say's *Le Traité d'Économie politique,* by Charles Gide and Charles Rist in *A History of Economic Doctrines,* Harrap, London, 1915, pp. 113–114.

NATIONAL INCOME AND PRODUCT ACCOUNT, 1939
(Millions of dollars)

Compensation of employees:		Personal consumption expenditures	67,466
Wages and salaries	45,745	Gross private domestic investment	9,004
Supplements	2,075	Net foreign investment	888
Income of unincorporated enterprises and inventory valuation adjustment	11,282	Government purchases of goods and services	13,068
Rental income of persons	3,465		
Corporate profits and inventory valuation adjustment:			
Corporate profits before tax:			
Corporate profits tax liability	1,462		
Corporate profits after tax:			
Dividends	3,796		
Undistributed profits	1,209		
Inventory valuation adjustment	— 714		
Net interest	4,212		
National income	72,532		
Indirect business tax and non-tax liability	9,365		
Business transfer payments	451		
Statistical discrepancy	462		
Less: Subsidies minus current surplus of government enterprises	485		
Charges against net national product	82,325		
Capital consumption allowances	8,101		
CHARGES AGAINST GROSS NATIONAL PRODUCT	90,426	GROSS NATIONAL PRODUCT	90,426

NOTE: The above table appears in *National Income,* Supplement to the *Survey of Current Business* for July, 1947, United States Department of Commerce, Bureau of Foreign and Domestic Commerce. This publication is a result of long-continued studies of the national product. The student may wish to refer to this document for an explanation of the principles involved and definitions of terms. For a criticism of the statement from an accounting point of view, see the article by Franzy Eakin in *The Journal of Accountancy* for August, 1947, entitled "The Use of Accounting in the Interpretation of Economic Data."

Because the statement is presented in connection with the discussion of economic equilibrium one should not jump to the conclusion that, because the statement is in balance, the economic system is in equilibrium. It is quite possible that the statement would be in balance for a particular year but that the types of disequilibria which would lead to a depression would be present. Much research remains to be accomplished on the subject of equilibrium and this, fortunately, is continuing.

The following definitions will assist the student in interpreting the statement. *Gross national product or expenditure* is the market value of the output of goods and services produced by the nation's economy, before deductions of depreciation charges and other allowances for business and institutional consumption of durable capital goods. *National income* is the aggregate earnings of labor and property which arise from the current production of goods and services by the nation's economy. Cf. page 8 of the *National Income* supplement.

these incomes were spent or saved. On the other hand, the balance sheets of the Soviet Union are drawn in terms of an economy publicly owned and publicly managed. Accordingly, the two items, "National Economy" and "Social and Cultural Measures," cover the non-military production of goods and services. On the revenue side the turnover tax, which is levied at the manufacturing or wholesale level, accounts for almost half of gov-

ernment revenue. However, putting the details to one side, we can return to the chief point of this paragraph, which is that an economic system, regardless of type, must achieve an over-all balance of income and expenditures if it is to operate efficiently and successfully.

Natural Resources and Diminishing Returns

The production of goods must begin with the natural resources that are available to provide the raw materials of industry. In every type of economic system natural resources will be of varying grades and strictly limited in supply. Furthermore, in the combination of the agents of production the familiar law of diminishing productivity will account for rising costs of production after the point of diminishing returns is passed. This principle would operate not only in the production of food and raw materials from agricultural and mineral land, but also in all productive operations, because a choice must be made of the proportion in which land, labor, and capital are to be combined. If combined in uneconomical proportions the products added by extra units of a productive agent will decline, and costs per unit will rise. The most efficient utilization of natural resources would require the more intensive cultivation of the better grades of land and the less intensive cultivation of the poorer grades, because this would bring the largest total product. Cultivation past the point of diminishing returns and even to the point of maximum productivity of land occurs when nations seek self-sufficiency. While a nation may justify this from a military point of view or because the pressure of population requires it, it results in higher costs, less efficient production, and decreased standards of consumption.

An illustration of the way in which the principle of variable proportions may be violated has been cited in connection with the use of labor and capital on one of the collective farms in the Ukraine district, near Kiev, in the Soviet Union. In this instance it is alleged that the poorer grades of land were being cultivated by the use of larger amounts of capital (in the form of agricultural machinery provided by machine-tractor stations) than were being used on the better grades of land. The purpose of this, according to a communist theorist, was to raise the productivity of the *labor* on the poorer grades of land. This amounts to discrimination against the maximum possible productivity of the land in favor of labor, and is analogous to a labor subsidy. The result was probably that a smaller total product was produced than would have been possible if the larger amounts of capital had been used on the better grades of land. There is no evidence that this principle was applied throughout the Soviet Union.

Money and Credit

In any highly developed economic system a long series of complicated exchanges is necessary to bring goods through the various stages of pro-

STATE BUDGET OF THE U.S.S.R. FOR 1941

Revenues	*Millions of rubles*	*Percentage of total*
Turnover tax	124,500	57.6
Profits tax	31,259	14.5
State social insurance funds	9,998	4.6
Revenues from machine and tractor stations	2,603	1.2
State loans	13,230	6.1
Taxes and levies on the population	12,451	5.8
Total	216,161	100.0

Expenditures	*Millions of rubles*	*Percentage of total*
1. National Economy	72,875	33.8
Including:		
Industry	39,181	18.2
Agriculture	13,455	6.2
Transport and communications	6,576	3.1
2. Social and Cultural Services	47,803	22.2
Including:		
Education	26,612	12.4
Public health	10,891	5.1
Social maintenance	3,469	1.6
3. People's Commissariat of Defense and People's Commissariat of the Navy	70,865	32.9
4. Judiciary and State Administration	7,142	3.3
5. Loan Service	3,350	1.6
Total	215,373	100.0

NOTE: The balance is that submitted by the Union Commissar of Finance for 1941. It is not a statement of end results of a year's operation. Note that a small surplus of revenues over expenditures was anticipated. About three-quarters of the total is accounted for by the federal budget and the remainder by the republic and local governments. Because relatively unimportant items have been omitted, neither the individual revenue items nor the individual capital expenditure items add up to the totals for these categories. This applies also to the subdivisions of the several expenditure items and to the individual items expressed as percentages of the respective totals. The budget given is from *Soviet Russia Today*, May, 1941, pp. 43, 45. For information on the budget of the Soviet Union through the war years (1941–45) see Theodore A. Sumberg, "The Soviet Union's War Budgets," *The American Economic Review*, vol. xxxvi, no. 1, March, 1946, pp. 113–126.

duction to the final consumer. To ease the process of exchange, it is necessary to use some medium of exchange in the form of money. To be satisfactory, this medium should have a reasonably stable value. Of course such a medium can be composed of paper money, without the backing of precious metals, provided there are assurances that the supply will not be overissued. The creation of credit is necessary as long as the production of goods is carried on in anticipation of demand because consumers' goods must be provided for workers while new goods are in the process of production.

The same kinds of advances are necessary when an economic system undertakes to produce capital goods. In so far as this is done, consumers must wait for the satisfaction of some wants in the hope that the newly produced capital will provide a more adequate supply of consumers' goods in the future. Furthermore, the labor which is used to produce capital must be provided with consumers' goods produced by the remainder of the working population. In capitalist economies advances of labor and materials are supplied largely by savings placed at the disposal of the community by individual savers. In general, it may be expected that such savings would flow into industries which find public favor, and which, for this reason in part, are able to pay a higher rate of return with safety than industries less favorably situated. The interest on such savings (or profits, if the savings are used for the purchase of stocks) represents a claim of private persons on the national income. Furthermore, it is expected that the borrowed fund will be returned (or kept) intact so that the saver does not lose. Such a return of investment means that the capital for which savings are spent should replace its depreciation out of the increased production resulting from its use. Without regard to whether the property is publicly or privately owned, such a charge has to be a part of the cost of production. Otherwise, capital investments would be impaired and the national stock of capital diminished.

The necessity for short-term credit arises because production is carried on in anticipation of demand, and, as has been mentioned, advances must be supplied to workers before the finished product is sold. Under a capitalist form of economic organization such advances are supplied by commercial banks lending their own credit to persons who wish to finance payrolls, purchase material, or meet other expenses which must be incurred prior to the sale of the product.[8] Under other types of economic organization—for example, the Soviet Union—the same extension of credit is required, for the reason that production under that system must also be carried on in anticipation of sale.

The most important characteristic of a credit system which is common

[8] In recent decades in most capitalist systems large corporations have carried out their own financing and a very large percentage of the assets of commerical banks has come to consist of other assets than commercial loans, and of holdings of government debt in particular.

to all types of economies is the fact that credit gives direction to production. When it is possible to obtain advances for the expenses of production, a given commodity or service can be produced or a given industry created. Otherwise the lack of working capital prevents production from being undertaken. The power to grant or withhold credit, therefore, is the power to control production. Under a capitalist organization where the control of credit is in private hands, such decisions are made by private banking institutions and individual savers, and the risk of loss is a private one. Hence, the first test for the extension of credit is the possibility of repayment. This involves questions not only of selling the product at a price which covers costs, but also of the integrity of the person or firm applying for a loan. Under a system in which production is directed by the government, the same question of the proper choice of the industry to which to grant credit arises. It becomes necessary to make decisions as to the proper amount of credit to be granted to a given industry or plant, and to calculate the possibility of the repayment of loans out of receipts. Even though a government might control the price at which goods are sold, the cost of the credit granted enters into the cost of production, and, assuming that goods are not sold below cost, it is a factor in the pricing of goods. By and large, goods would have to be sold at prices which would induce consumers to take them off the market, and hence estimates of the probable demands for the goods also would be required.

The Equation of Exchange

Money and credit are purchasing power in any type of economic system. The relation between the amount of money and credit available for expenditure and the quantity of goods and services available for purchase determines the general level of prices and therefore the value of money. These relations are usually stated in the form of the equation of exchange:

$$P = \frac{MV + M'V'}{T}$$

In this equation M stands for the amount of money in circulation, M' for the amount of credit money (primarily bank deposits) subject to check, V and V' for the velocity at which these supplies of purchasing power circulate. T represents the total volume of goods and services to be purchased. P represents the price level. The equation explains changes which occur in the *level* of prices as distinguished from changes in specific prices for a given commodity, which would be determined by the supply of and demand for that particular commodity. In general, if the quantities of available money and credit are increased more rapidly than is the quantity of goods to be purchased, a rising price level follows. The same thing occurs if the rates at which money and credit money are spent increase.

Producers and consumers are more willing to spend at some times than at others, thus increasing the "turnover" of the purchasing power. When this occurs, prices tend to be bid up by ready buyers. The price level tends to go down when the supply of money and credit decreases more rapidly than does the total of goods available for purchase, or when producers and consumers are less willing to spend than formerly. In such a case, prices are bid down by buyers who withhold purchasing, or prices are voluntarily reduced by sellers to attract customers on a falling market.

While the influence of the equation of exchange would vary with the type of economic system, the fundamental relations between the supply of money and credit and the quantity of goods remain universally valid. Changes in any one of the factors in the equation always would tend to move the level of prices upward or downward. In capitalist economies, sharp swings in the price level cause considerable changes in property ownership. This occurs because the owners of such fixed claims for money payments as savings accounts, bonds, mortgages, or insurance policies, and the recipients of fixed incomes, can buy less goods with a fixed number of dollars when prices rise and more goods when prices fall. In an economic system where producers' goods are publicly owned, such claims of individuals need not exist, and hence changes in price levels would not have the same effects as in capitalist countries. Of course, in so far as wage rates were fixed prices, or interest on savings accounts was allowed, gains and losses would occur with price-level changes.

In the Soviet Union, during the Five-Year Plans, so large a part of production was in the form of capital goods and so great was the shortage of consumers' goods, that a peculiar form of "inflation" occurred. Many necessities were rationed, and the prices of other consumers' goods were purposely fixed at a low level in commercial and cooperative stores. This left consumers with unexpended balances of incomes for which there was no adequate supply of goods. It was said that Russia was the one country where unemployment was negligible and where workers had more money than they could spend! Some of the surplus money found its way into the so-called free markets where the government offered for sale small additional quantities of certain goods at fantastic prices. Hence, inflationary tendencies were concentrated in such markets. Other portions of unexpended income were attracted by the sale of bonds and so found their way into governmental capital expenditures.

When the United States developed a war economy similar inflationary tendencies appeared because military goods were not sold on markets and hence did not absorb the purchasing power paid out to produce them. Thus M and M' increased rapidly while T decreased. It was necessary to draw the extra purchasing power away from markets by taxes, sales of bonds, and other devices. Price-fixing became necessary to prevent inflationary rises in the prices of goods, particularly of necessities.

Risk-Bearing

Since production is beset by uncertainties ranging from the vagaries of the weather, fire, and theft, to changes in demand, in costs of production, and to the human risks of industrial injury or disease, some method of caring for risks must be adopted. In capitalist economies risks that are regular and predictable may be insured against, others may be hedged against, while still others must be assumed by the enterpriser, worker, or owner in the hope that the dreaded event will not occur. When risks can be insured against, a significant principle of socialization is involved since the risk is spread over all those insured. A small certain loss in the form of a premium replaces a larger uncertain loss in the form of the hazard. It is noteworthy that under capitalism the uninsurable financial risks of production are concentrated largely on enterprisers and property owners. Hence, the burden of mistakes in the first instance falls upon a relatively small group. But in an economic system in which property is owned collectively, such risk is borne directly by society. Thus, in the Soviet Union financial losses due to risks are borne directly by the government, or by the working class which, in theory, is the owner and enterpriser. Human risks of accident or occupational disease are borne by workers unless compensation insurance is available. However the risks of production may be borne, they act in all economic systems as restraints on the ability to produce income, and hence as one of the causes of scarcity.

Cost of Production

What costs of production would be common to all types of economic systems? In general, any influence which creates scarcity becomes an influence on the supply and therefore affects costs. The use of labor will involve a cost of production because labor ordinarily requires effort and it is necessary to offer a reward in the form of *wages* to induce irksome effort. The managing ability of business men, which under the capitalist system is compensated by the possibility of getting profits, under other systems may be treated as labor, since management is a necessary and difficult part of the process of production. As long as managerial ability is scarce, payments for it must be considered necessary costs of production.

The cost of making capital and providing for its depreciation would likewise represent a cost appearing in every type of economic system. However, in an economy in which the ownership of land and capital is vested in society as a whole, it is possible that *interest* payments as a share of the national income could be abolished. In an economy where the means of production or the savings are privately owned, borrowers must pay for the use of producers' goods belonging to others. However, it must be remembered that under every type of economy the real cost of saving, that is, foregoing the immediate satisfaction of wants in order

to provide capital funds, must be borne by those who do without the goods.

In the case of *rent* as a payment for the use of natural resources, public ownership could abolish the necessity for this share of income being paid to private owners. This is possible because natural resources are a gift of nature and no payment is necessary to bring them into existence. Furthermore, their supply is fixed in the sense that it cannot be increased in any considerable amount by the action of man. Of course, in so far as there are costs of producing raw materials—for example, mining coal or fertilizing land—costs of production appear and have to be taken into account.[9]

Two other important influences would follow from the special characteristics of land. Since land is of strikingly different grades, the cost of production on the poorer grades of agricultural land would be higher than on the better grades. This would affect the productivity of labor and have some tendency to affect the wage payments that labor could receive from the product. The second influence on costs from the special characteristics of land is the fact that over a period of time there is a tendency for costs to rise as mines become worked out or as land is intensively cultivated. This is the familiar concept of increasing cost which operates as a resistance to production in any type of economic organization.

Profit Margins and Cost Accounts

A sharp distinction must be made between the *profit motive* and the *profit margin*. In a capitalist economy the profit motive is an incentive and a guide to the individual who organizes production. The expectation of profits will stimulate production, while the fear of losses may cause a curtailment of production. But the profit margin is the difference between expenses and income, and as such it becomes a test of the efficiency of an industry. If the margin of profit does not exist, the resulting

[9] According to classical economic theory land rent, i.e., payment for the use of natural resources, is not a cost of production because it is a differential surplus produced by the better grades of land over and above what would be produced by the labor and capital of the same ability on the marginal or "no-rent" land. According to this view, the rent of land is determined by the price of the products of land (because the price fixes the size of the surplus), and hence is not a part of the cost of production. This means that rent is a result rather than a cause of the price of the product of land. More recently, the application of the principle of opportunity cost to land rent has caused most land rent to be considered a cost which helps to determine prices. According to this view, agricultural land has opportunities to be used to produce different crops, and the amounts of it used for each particular purpose are apportioned according to the demands for the products of the land. The demand for the use of the land in conjunction with the supply of a particular kind of land available sets the price which will be paid for its use. In this way land rent becomes a cost of production entering into price. For a statement of the view that rent is a cost of production see H. Gordon Hayes, "Land Rent and the Prices of Commodities," *American Economic Review*, June, 1927. For the opposing point of view, see F. R. Fairchild, E. S. Furniss, and N. S. Buck, *Elementary Economics*, Macmillan, New York, 3rd ed., 1936, pp. 356–358.

loss will require action to avoid the penalty of loss and to restore the profit by reducing costs or raising prices. It is the possibility of using the profit margin as a test of efficiency which appears to be a useful device in different types of economic systems. For this reason it is no matter of surprise to discover that the Russian soviet economy, in operating a socialized system as a planned economy, sets up a profit margin standard for its plants and industries. This ability of an industry to meet its planned production schedule and to keep costs below proposed selling prices is used as a test of industrial efficiency and of the ability of managers. To control costs in the Russian system the science of cost accounting is called to the aid of the planners. As has been pointed out, not all of the costs which appear in a capitalistic economy would appear in a socialized economy, but the method of tracing costs and calculating efficiency is similar. In fact, when the Soviet Union put the first Five-Year Plan in operation it relied on the systems of cost accounting developed in capitalist countries to establish the necessary controls over costs of production.[10]

Summary and Prospect

The purpose of the review of economic principles which has been presented in this chapter is to provide the student with frames of reference for the study of types of economic systems. On the basis of common economic principles but different institutions, it may be possible to arrive at some estimate of relative success or failure, desirability or undesirability, of the types of economic systems reviewed. The range of subjects in this volume varies from the theoretical plans for changing economic systems to the hard realities of making economic systems work. The subjects also vary from the philosophical foundations underlying contemporary thought to the technical problems of a price system. In approaching such a variety of material a breadth of viewpoint is essential if slipshod thinking in terms of labels or slogans is to be avoided. Understanding something of the breadth of economic thought should contribute to the balance required for objective study of contrasting types of economic systems. To further facilitate this study the following chapter discusses the role of economic institutions and broad economic trends in the modern world against the background of what the authors regard as the predominant question of the post-war economic world: Must we abandon a free enterprise economy and adopt economic planning in order to solve the economic problems which face us? If we must adopt the principle of planning how are we to preserve the essential liberties of the individual?

[10] See, for example, the preface to W. B. Lawrence's *Cost Accounting*, Prentice-Hall, New York, 1937 edition. The earlier editions of this volume were used to set up the cost accounts of the Soviet Union's industries.

QUESTIONS FOR CLASS DISCUSSION

1. What is meant by the "comparative point of view"?
2. It has been contended that certain economic principles would be applicable to various types of economic systems. Can you think of any economic principles which might be peculiar to a particular type of economic system?
3. Some commodities are jointly demanded—for example, tea and sugar, bread and butter. Are the prices of these goods therefore linked together by supply and demand? Why?
4. In addition to the illustration of elastic and inelastic demands given in Chapter 1, what other demands for commodities would you classify as elastic or inelastic? Do business men know when demands are elastic or inelastic? How can they tell? Could a central planning agency predict elasticities of demand? How?
5. Some commodities are produced under conditions of joint cost, where two or more products are the result of one productive process and one cost of production—for example, wool and mutton. How are their prices determined when the cost of production is a joint cost so that the total cost of both products is known, but the exact cost of each separate product is unknown? Would the demand for each product play a large part in determining price?
6. Why are similar costs of production to be found in different types of economic systems?
7. How would such costs in a socialized economy differ from costs in a competitive capitalist economy?
8. Distinguish between the profit motive and the profit margin. Why is this distinction important?
9. Distinguish between economic principles and economic institutions. Do you agree with the authors' contention that economic institutions may be varied considerably? Is competition a "natural" economic institution?
10. How do you think your economic incentives would differ if you lived in the Soviet Union? If you lived in a cooperative society?

Chapter 2

ECONOMIC INSTITUTIONS AND ECONOMIC CHANGE

THE preceding chapter was devoted to laying a groundwork of economic principles in the light of which different types of economic systems can be studied. The argument of the chapter was that basic economic principles would be similar in different types of economies and that the efficient operation of any particular type of economic system depends upon working with, and not against, such principles.

THE ROLE OF ECONOMIC INSTITUTIONS

As the next step in the study of economic systems a careful distinction must be made between the essential *economic principles* which would be operative in any type of economy, and the *economic institutions* through which the economic system is controlled and which allocate the decision-making powers to certain individuals or groups. Economic principles set limits upon the changes which can be made in an economic system without impairment of efficiency. However, when it comes to the network of economic institutions through which the economic system operates, a great variety of possibilities becomes apparent. In fact, an historical perspective shows that humanity has conducted a number of experiments in changing its economic institutions. It is necessary only to recall the feudal system of the Middle Ages, the mercantilist system of the sixteenth and seventeenth centuries, and the system of *laissez faire* which followed the mercantilist system, to sense the broad sweep of these institutional changes. The period since the First World War has been distinguished by the increasing points of institutional change by which nations have sought to solve their economic problems through changes in the forms of economic organization. In general, changes in economic institutions center around the question of where the *economic power* is to be located. This, in turn, goes far to determine the methods by which production and consumption are to be organized.

The Location of Economic Power

Economic power is the power to make decisions concerning the use of productive agents, to participate in setting the prices at which goods are to be exchanged, and to share in wealth and income—in short, the decisions necessary to organize production and consumption. Theoretically, economic power can be located in a variety of places. Among the possibilities, it may be given to property owners, to consumers, workers, or to the government. On the other hand, it may be divided so that a system of economic checks and balances is calculated to prevent any group or class from possessing sufficient power to oppress other groups or classes. But since economic power is the power to make decisions, it is important that it be placed in capable hands.

Under a capitalist form of economic organization economic power is held largely by owners of property. Even though certain powers may be delegated to managers, as when absentee corporation stockholders select executives to direct productive activities for them, the delegated power may be withdrawn and the fundamental right of control exercised by property owners. This means that property owners, or their agents, finance production, employ labor, and, in general, make those decisions concerning the disposal of resources which seem to them at the time to be the most profitable to themselves. While the government interferes somewhat with the free enterprise of such property owners, it is expected that the prospect of profit will attract them to undertake the organization of production. The hope is that, in an effort to make profits, enterprisers will be required to satisfy wants of consumers in an efficient manner so that the greatest possible national income will be produced. This is the meaning of Adam Smith's famous argument that each enterpriser, if left free to pursue his own gain, would be led "as if by an invisible hand" to promote the interest of society. While this hope is subject to many qualifications, it remains the fundamental justification of the free use of privately owned producers' goods in the organization of production.

It is noteworthy that under capitalist forms of economic organization there is a *checking and balancing* of economic powers similar to the political checks and balances of the government of the United States. The principle underlying such political and *economic restraints* is that the possession of excessive power is likely to lead to abuse of it. A competitive system provides economic restraints. Each seller in trying to sell at a high price is checked by other sellers who are also anxious to sell, and by consumers who are free to refuse to buy or who may buy from other sellers whose prices are lower. Similarly, various competing economic groups such as farmers, labor, and consumers watch their economic interests and act as checks on one another. One balance to the checks is the fact that production cannot be continued if prices remain

too long below costs. It is because monopoly destroys the economic checks that it has been made illegal in the United States except where it is publicly regulated. The role of government in a competitive capitalist system becomes primarily that of the referee and the regulator rather than the director of economic activity.

In the Soviet Union private property in natural resources and capital has been abolished, and the title to such property has been vested in the government. It is presumably held in trust for the workers, who are to become the sole owners and beneficiaries of the economic system. At present, actual control and responsibility for the management of the economic system are in the hands of the government through the Communist party, and apparently no large degree of democratic control over the economic system is held by the workers. However, this is the period of the "dictatorship of the proletariat," and in theoretical plan at least, it is proposed to turn the control of the economic system over to the workers when they become capable of exercising such new powers.

In Germany and Italy certain forms of capitalist organization were retained. Property was still privately owned and business men were responsible for the management of production, but freedom of economic association of labor, consumers, and employers was replaced by regimentation in government-controlled associations. The business man was placed under so many restraints by government that the former freedom of enterprise had almost disappeared. But the governments of these countries did not attempt to organize production in the sense that they owned the means of production and employed labor. Instead, through the complete control of political power the governments controlled different interests in the economic system in what they considered to be the national interest. In fact, the economic power in Germany and Italy was held by the government. This was true in all war economies but was true in Germany and Italy before the Second World War.

The Location of Political Power

It is obvious that there is a close connection between political and economic power. Governments have powers to tax and to make laws. They therefore become fused with the economic system. Under democratic forms of government the sovereignty (the source of political power) is possessed by the citizens who have the right to vote. Hence, government is subject to popular checks, since it is responsible to voters. What it can do (or must do) is therefore presumed to be determined in the last analysis by the popular will, because the government is supposedly controlled by the people. The division of governmental powers among legislative, executive, and judicial branches is calculated to act as a check on the abuse of powers. Likewise, a written constitution is used to pro-

vide a fundamental law which states and limits the powers of governments and defines the rights of citizens. However, the system of government in the Soviet Union and the former systems in Germany and Italy under the National Socialists and the Fascists involve a repudiation of the theory that sovereignty is possessed by citizens. Accordingly, governments were created which were not intended to be responsible to their citizens. In other words, the sovereign powers are located in the government, in a person, or a political party, rather than in the people. This is a concentration rather than a distribution of political power. In addition, the political power is concentrated in the executive branch of the government at the expense of the legislative and judicial branches. This, in fact, is what a "dictatorship" means in political terms—the concentration of political power (and therefore economic powers) in the executive of a national government.

The Distribution of Incomes

Because different types of economic institutions can influence the distribution of incomes some attention to this subject is required. As an economic system produces the real goods and services which make up the national income, it makes payments to the various productive agents which contribute their services. By this process money incomes are paid out (or kept as profits) which entitle the recipient to a share in the real income. The distribution of income is in part a matter of economic principles and in part a matter of economic institutions. It is clear that if private persons own producers' goods they can require a payment for their use in production and receive in this way a share of the national income. It is also clear that if all producers' goods used in production were publicly owned, the income produced by such property might go to "society" to be allocated to a multitude of possible uses. The possibility remains, however, that the ownership of property is a strong incentive to induce saving and in this way to increase national wealth. The question becomes one of which institutions are best adapted to serve the interests of the persons living in an economic system.

In capitalist economies income is shared roughly in proportion to the value products of the respective agents of production. Generally speaking, a productive agent which is relatively scarce will be economically more important in the productive process than one which is relatively plentiful. Competition for such an agent will set its price at a higher figure than if it were more abundant. Conversely, an agent of production which is relatively abundant will be economically less important in production, and the bids for its use will be lower. There is evidence of such a relation between productivity, on the one hand, and supply and demand, on the other hand, in the differences between the wages of

skilled and unskilled labor, and in the higher rewards for occupations which, as in the case of the professions, require long periods of training. It cannot be argued that there is complete justice in the distribution of income on this basis, since there may be many exceptional instances of incomes which are unearned or which may be below the value of the person's contribution to the product. In the latter case underpayment might be due to weakened bargaining power. It should be noted that a capitalist economic system can be ethically justified by the payment of rewards based on productivity, and that this in turn is found justifiable only when opportunity is equalized and unearned incomes are nonexistent.[1]

The Redistribution of Income

Once income is divided up through the original channels by payments for the use of productive agents, it is possible to alter the final distribution of income by the device of taxation. Even though income is paid out on the basis of productivity, a large portion can be *redistributed.* The use of heavy, progressive income and inheritance taxes may be calculated not only to produce income for the expenses of government, but also to "level off" the inequality of incomes and the concentrated ownership of wealth. Heavy taxes on luxury goods accomplish a similar purpose because such goods are typically purchased by persons with larger incomes. In this way those most able to pay are required to bear the heavier share of the expenses of government. The larger part of Federal government expenses come, of course, under the heading of the "general welfare."

It is probable that some 30 per cent of the national income of the United States was redistributed by taxation in 1947 if Federal, state, and local governments are considered together. A single example of such redistribution by local governments will suffice. The expenses of free public schools amount to about $2,000,000,000 annually. Such education is paid for chiefly from local taxes on real estate without regard to whether real estate owners do or do not have children in public schools. In this sense taxes are taken from property owners and used for the production of "free income" in the form of educational services.

Similar considerations apply to the free use of public streets, parks, and public buildings when support for such public services comes from tax sources. Although a good tax system should be economically sound, the

[1] Though often violated, there is perhaps no sterner capitalist principle than the one which requires that he who does useful work contributing to production should be rewarded, and that he who does not should receive no reward. The program of economic reform put forward by one of the stoutest defenders of capitalism to make a capitalist system justifiable from a social point of view would shock many persons of conservative leanings. See T. N. Carver, *Essays in Social Justice,* Harvard University Press, Cambridge, 1915. See especially Carver's "plan" for capitalism in chap. 10.

choice of the types of taxes to be levied is a matter of the social purposes to be gained and the economic institutions to be fostered or discouraged. Progressive income and inheritance taxes have a tendency to reduce concentration of wealth and also to encourage a wider distribution of the ownership of property, because those having small incomes or little property are taxed proportionately less than those with larger incomes and more property.

Because this is a comparative study of different types of economic systems it should be noted that it is not only in capitalist economies that income is redistributed. For example, in the socialized economy of the Soviet Union there is not the reliance on a progressive income tax that there is in the United States since a similar objective is achieved through the use of a high turnover (sales) tax on nearly every item of manufactured goods. By the simple expedient, since the government controls most of production, of raising the prices of goods, money is taken from the incomes of workers to foot the government's bill, to provide new capital, and for other purposes.

In connection with the redistribution of income it should be noted that proposals for changes in economic institutions usually involve projected changes in the distribution of income. Where, for example, it is proposed to socialize productive property it is also proposed to decrease or abolish incomes to property owners and to increase the share which goes to those who receive payments chiefly from the sale of personal services.

Economic Planning in the United States

Reference to economic planning in the Soviet Union is frequent among proponents and opponents of planning. However, it is less frequently mentioned that the United States and other nations have engaged in economic planning in time of war and that this planning has, by and large, been successful.

At this point a sharp distinction should be made between economic *policy* and economic *planning*. All governments engage in economic policy-making, but not all governments engage in economic planning. Economic policies are developed toward specific sectors of an economic system. There are policies toward money and credit, unemployment, agriculture, foreign trade, etc. In no instance does an economic policy have the breadth and inclusiveness denoted by economic planning because planning involves the choice of an objective for the *whole* economy and the fitting of all economic activities "as parts of a mosaic, into a coordinated whole . . ."[2]

The United States, acting under the emergency powers of the Consti-

[2] See the complete definition in chap. 1, p. 5.

tution, has twice introduced economic planning during wars. During the First World War economic planning was partial in the sense that price and other controls were introduced late in the war effort and that rationing was applied to only a few commodities. Nevertheless, a social objective of the production of adequate war materials, a "bridge of ships," and the training of soldiers was established and successfully carried out.[3] However, chiefly because planning and controls were not sufficiently complete, the war effort resulted in tremendous distortions of economic balances which led to numerous economic problems in the post-war period.

The economic aspects of the participation of the United States in the Second World War avoided most of the errors of the First World War. The degree to which the war effort of the United States approached a comprehensive economic plan can be summarized as follows:

1. The plan provided for an over-all expansion of the national product which ultimately resulted in an increase from a money value of $70 billion in 1939 to $200 billion in 1945. Adjusting for an increase in the general price level of about 30 per cent, this means that product was approximately doubled. This was accomplished despite the induction of 17 million men and women into the armed forces.

2. The national product was divided roughly into two parts: one-half to be composed of war goods and services and one-half to be composed of consumers' goods and services. These shares were, in turn, broken down into specific commodities and services. War materials were divided into ships, guns, planes, tanks, uniforms, and other military supplies. Civilian goods were produced in sufficient quantities to assure civilians that necessities were available and divided into food, clothing, housing, etc.

3. In war-time economic planning a system of priorities gave centralized government agencies control over raw materials, and labor and supplies were, in turn, allocated for the production of goods and services regarded as most important for the war effort. This replaced free bidding on the part of enterprisers for agents of production.

4. Rationing was introduced to provide for fair allotment of scarce civilian supplies. Rationing was applied to such items as meat, canned food, sugar, shoes, gasoline, etc., whereas many other items in adequate supply, such as fresh vegetables and fruits, were left free.

5. In a successful effect to restrain the operation of the normal forces of supply and demand, price controls were applied to a large list of consumers' items including housing rentals. Prices of some items were left

[3] Consult the record of success and failure as told by Bernard M. Baruch in *American Industry in the War*. See also the various volumes of the series published by the Carnegie Foundation for International Peace under the title: *The Economic and Social History of the World War.*

free and taxes were substituted as in the case of luxury goods such as furs and jewelry. Rents of commercial properties were left free, being too difficult to control. In many instances prices were fixed at both wholesale and retail levels. The major cost of production, wages, was also controlled to prevent rising wages from causing rising prices.

During war periods the amount of money paid out is increased at the time when supplies of goods available to civilians are deliberately decreased. In terms of the equation of exchange which was stated in the preceding chapter this means that the factors $MV + M'V'$ are being increased at the time when the total volume of goods and services *available for sale* is being decreased. As a result consumers have increased money incomes at a time when smaller amounts of goods are available. There is, therefore, a strong tendency for prices to rise and for price controls to be broken. As a preventive, income taxes were increased to extraordinary levels and deducted from payrolls on a "pay-as-you-go" basis. Other amounts of income were drained away from consumers' markets by the sales of bonds to individuals, corporations, and financial institutions. Such financial measures are necessary because when money is paid out for the production of say, tanks, the tank is not sold in consumers' markets and the additional purchasing power is, therefore, not absorbed by sale.

From the above list of economic measures taken through the central authority of the United States during the Second World War, it can be seen that the economic war effort was organized around a central plan and that the various parts of the economy were fitted into a comprehensive whole.

Economic Planning and Free Enterprise

As indicated in the preceding chapter, there is much discussion at present concerning the general question of economic planning. On the one side are those who argue that capitalist economies have developed productivity and living standards in the past and that, if individuals are given rights of free enterprise, such economic progress will continue. It is usual to point to the economy of the United States as the outstanding example of progress under free enterprise. In extension, it is argued that similar progress can be accomplished by free enterprise in other countries and that this will be facilitated if international trade is released from governmental restraints and left free so that all nations may have access to raw materials and markets. The International Monetary Fund and the World Bank for Reconstruction and Development would be necessary parts of such proposals for progress through free enterprise.

On the other side are those who contend that economic planning on a national and international scale is necessary if economic progress is to

be achieved, if "capitalist crises" are to be avoided, and if "full employment" is to be maintained. Many supporters of this viewpoint argue that the immense complexity of modern industry requires that complete national plans be used to ensure the smooth operation of an economy and the achievement of economic balance. Such persons do not necessarily believe that capitalism is doomed to collapse or that private property should be socialized. They do, however, insist that the number of over-all controls be increased and that a greatly increased amount of decision-making be placed in the hands of central authorities. Others, stimulated by the example of economic planning in the Soviet Union, would favor the complete socialization of property and the complete abolition of free enterprise. Such persons find it easy to assume that the success of economic planning in the Soviet Union has been sufficiently demonstrated. It is sufficient to say that not enough information is available outside of the Soviet Union to provide materials for adequate research on such questions.[4] Such conclusions must remain, therefore, in the realm of speculation rather than of applied research.

Economic Planning Since the Second World War

Despite the successful experience with economic planning in the United States during the Second World War, the War was no sooner over than public opinion demanded the abandonment of most governmental controls and a return to free enterprise, consumer freedom, and freedom of workers' choice of occupation and wage bargaining. This has been interpreted by many observers as evidence of the strength of the institution of free enterprise in the United States. Individuals have preferred to make their own economic choices even at the risk of rising prices and the dangers of inflationary processes.[5] The result has been a rapid rise in the level of prices. But the dire prediction of widespread unemployment and a declining national product which some observers made for the period of reconversion from war to peace-time production

[4] There is to follow, of course, a more complete discussion of the Soviet Union and a more complete appraisal of results. See the chapters in the section on the Soviet Union. At least one competent and experienced observer contends that economic planning in the Soviet Union is not economic planning as understood by economists because it "does not treat the national economy as an organic unit tending to achieve an economic equilibrium—coordinating production, distribution and consumption of all raw materials, semi-finished goods, and manufactured products. The Five-Year Plans are, in fact, programs for the production and development of separate branches of industry, without interrelation." W. W. Leontief, Sr., "Soviet Planning: The Problem of Economic Balance," *The Russian Review*, vol. vi, no. 1, Autumn, 1946, pp. 33–36. The author of the above statement also contends that planning in the Soviet Union does not achieve an economic balance and that such disequilibria remain hidden because of the secrecy of economic statistics. It is further contended that the several Five-Year Plans have fallen far short of achievement.

[5] There are those who define "democracy" as the right of individuals to make their own decisions even if it involves making their own mistakes!

was not as late as 1947, fulfilled. Instead, the level of production has held at something near twice the 1939 rate. Prophets of "boom and bust" maintained that future difficulties could be seen and that some form of economic planning must ultimately be resorted to.

It should be noted that in the same reconversion period Great Britain chose to retain the majority of war-time controls and that economic planning for the purpose of increasing production and of regaining Great Britain's position in international trade was retained. Furthermore, the British reconversion has been accompanied by great difficulties and "austerity" is still the announced rule. Present indications are to the effect that the British will attempt to solve their problems by the use of an over-all economic plan. It is reported that a planning commission has been established for the purpose of preparing such a plan.

In the Soviet Union a fourth Economic Plan has been announced which is to be carried through until 1950. Since economic planning is, by Soviet theory, a permanent part of the economy, this is an expected continuation of a previous practice which is necessary because free enterprise is almost non-existent.

Common Tendencies in Economic Systems

In this chapter and the preceding one a number of "frames of reference" have been established to assist the student in the comparative study of economic systems. It remains to define certain economic trends which have been observable on a world-wide scale particularly since the First World War.

First, there has been a tendency for the powers of national governments to increase. This has been due to an increase in the number of problems which have required action on a scale with which the powers of local and state governments could not cope. With this increase in government powers there has been a decrease in the area in which entire freedom of action is allowed to individuals. This is shown by the increase in regulatory and police activities of governments as well as increasing emphasis upon the public interest.[6] More and more industries have become "affected with the public interest" and have been either brought under some form of regulation, assisted by government action, or declared to be public utilities.

Another tendency within the sphere of government action is for increasing powers to be lodged in the executive branches of governments. This is due in part to the need for executive action in dealing with

[6] It has been remarked that in democratic societies the right of an individual to swing his arms ends where the other person's nose begins. In modern interdependent and complicated societies individuals live in closer relationships than formerly and the rights of individuals are limited accordingly.

problems and also to the need for specialized personnel to conduct regulatory activities.

A second broad tendency is the increased amount of *collective economic action* as distinguished from *individual economic action.* Economic action in the modern world tends to become more and more group-wise. This is true whether individuals become members of labor unions, consumers' cooperatives, employers' associations, stockholders in corporations, or other organized economic groups, or whether it is the government that is the instrument through which collective action is taken.

A third broad tendency which has had a rapid development in the past two decades is that *higher standards of accomplishment* are being set for each economic system by its members. In general it is expected that an economic system will produce an abundance of commodities and services and that the distribution of income will be more equal rather than less equal. It is also anticipated that new commodities and services will be introduced and living standards thereby raised. However, the most important new standard is that the economic *system* is held responsible for employment and unemployment. Since widespread unemployment, not due to the fault of the individual, is intolerable it becomes the responsibility of national governments to see that work is provided. The underlying signifiance of the Full Employment Act of 1946 and the creation of the President's Council of Economic Advisers lies in the fact that central governments are now held responsible for "prosperity" and "depression."

SUBJECT FOR STUDENT REPORTS FOR PART I

1. The Mercantilist Economic System.
2. The Period of *Laissez Faire.*
3. Adam Smith and Economic Freedom.
4. The Relation Between Economic Freedom and Political Freedom.
5. Types of Economic Systems Among Primitive Peoples.
6. The Virtues and Defects of a System of Private Property.
7. The Virtues and Defects of a Competitive System.
8. Differences in Costs of Production in Capitalist and Socialized Economies.
9. Possibilities for Planned Changes in Economic Institutions.
10. Prospects for a Planned World Economy in the Post-War World.

QUESTIONS FOR CLASS DISCUSSION

1. In capitalist systems income is divided on the basis of productivity. What other systems of sharing wealth and income might be used? Would they be efficient?
2. In addition to the world-wide economic tendencies mentioned in Chapter 2, what other tendencies can you see which might become world-wide in the future?

3. Has the Second World War created new economic forces? Has the rate of economic progress and invention been accelerated?
4. What changes in economic institutions might be expected in the next several decades?
5. Look up the latest figures on the distribution of incomes in the United States, the Soviet Union, and Great Britain. What accounts for the similarities and differences?
6. Study the *redistribution* of income in the United States, Great Britain, and the Soviet Union. In which country is the largest percentage redistributed? Of what significance is such a comparative study of redistribution?
7. How do you account for the reaction of the American people against government planning and government controls after the end of the Second World War?

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Part II

Capitalism

Chapter 3

THE INSTITUTIONS OF A CAPITALIST ECONOMY

DEFINITION OF CAPITALISM

THE terms "capital" and "capitalism" sometimes are used erroneously as synonyms. "Capital" means man-made and nature-made tangible things which do not directly satisfy human wants but which assist in the production of other things which eventually are used directly by human consumers. Machines, tools, industrial equipment, factory buildings, mines, farming land, and raw and partially processed materials are illustrative forms of capital.

While capital refers to the *things* that are used in the productive process, "capitalism" refers to one particular system of *ownership* and *operation* of this productive equipment. Capitalism prevails when capital is owned by individuals, or by individuals organized into associations known as business corporations. When capital is owned by individuals, the latter have the power to direct its use. Owners utilize their capital for those purposes and in those ways which appear most advantageous to themselves. Hence capitalism is a *system of economic organization featured by the private ownership and the use for private profit of man-made and nature-made capital.*

The student of economic systems should distinguish clearly between the *existence* of capital and the *form* of its ownership. No society could function without some nature-made resources as the ultimate sources of consumers' goods such as food, clothing, and shelter. Likewise, no modern society could exist without the added assistance of large quantities of man-made tools, machines, and other industrial equipment. But there are numerous ways in which such capital could be owned and its use controlled. Capitalism is one of these ways. The advocate of capitalism contends that this is the best of many possible ways. Its opponent believes that some other way would be better. Both agree that there must be capital; they disagree on how it should be owned, that is, on how decisions regarding its uses should be made.

Capitalism and Non-Economic Institutions

The essence of the concept "capitalism" is therefore economic. It refers to the directing of the use of capital in producing consumers' goods. Many people erroneously include in their concepts of capitalism other social institutions which are not inherently a part of it. Thus, some may think of freedom of religious worship or of speech or a free press, or of democratic government itself, as an innate part of capitalism when this is not the case. One can conceive of capitalism existing in conjunction with entirely different political, religious, family, educational, and other institutions than those which have featured the society with which we are most familiar. In fact, historically, capitalism as a form of economic organization has been a contemporary of state religion, monarchy, polygamy, and a wide variety of other non-economic institutions.

While capitalism as an economic concept must be kept clearly separated from other social institutions, capitalism is partially shaped by, and in turn helps to mold, non-economic institutions. These inter-institutional relationships are far too intricate to permit a satisfactory analysis of them here. However, their number, their importance, and their subtlety are obvious and serve to set a warning signal for him who would merely extract a set of economic institutions from their complete institutional setting and proceed to describe it and evaluate its worth.[1] Capitalism cannot be evaluated without noting both the historical part which non-economic institutions have played in its origin and evolution and the influence which it, in turn, has exercised upon non-economic institutions. If it is true, for instance, that governmental institutions and processes and changes therein have had their effects upon evolving capitalism, it is no less true that the operations of a capitalist system have influenced governmental forms and activities. While the existence of religions and religious idealism has helped to shape the capitalism we know, that capitalism has also actively helped to mold religious doctrines and standards of morality. Hence, it is highly unrealistic to isolate capitalism as a set of economic institutions, evaluate it in terms of economic standards, and pretend that, should it be desired, capitalism could be supplanted by some other type of economic organization, leaving the non-economic institutions of society undisturbed.

Dynamic Nature of Capitalism

The task of describing and evaluating capitalism never can be completed with finality, for it is a dynamic and evolving system. It never

[1] For instance, it is sometimes contended that if freedom of enterprise were to disappear from the economic realm it would be impossible to maintain political freedom for the individual. While this issue cannot be discussed here, it reveals the potential importance of the relationship between economic and other institutions.

stands still; it is never the same today as it was yesterday. He who would analyze and evaluate it fully must catch the best glimpses he can of the trends and developments prevailing at the moment of his study. These must be projected into the future and the probabilities of their continuance or reversal must be estimated.

A simple illustration of these facts may disclose the difficulties they create for the student of economic systems. Modern capitalism has existed in the English-speaking world for several centuries during which its basic institutions have undergone major changes. The essence of capitalism is the private ownership and use for private profit of capital, that is, the institution of private property in producers' goods. But private property today differs widely from private property of a century and a half ago. Producers' goods privately owned then consisted of land, livestock, and simple tools and machinery used almost exclusively by the owner and his immediate family. While these were used for private advantage, the benefit consisted of the personal consumption of the product by the owner's family or pecuniary profit from the sale of the product on a very small market to buyers known personally to the seller. Since that day, "private property" has evolved into something so different that the continued use of the term may well be challenged. While some producers' goods continue to be owned in the simple original sense of the term, today most of them are concentrated into large aggregations of machinery and equipment, the total ownership in each case being split into thousands of fractional parts represented by corporate shares. Compared with the early days of capitalism, the owner of today seldom uses directly the capital which is his. He can seldom point to a specific tool or machine and label it his, for what he owns is a fractional part of the property of a corporate entity. Moreover, this entity holds private property claims not only to tangible producers' goods but also to such highly intangible assets as good will, patent rights, and accounts receivable. The use of things owned no longer means exclusively their personal use to produce goods for one's own consumption or sale to one's neighbors. It often means the employment of non-owners to use the capital in producing things that are sold on broad markets to buyers entirely unknown to the seller. Thus, the concept of private property used for profit has substantially changed and yet the system now, as then, is called capitalism.

When Adam Smith in 1776 described the capitalist system and concluded that the private owners and users of capital would be led, through the search for profit, as by an "invisible hand" to contribute generally to the common good, he was analyzing a system which was rapidly evolving into something quite different from the one he described. The present-day student of capitalism in all probability will do likewise. To describe and evaluate capitalism meaningfully requires some prediction

and evaluation of its evolving future forms. Who could attempt such a task in our highly dynamic society except in a frankly speculative manner?

Imperfect Capitalism

The fact that capitalism never existed in a perfect or pure form further complicates every attempt to describe and evaluate it. Private property has meaning only in an organized society, for it implies a party or agency, outside of and more powerful than any individual, which recognizes and protects the owner's rights in his property. But no organized society ever has permitted the individual to have complete control over the goods which he owns. Even in early capitalism the owner of land or tools was not entirely free to use them as he saw fit to produce whatever he pleased. With the multiplication of social restrictions upon the manner and purpose of the uses of capital, capitalism has been further and further modified. In such a situation the student of economic systems never ceases to be embarrassed by the most difficult questions. Is he analyzing the institutions of a system in some hypothetically pure form, and, if so, are his conclusions pertinent with reference to the imperfect form which actually exists? Or, if he has taken these modifications into consideration, to what extent are the merits and the defects which he discovers in the existing economy due solely to the fact that *pure* capitalism does not exist? Recognizing these difficulties and restrictions we shall proceed to describe the chief institutions of capitalism and the functions which they are expected to perform in our economy.

THE ECONOMIC MAN

Definition

Inherent in the capitalist economic order is the fact that individuals act as "economic men." By and large, each of us, in getting and using commodities and services, performs such acts as will yield us the greatest amount of satisfaction for the least sacrifice, outlay, or cost. On the most individualistic basis, cost means the expenditure of human energy, the enduring of unpleasant or irksome activity, while the satisfaction refers to pleasant sensations. Cost may be either physical, as muscular fatigue, or psychological, as an unpleasant or irksome feeling resulting from doing light, repetitive tasks. Satisfaction may be either physical or psychological. Physical satisfaction comes from eating an adequate meal; psychic satisfaction, either in place of or supplementary to physical satisfaction, may come from possessing an automobile a little larger and speedier than a neighbor's car.

A man who is completely free to make the decision would balance costs against satisfactions when he decides how large a field of potatoes he will plant and cultivate. If he expects to use the potatoes himself, he

knows that, beyond a certain quantity, each additional bushel eaten during the coming winter will yield diminishing satisfaction. He also realizes that the greater the number of acres he plants and cultivates the greater will be the time and effort he must expend. Beyond some point these additional amounts of effort may involve slowly and then rapidly increasing physical and psychological irksomeness or cost. The economic man would plant just that number of acres which, after all the potatoes had been consumed, would permit him to say: "I planted precisely the right quantity of potatoes. If I had planted more, the cost of raising some of them would not have been offset by the pleasure of eating them; if I had planted fewer, the additional satisfaction I could have derived from some additional bushels would have more than offset the additional cost of planting and cultivating them." The potato raiser has attempted to obtain the greatest satisfaction for the least cost—he has been an economic man.

Under Complex Conditions

Indeed, under the simple conditions of the above illustration it is easy to be an economic man; it would be irrational to base decisions upon any other type of calculations than a balancing of satisfaction and cost. But such simple conditions prevail in few if any instances in a modern capitalist society. A person does not merely raise and eat potatoes. As a consumer he wants many diverse commodities and services. As a producer he probably produces none of the products he consumes nor even any one complete commodity or service. His consumption power is his total net money income over a period of time and his costs are expenditures of mental or muscular energy in some specialized task. In our complex economy, the individual is an economic man when he seeks to acquire the largest money income for the least expenditure of irksome effort. In spending his money income for consumption goods he presumably so distributes it that he cannot pick out any dollar which would have purchased him more satisfaction if he had spent it for some other purpose than the one for which it was spent. As an economic man he seeks to maximize both the dollars received for the energy he expends and the satisfaction derived from the dollars he spends.

Many of the decisions in our economy are made by business corporations which are particularly able and anxious to act as economic men. Whereas the individual may have only limited ability to acquire knowledge pertinent to his economic decisions and may be influenced in his choices and decisions by many non-economic motives, attitudes, and desires, the corporation is quite different. It usually possesses extensive facilities, such as a cost accounting department and a sales department, to assist in making its cost and receipt calculations. It is much less likely

to be influenced by non-economic motives and desires. The rapidly growing importance of the corporate form of business organization adds support to the basic capitalist assumption that business decisions in a capitalist economy are made on the economic-man basis.

Restrictions

While individuals and business units attempt to maximize receipts or satisfactions and to minimize costs or sacrifices, this does not occur perfectly. It is the *attempt* to be an economic man which acts as a fundamental force integrating the processes of the capitalist order. It is only when the decision-maker has complete knowledge of the satisfactions and sacrifices, or the receipts and costs, which each of many possible alternative decisions entails that the status of an economic man can be achieved completely. Obviously this is impossible, for it would involve certain knowledge of the behavior of innumerable dynamic economic phenomena which are subject to unpredictable changes. Even in the oversimplified case of the potato raiser he could balance satisfactions and costs perfectly only if he could predict precisely the weather, his own state of health, and changes in his tastes and in the technology of potato cultivation. However, lacking this ability, he may still make an economic-man decision which is based as carefully as possible upon *estimates* of future costs or sacrifices and future satisfactions.

Functions

The economic-man type of decision is an integrating force in our capitalist economy. Each business unit bases its decisions on the *same type of calculation,* and thereby the entire mass of actions is woven into orderly and systematic business operations. A textile industry, for instance, could not operate in a capitalist economy if, while the spinning and weaving units made their decisions as economic men, the cotton growers based their decisions relative to planting, cultivating, harvesting, and selling on astrological phenomena, and the wool raisers based theirs exclusively on considerations of kindness to the sheep. If half the business men based their decisions on pecuniary receipt-cost calculations and the other half based theirs just as exclusively on philanthropic considerations, the capitalist system would lack the cohesion necessary to hold it together as an operating entity.

Moreover, each business man, while making his decisions on this basis, knows that others are making their decisions on the same basis. The significance of this mutual knowledge of how the other person decides cannot be overemphasized. Suppose, for instance, that a shoe manufacturer is considering the wisdom of expanding his plant capacity. After making the proper calculations, he may conclude that he can sell the increased

output, and thereby increase his net receipts, because his plant efficiency will be such as to permit him to undersell his competitors. These calculations and the conclusions are valid only because other shoe producers are also using the same type of calculation. If the first manufacturer knew that several others were deciding upon their productive capacities without considering the results in terms of net receipts, he would have no basis for making his own decision.

If capitalist business decisions were to be shifted from an economic-man plane to some other basis, the result would be economic chaos. The resultant lack of integration would prevent the operation of an economy as specialized and intricate in its parts as is the modern capitalist economy. While certain systems proposed as alternatives to capitalism eliminate the economic-man basis for decision-making, they always substitute some other integrating force for it. In the capitalist system the economic-man assumption is fundamental in that it affords the only base for decision-making which is consistent with the functioning of a capitalist economy.

PRIVATE PROPERTY

Definition

Private property is another of the fundamental institutions comprising the capitalist system. "Private property" refers to the right vested in an owner, and protected by society, whereby the owner exercises control over the uses of the thing owned. More specifically, it is a right to acquire, to keep, to use exclusively, and to dispose of valuable things. It includes the privilege of using personally the owned thing and the right to specify the conditions under which it may be used by others. The thing owned may be either tangible or intangible. Indeed, modern capitalism has been featured by a rapid and widespread extension of the concept of private property to include intangibles. One who fully owns a retail store, for instance, controls not only the use and disposal of the merchandise in stock, the store building, and the site on which it stands, but also any intangible assets which may be held in the name of that store. The latter may include such intangible items as the right to a trade name, collectible accounts, contracts with persons or business concerns to perform certain services at certain prices or to refrain from specified acts, and even good will, which is merely the presumption that old customers will continue to favor that store.

Private property is more than mere possession. The latter is the physical holding of something and implies a limited or unlimited power to determine its use while it is possessed. Private property involves the recognition of the property right by constituted agencies of society which protect the owner's rights and restore to him things which are his property but which

have illegally passed into the physical possession of another. Thus a tenant *possesses* the house he occupies but he does not *own* it. He does, however, own the lease, for he owns the right to occupy or possess the house under the lease conditions for a specified time. While possession may loosely be said to be "nine-tenths of the law," the essence of private property is not possession; it is the recognition and defense of the owner's title by an agency of government. When there is a question of who actually has the legal title, the proper government agency makes the final determination.

Contracts as Private Property

Contracts are an important form of private property. If A and B have entered a legal contract whereby B agrees to perform some service for A at a specified compensation, A may be said to own the right to demand that service at that price from B. The thing owned is a purely intangible right, but it is just as truly private property as is A's ownership of his factory building. Appropriate government agencies will recognize A's claim against B, will defend it against other persons who may wish to come into possession of or interfere with it, and, if B refuses to honor the claim against him, will order him to pay A a compensatory sum determined by them. There continuously exists a veritable maze of these contractual obligations, all of which are parts of the institution of private property. It is when contracts, as well as ownership rights to tangible things, are included in the concept private property that the significance of this institution in a capitalist economy becomes evident.[2]

Functions

Private property in producers' goods and contracts is an inherent part of capitalism. Were it to disappear, capitalism necessarily would cease to exist. Were capitalism to give way to a different form of economic organization, private property would be substantially modified. This is because private property performs important functions in the operation of the capitalist system. The first to be discussed is that of placing the power to decide upon the uses to which productive agents shall be assigned. Productive activity cannot occur unless some persons in the economy have explicit power to order the various units of the various productive agents to perform this, that, or the other function in a designated manner. The more intricate and specialized the productive process becomes, the more

[2] It should be noted that in this country the legal basis of the capitalist system consists of the property clauses of the United States Constitution. The fifth and fourteenth amendments state that:

"No person shall be . . . deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation."

"No State . . . shall deprive any person of life, liberty, or property without due process of law . . ."

detailed must be these decision-making powers. It is through the institution of private property that, in a capitalist system, these powers come to reside in the owners who may delegate portions of them to others. As is noted throughout our study of comparative economic systems, there are other places where these powers could be located. It is fundamental to capitalism that they rest in the hands of owners who act as economic men.

More specifically, the owners of natural resources possess power to decide for what purposes and in what manner they shall be employed in production. The owners of factory buildings, tools, and all man-made equipment have similar power over their uses. The person who has contracted to hire labor has the power to employ that labor at tasks which he designates. The person who enters a contract whereby he borrows funds from another thereby acquires power to use these funds for purposes he selects and in ways he chooses. Other rights acquired through contract (a form of private property) yield power to use patented processes or machines, to use a trade name or a formula, to employ certain techniques, or to sell goods in a certain manner and in certain markets. It is through the institution of private property that these powers become located in definite individuals who exercise them by issuing the orders necessary to keep production going in the various business units of a capitalist system. Some pattern of decision-making power is essential to the continuance of productive activity; the institution of private property creates the pattern that is innately characteristic of capitalism.

A second function of the institution of private property is to induce the accumulation of wealth. Without accumulations of man-made wealth, modern productive activity would be impossible, and without increasing amounts of it, society's per capita consumption would not substantially increase. While there are numerous ways in which wealth can be accumulated in the form of capital goods, there is only one which is wholly consistent with capitalism. This is the private saving of surplus personal or corporate income to be transformed into tangible man-made equipment. Saving presumably will not occur extensively unless individuals and corporations have an incentive to save. It is a function of private property to create that incentive.

Private property in both producers' and consumers' goods acts as an incentive to saving and the accumulation of wealth. Basically, it is the fact that owners of producers' goods have the right to benefit from the use of their goods in the productive process that creates the inducement to save and invest funds therein. If this privilege were not assured by society, the recipient of current income would be much more—possibly entirely—inclined to spend it all for immediately consumable commodities and services. Private property in consumers' goods also stimulates saving and the accumulation of wealth. The assurance thus given the owner that he can benefit in the future from the use of durable consumers' goods he

acquires now, undoubtedly stimulates saving for the purchase of such goods. Since accumulations can be sold later and the funds thus derived be used in building capital equipment, such saving plays a part in the accumulation of capital. Finally, the person who invests his funds in capital construction is assured through the institution of private property that, as he receives income from the use of his funds, he can buy durable consumers' goods and that his title will be protected by society.

In much the same way private property acts as a stimulus to conserve wealth, whether it be in the form of consumers' or producers' goods. It is when the owner feels that his future enjoyment of benefits flowing from accumulated wealth is safe that he is induced to protect these goods from deterioration. The owner of natural resources is thus stimulated to conserve their productive properties; the owner of man-made producers' goods is similarly induced to protect them; and the owner of consumers' goods may also wish to conserve his goods, thus preserving a stock which may later be transformed into producers' goods. These incentives to conservation have important roles in the operation of the capitalist economy. They function not only to increase the amounts of capital equipment available over a period of time but to establish orderly patterns of estimates of depreciation items in entrepreneurial calculations of production costs.

Restrictions on the Use of Private Property

These fundamental roles played by the institution of private property carry no implication that the rights of the property owner are unrestricted. It is inconceivable that anyone in an organized society should have complete and absolute power to do exactly as he pleases with what he owns. Restrictions on the use of privately owned consumers' and producers' goods have multiplied manifold in recent decades. Today, the owner of nature-made and man-made capital goods finds his power to decide on their use in the productive process surrounded by numerous laws that set positive and negative requirements which he must meet. In financing his business, in manufacturing and selling his product, in hiring labor, and in entering all contracts he is faced at every turn with legal requirements that he shall not do this and that he shall do that.

The significant point is that, despite the number and importance of these social controls, the major power to make decisions as to the use of things privately owned still remains in the hands of owners or their agents. It is still private property that sets the basic pattern of the decision-making power in our capitalist economy. It is still the existence of private property that creates the chief incentives for the accumulation and conservation of wealth. As long as this situation continues, private property will prevail as a fundamental institution of capitalism. When it ceases to exist—that is,

when economic decisions and incentives come from some source other than private property—then capitalism will have disappeared.[3]

INHERITANCE

Definition

While inheritance sometimes is thought of as one phase of the institution of private property, it is in fact separable from it. Inheritance of property, the term generally used, includes a double set of rights: (1) the right of an owner to designate the recipient of title to his property at the time of his death; and (2) the right of an individual who has had a certain specified relationship to a deceased owner of property to receive title to that property. The former is the right of "bequest," and the latter is the right of "inheritance" in a narrow sense. As the term inheritance is used here, it includes both.

As a legal institution, inheritance is either separate or separable from the institution of private property. It could be modified or even entirely destroyed and yet private property could remain. An individual could exercise control over the uses of certain goods during his life without having any limited or unlimited power to control the succession of claims to those goods after his death and without anyone having any claim to succession of title. The fact that limitations upon and control over the right of inheritance have been imposed by society without applying comparable measures to all private property, indicates that these, conceptually, are two separate institutions.

Relationship to Capitalism

Inheritance is essential to the continued existence of capitalism. Hence, it is one of the fundamental institutions of that order. If inheritance were entirely abolished, the institution of private property alone could not support the continued existence of a capitalist system. If inheritance were abolished, or if all inheritance of wealth and claims to wealth were taxed at a rate of 100 per cent, sometime during each generation the ownership of all accumulated wealth would become vested in government agencies. If society were to retain possession of this wealth—or, at least, the capital equipment portion of it—the capitalist system would be transformed into a substantially socialist system. The only alternative to this would be the

[3] The functions of private property which have been noted and the social restrictions imposed upon the uses of various kinds of property are sometimes referred to as the "social theory of property." This concise phrase serves to emphasize the fact that property rights are neither natural nor absolute but functional in their origin. They are justified solely by the functions they perform and they must be circumscribed by whatever limitations and modifications society finds necessary to assure the performance of those functions in a given set of circumstances.

sale back to individuals of these accumulations of wealth as the government acquired them. Funds for these purchases would have to come from saved portions of individual incomes, presumably over and above private savings already available annually for new capital creation. In the event that transactions of this magnitude proved possible, governments would derive huge revenues from this tax source alone. The problems connected with such a tax and with the use of funds derived therefrom probably could not be solved except through the expansion of the social ownership of producers' goods and this would amount to a progressive impairment of capitalism.

Functions

Inheritance performs several specific functions in a capitalist system. While the institution of private property is the basic source of the individual's incentive to accumulate and conserve wealth, inheritance acts as a strong supplementary force to the same end. This is seen not only among the wealthy classes where the object may be to build up a substantial family fortune, but also in the middle-income classes where parents often undergo extreme sacrifices to create a "nest egg" for their children. Its influence is strongly felt in all classes except the lowest-income group where the pressure of the necessities of life usually forbids any thought of saving for any purpose.

Source of the Right of Inheritance

Since its abolition apparently would lead to a progressive socialization of the ownership of producers' goods, and since it so definitely stimulates the wealth accumulation that is vital to the functioning of capitalism, inheritance is an innate institution of a capitalist economy. However, this institution is in no sense "natural" or derived from "inalienable" or "absolute" rights which the individual possesses. As is true of private property, inheritance may be modified materially or removed altogether from the group of rights which society permits the individual to exercise. These institutions are man-made and are subject to reconstruction and even abolition by man. They are no more natural or inalienable or absolute than is the capitalist system of which they are parts. They are natural or inalienable merely *to that system* since, as long as the capitalist system prevails, private property and inheritance must exist.

FREEDOM OF INDIVIDUAL INITIATIVE

Definition

Each of the institutions being examined is a pillar without whose individual support capitalism could not exist. Collectively they comprise the institutional framework of the capitalist system—they *are* capitalism. An-

other pillar is the freedom of the individual to exercise his own initiative in economic matters. As a consumer he is free to spend his income on whatever goods and services he chooses to buy and to consume them in whatever manner he desires. As a participant in production, he may make his living when, where, and in the way he desires. He may employ his energies alone or combine them with others in a partnership, a corporation, or some other type of venture.

Functions

Freedom of individual initiative is essential to the operation of a capitalist economy. Through this institution the agents of production are supposed to be directed into their best uses. The worker, being free to choose his occupation and acting as an economic man, seeks the line of work in which, all things considered, he receives the most attractive compensation. If society is not satisfied with that choice, it sets up wage inducements that tempt him to transfer to another occupation. Only if he has *freedom* to exercise his individual initiative will the worker be able to respond to these inducements and thus place himself where society appears to want him most. Likewise, the owner can direct the use of land or other natural resources in response to similar inducements only if he is free to place them where he chooses. Precisely the same is true of the owner and the borrower of capital funds. When these possibilities are coupled with the freedom of the individual as a buyer of consumers' goods to spend his income as he sees fit, the net result is assumed to be the best possible allotment of productive agents to their various possible uses.

Freedom of *enterprise* is of vital importance in a capitalist economy. The entrepreneurial function is to collect and coordinate the needed quantities and qualities of the productive agents for the turning out of specific commodities and services. The agents will not be placed in any specific use until an enterpriser sees some advantage to himself in hiring or otherwise acquiring and using them in production. Under a capitalist system enterprisers must be free to discover what they consider advantageous possibilities and to acquire and use the agents of production. If production is not carried on in this way, it will not be carried on at all under capitalism.

This freedom of the productive agents and their owners and of the enterpriser are the forces which a capitalist society relies upon to accomplish certain ends. It is through this "institution" that a capitalist society attempts to keep all of its available productive facilities employed. If units of any agent are unemployed, it is presumed that their owners will exercise initiative in finding uses for them, possibly by reducing the prices asked for their services. Moreover, it is assumed that free enterprisers, finding such units unemployed and sensing the possibility of obtaining their services for reduced compensation, will exercise initiative to contrive uses for

them. Only when enterprisers are free to act, and labor and the owners of the other agents are free to respond, will there be pressure toward the full utilization of the existing resources of a capitalist economy.

Freedom of initiative is expected to further the invention and use of new kinds of machinery and new technological principles. The use of the assembly line in manufacturing, for instance, was initiated by an enterpriser who was free to use a unique combination of productive agents to his own advantage. The initiation and spread of this new principle of factory organization resulted directly from the freedom of enterprisers to experiment with and undertake its use. The same can be said of new types of business organization, such as the corporation, and new types of internal management and control of business units, such as cost accounting. In a capitalist system, only freedom of individual initiative can make their initiation, development, and widespread use possible. This is also true of new commodities and services of all kinds, and the development of new styles, colors, sizes, and designs of old commodities and services. While these developments may be carried to socially undesirable extremes in some cases, a capitalist system cannot continue to function without providing for the development of new products and new varieties of old products. Freedom of individual initiative is an inherent part of capitalism since it is the institution which makes possible these developments.

Restrictions on Freedom of Initiative

The fact that perfect freedom of individual initiative does not exist does not negate the importance of this institution in capitalism. At all stages of its development, and in nearly all aspects of life, society has found it impossible to permit the individual to do just as he pleased. Organized society is a concept diametrically opposed to the concept of a "natural" or inalienable freedom possessed by each individual merely because he has been born. Social restrictions upon individual action today are numerous in many phases of a person's life. Possibly they are nowhere more numerous or restrictive than in the economic sphere. Factory laws, child labor legislation, pure food laws, the fair trade and resale price maintenance laws, banking legislation, and public utility control are a few illustrations of these social restrictions. The pertinent point is that the scope of the freedom of initiative still open to the individual is greater than the scope of the restrictions. While the latter specify many things that the individual and the business unit must not do, a larger area including all other possible actions comprises the field within which he is free to exercise his own initiative. When this situation is reversed, when society specifies a few actions the individual may take in the economic sphere and prohibits all others, freedom of individual initiative, and with it capitalism, will disappear.

COMPETITION

Definition

Capitalism is featured by numerous forms and innumerable manifestations of competition. The simplest synonym for competition is rivalry. In an economic system competition means *economic rivalry:* rivalry among sellers of similar consumers' goods to gain customers; among buyers to secure goods to satisfy their wants; among potential workers to obtain jobs and among employers to secure workmen; among borrowers to acquire investment funds and among savers to find places where their funds may be invested safely and remuneratively; among owners of natural resources to find employment for them and among business men to secure natural resources for use in their business. Since each consumer has a limited income to spend, rivalry exists among the producers and sellers of all commodities and services, for a dollar spent on one cannot be spent on any other. Because some of one agent of production often can well be substituted for some of another, labor and capital goods are rivals for employment.

Rivalry cannot exist unless there is more than one participant. In the case of economic rivalry or competition more than one seller, or one buyer, or one lender, or one employer, is necessary to make a competitive situation. The greater the number of participants, at least up to a point, the keener is the rivalry if each is striving independently of all others for the same end. Hence, the greater the number of sellers offering a commodity on the same market at the same time, the more keenly competitive that market is. This generalization applies also to labor markets and capital markets.

Pure or complete competition is said to exist when so many sellers and so many buyers of a given commodity or service or productive agent are attempting to sell and to buy it on the same market at the same time that the action of no one seller or buyer is of enough relative importance to affect the market price noticeably. This, for instance, would be true normally in the case of wheat. Thousands of rival sellers and thousands of rival buyers are continuously attempting to sell or buy in the world wheat market. Their number is so great that any single seller could greatly expand or contract his offerings and any single buyer could greatly increase or decrease his attempted purchases without noticeably affecting the price of wheat.

The dearth of markets that are *completely* competitive and the numerous cases of important monopolistic controls over markets do not obviate the overwhelming predominance of competition when all the markets of the existing capitalist economy are considered. Even where some degree of monopoly has been fostered by the small number of sellers or buyers of a

given commodity, by the use of trade-marks or patents, or by the acquired power of a few sellers or buyers to dominate the market, large and in many cases more important elements of competition remain effective. An enterprise that has monopolized the market in which it sells must still bid against other business units in acquiring its labor, materials, machinery, or the funds it needs, and it still competes with the sellers of innumerable other products for the patronage of the buyer who can spend each dollar only once. When competition is considered in these broader aspects its pervasive relationship to capitalism is evident.

Competition cannot prevail to any important degree unless markets are open to all buyers and to all sellers who may wish to use them, with freedom to each to make whatever selling or buying offer he desires. Such open markets are called "free" markets and capitalism may be described as a "free market economy." This is merely another way of saying that the institution of competition is inherently necessary to the functioning of a capitalist economy.

Relationship to Other Institutions

As another indication of the complex interrelationships among the institutions of capitalism, competition is closely connected with several institutions already described. Competition would be completely functionless if there were no freedom of individual initiative. If buyers and sellers individually were not free to choose the places in which they attempt to buy or sell, the groups of people or business concerns they approach with offers, and the types of offers they make, it would be meaningless to refer to the situation as competition. Moreover, competition exists only when buyers and sellers act as economic men, for only then do they seek a market and engage in buying and selling activities. Competition among buyers and among sellers would be meaningless unless they individually seek the lowest possible prices for the things they wish to buy and the highest possible prices for the things they want to sell. In its interrelationships with these other institutions, competition becomes one of the pillars of the capitalist system.

Functions

The first important function of competition pertains to the valuation processes vital to the operation of capitalism. It is through competition or free markets that "fair" or "normal" prices are created for both consumers' goods and the agents of production. No economic organization short of full communism can operate without some system of pricing these goods and agents. While there are innumerable possible ways of pricing, only competitive or free market pricing is consistent with the existence of the

other necessary institutions of capitalism. It is when this pricing system is functioning effectively that the capitalist system functions normally in this respect.

Competitive or free market pricing exists when sellers as economic men freely use their initiative to make whatever selling offers they choose upon whatever markets they select, and when buyers are equally free to seek to purchase on markets of their own selection on terms which they calculate as economic men. When sellers and buyers of shoes, for instance, meet upon such terms, a fairly uniform price tends to prevail in each market at each point in time for each quality of shoe. This price is, under capitalism, the fair or normal price for that quality of shoe at that time in that market. When labor service is sold under these conditions, the resultant wage is the competitive or fair wage. When investment funds are loaned under these conditions the resultant interest rate is the normal rate. When natural resources are sold or their services leased under free market conditions the resultant price or rent is the fair value of those resources.

Another equally essential function of competition in the capitalist system is that of creating and preserving efficiency in the production of goods. No form of economic organization can long survive unless it possesses powerful forces that work to create efficiency. Productive efficiency means the turning out of goods and services with the least possible expenditure of productive agents on each unit of output. In a money economy where each of the agents acquires a pecuniary worth, efficiency means production at the lowest possible money cost per unit of output. It is the function of competition to create pressures which will work toward this end. When numerous sellers independently offer the same commodity on the same market at the same time, no seller can long continue to offer it at less than its cost in his plant. Buyers, acting as economic men, presumably will seek the lowest-priced sellers. The result will be a pressure to eliminate the highest-cost, and therefore presumably the least efficient, producers. In a capitalist system competition is the *only* force that tends to relieve the system of inefficient business units and enterprisers.

Likewise, competition among workers for jobs exercises a selective influence upon the labor utilized. Once a man is employed at a specific task, the rivalry of other potential occupants of that position serves to keep the incumbent efficient. The employer who knows how to utilize labor most effectively will have an advantage over his less efficient rival when bidding for it. Hence the former will tend to absorb the available labor supply and the latter will be driven out of business. Inanimate pieces of capital equipment and natural resources "compete" against each other for employment, the more efficient units having the advantage over the less efficient and tending to replace them. It is this force of competition, operating sometimes slowly and subtly and at other times speedily and drastically, that

constitutes the sole protection and encouragement of efficiency in a capitalist system.

Relationship of Monopoly to Capitalism

The student should carefully discriminate between the reliance which capitalism places upon competition as the creator and preserver of fair prices and efficiency and the incomplete or imperfect nature of much of the competition which exists in our economy. Capitalism may rely solely upon competition in these respects and yet that competition may be far from perfect.

Competition is often partially destroyed by one or more of a great array of monopolistic practices and devices too numerous and too well known to permit their discussion here. Moreover, on the ground that they are socially harmful, society has prohibited some practices which may appear competitive. For instance, it has prohibited discriminatory price rebates or quotations to different buyers in interstate trade. This, in a sense, has made the existing capitalist system less competitive than it otherwise would be. The point to be stressed is that, regardless of these private restrictions and social modifications, competitive forces alone under capitalism can create and preserve fair prices and efficiency. An existing capitalist system will have as much "fairness" in its price system and as much "efficiency" in its production as the forces of competition under existing conditions generate; it will never have more and it cannot have less. Thus, competition is innately a part of capitalism. Private monopoly is inevitably and diametrically inconsistent with capitalism as a system of economic organization; a public monopoly, such as a public utility or a governmentally owned business unit, can be consistent with a capitalist system only so long as it is used as a means of accomplishing what competition presumably would have accomplished had it been possible to permit it to operate.

From this summary of relationships it follows that the more extensive and intensive the non-competitive practices of privately owned and operated business concerns become, the less the economy is a capitalist system in the true sense of the word and the fewer are the chances that it can continue to function as such. The growth of private monopoly clearly acts to close otherwise free markets and to forestall the exercise, by all except the monopolist, of the freedom of individual initiative. The more extensive and powerful private monopolistic powers become, the less true is the assumption that existing prices for consumers' goods and productive agents are fair or normal and that the system is automatically generating pressures which create and preserve efficiency in production. Private monopoly in all of these ways is quite inconsistent with the inherent nature of the

operation of the capitalist system and with the necessary prerequisites for its continued operation.

Relation of Government Regulation and Ownership to Competition

Moreover, the extension of the regulatory powers of government under the public utility concept, and the expansion of government ownership and operation of what otherwise would be private business ventures will ultimately work toward the destruction of capitalism. As long as a small minority of industries are regulated as public utilities, the basic determination of a fair price, a fair wage, a fair interest rate, or a fair rental continues to be made in the free market. These competitively determined norms are utilized by public utility commissions in their regulation of utility industries and non-competitive areas are thus coordinated with a fundamentally competitive economy. However, if all industries were subjected to the public utility type of regulation, all prices being set administratively by public commissions, competition and the free market would cease to exist and there would be no competitively normal prices. Under these conditions freedom of individual initiative could no longer exist and private property in producers' goods would necessarily become almost meaningless.

The same results would follow the extension of governmentally owned and operated industries until they absorbed dominant areas of economic activity. Capitalism, in any sense in which the term is meaningful, can exist only as long as private and public monopoly are absent or are so restricted in scope that competitive forces predominate in establishing prices and eliminating inefficiency. While it is impossible to calculate and describe the precise amount and nature of monopolistic control over economic activity which constitutes the boundary between a capitalist and a non-capitalist economy, it is perfectly clear that there is such a line. On one side of it, competition is predominant and capitalism exists; on the other, monopoly is predominant and capitalism does not exist. It is in this sense that competition constitutes another of the fundamental institutions of capitalism.

THE PROFIT MOTIVE

Relation to Capitalism

The "profit motive" is a more vital organ of the capitalist system than is any other institution. While the economic man, private property, inheritance, freedom of individual initiative, and competition are innate parts of capitalism, modified forms or vestiges of each may conceivably exist in non-capitalist economies. Private property, in so far as it includes claims to durable consumers' goods, may exist and even be encouraged in non-capitalist societies. People can make at least some of their decisions as

economic men even though they are living in a non-capitalist economy. Certain forms of inheritance may not be inconsistent with a socialist or some other non-capitalist economic organization. Socialism and communism as alternative economic systems leave the individual some freedom of individual initiative. Competition or economic rivalry, in at least some of its forms, will be found in every structural form of economic society. These institutions are not completely restricted in potential existence to the confines of capitalism. In this respect, the profit motive is quite different. Not only is it an inherent part of capitalism; it could not exist outside of a capitalist economy. While each of the other institutions is conceptually broader than capitalism, the profit motive cannot be separated from the warp and woof of that system.

Definition

Breaking this term into its component parts discloses its meaning. "Profit" means a surplus of receipts over expenditures, or, more correctly, a *difference* between receipts and expenditures, because there may be negative as well as positive profit. A "motive" is that which incites to action. Since our discussion deals exclusively with societies which have monetary systems, the profit motive refers to a *pecuniary difference* between receipts and expenditures as an *incentive to action.* The profit motive operates when persons, as individuals, partnerships, or corporations, calculate a pecuniary difference between receipts and expenditures and are *thereby* moved to some action. The calculation usually has to do with the future and the action decided upon is, of course, future. Past profits or losses motivate action only to the extent that they give presumed clues to prospective future returns.

It is when the profit and the motive aspects of this concept are combined that they describe an institution essential to, and wholly confined in, the operation of a capitalist economy. A profit alone, or a motive alone, may well be a phenomenon of importance in a non-capitalistic society. Differences between receipts and expenditures are calculated by the various economic units of Soviet Russia. Moreover, people, individually and as groups, find activating motives in that economy. It is when the difference between receipts and expenditures becomes, in and of itself and wholly unaccompanied by any other motive, the force that leads to action that the profit motive is truly functioning. This cannot happen in the Soviet economy, where economic planning or administrating is done in centralized agencies. Calculated "profits" or "losses" for specific economic units may play an important part in administrative decisions, but these decisions are not automatically actuated by the existence of profit or loss. It is the latter that happens in a capitalist system and can happen only in that system. It

is *because* the manufacturer of hats, for instance, foresees a substantial profit in making hats that he decides to expand his plant and turn out more hats—or, if he foresees losses, decides to do the opposite. This is the sole reason for his decision. Such is the profit motive under capitalism.

Compared with the Economic Man

The profit motive must not be confused with the institution referred to as the economic man. The person who follows the profit motive, basing his decisions on prospective profits or losses, is an economic man. However, not all decisions which are made on the economic-man basis are affected by the profit motive. Only those that are based upon calculations of *pecuniary differences* between receipts and expenditures are thus affected. When, for instance, a workman decides to work for Smith rather than Jones solely because Smith pays two cents more per hour than Jones, he acts as an economic man. He is not influenced by the profit motive because, having no expenditures in the business sense, he does not base his decision on any pecuniary difference, or profit or loss.

Importance

This indicates that, while the economic-man institution is all-pervasive in a capitalist system, the profit motive operates within a much narrower scope and in a much more restricted manner. This, however, does not mean that the latter is less important than the former. In fact, the opposite is true, for the profit motive affects the vital entrepreneurial decisions made in the operation of the capitalist economy. It is these decisions which have to do with the combining of productive agents to create new products and new varieties of old products; which deal with the use of new processes, new machinery, and new methods of combining the productive agents in the productive process; and which most directly shape the pattern of organization of the productive forces in the economy. These are the decisions that are based upon calculations of probable receipts and probable expenditures, the size of the difference and its profit or loss nature determining what the final decision will be.

Functions

The function of the profit motive in a capitalist system may be described in various ways. From one point of view, the profit motive acts as the central controlling mechanism, for, by its very nature, the system can have no single personal head or agency consciously directing its manifold activities. This motive is expected to actuate enterprisers to put productive agents into their most productive uses and to be constantly on the alert to shift

specific units of each agent from less important to more important uses. In another sense, the profit motive acts as a coordinating force in an economy composed of highly specialized parts. Further, it induces the enterpriser to become an enterpriser. It not only induces him to act after he has become one; through establishing the possibility of acquiring surpluses over expenditures, it induces him to decide to render entrepreneurial services. This function includes the bearing of certain risks which are unpredictable and momentous in a dynamic society.

These considerations indicate that the profit motive is the heart of all the institutions of capitalism. It is the one capitalist institution which cannot exist outside capitalism. The entrepreneurial function is the organizational center around which the operational activities of a capitalist system turn. The profit motive is the controlling mechanism in the entrepreneurial decisions. As such, and as the mainspring from which entrepreneurial energy flows, it is the key institution of capitalism.

CONCLUSION

The student must take care not to be misled by this description of the institutions of capitalism. The picture has been oversimplified. Actually there are other institutions which should have been included, and each of those discussed here has multitudinous and detailed parts, each of which should be analyzed to make our study complete. It has been possible to give only the barest suggestion of the immensely important interconnections among these institutions and the resultant influence which each exercises upon the evolution and operation of the others. None of them operates in a vacuum. Each is shaped and modified by the existence and functioning of all the others. Each is different than it would be if each of the others were not as it is.

Moreover, while the emphasis in this chapter has been upon the institutional structure of capitalism, this is only the framework within which economic activity occurs. So to speak, we have been examining the building, the machinery, and the plant layout of capitalism. It is the processes that operate therein and the flow of materials and human energies through it that give it life and human significance.

Raw materials are raised or mined and are started on long journeys toward the consumer. Some are fabricated into machines and tools which in turn are used to produce other equipment to the ultimate end of satisfying human desires for goods. Funds are saved and invested in these pieces of equipment which remain useful over long periods of time. Other funds are provided by commercial banks which create credit for purchasing labor, materials, and power in advance of the time when the consumer lays his money on the retailer's counter. Contracts are entered upon and fulfilled—contracts between employers and employees, producing units and investors, lenders and bankers, wholesalers and retailers, as well as between

various manufacturers supplying each other with raw materials and portions of the finished product. The meeting of these contractual obligations daily keeps the system operating. Prices in capital markets, labor markets, and consumers' goods markets arise from the maze of buying and selling operations that occur there. They stimulate economic processes to turn out more of the things which are scarce and therefore valuable and less of the things which are plentiful and therefore cheap, relative to their costs. Future commitments of numerous varieties are made and, once in existence, entail numerous and varied risks.

All this appears to call for extremely accurate coordination in order to assure smooth operation. Should any channel through which flow materials, funds, contracts, buying and selling, or human exertion become blocked, many other channels will be affected and the system's activity will be retarded. However, the interrelationships are not planned and prearranged. They arise out of the search by each person and each business unit for the greatest possible gain. The coordination which prevails, with varying degrees of precision, is the product of forces automatically created in the market place and by the price system through myriads of independent economic decisions constantly being made by all individuals and business units.

Such, briefly, is the nature of the activity which courses through and around the institutions we have described. Nothing less than a full and detailed study of the economic principles of a capitalist economy could amply describe their many varied facets. As we consider economies which differ basically from capitalism we shall return again and again to note their contrasts with the institutions and processes of a capitalist order.

QUESTIONS FOR CLASS DISCUSSION

1. What is the difference between the concept "capital" and the concept "capitalism"?
2. Why is the essence of the concept "capitalism" economic? Does this mean that capitalism is unrelated to non-economic institutions?
3. Make a list of the reasons why capitalism is so difficult to evaluate.
4. Why is it impossible to be completely an economic man? How can it be said that the economic man is a fundamental assumption of capitalism?
5. Is private property a homogeneous or a heterogeneous thing? Illustrate.
6. Why is it essential to include contracts in the concept of private property? Illustrate.
7. What are the functions of private property in a capitalist system? Are they of primary or secondary importance?
8. Why cannot the right of private property be absolute in an organized society?
9. Should inheritance be considered a separate institution of capitalism or merely a part of private property? Why?
10. Why is inheritance not a natural right?

11. What justification is there for permitting individual initiative to be free in a capitalist economy?
12. Would it be correct to say that if we wish to preserve capitalism it is essential to keep business activity purely competitive?
13. Why is the profit motive a more vital organ of capitalism than is any other capitalist institution?
14. The profit motive is referred to as a controlling mechanism, a coordinating force, and an inducement. What do these mean?

Chapter 4

THE SUCCESSES OF CAPITALISM

The Problem of Evaluating the Capitalist System

In neither this nor the following chapter will there be found a declaration that the capitalist system is either good or bad, or even a conclusion that it is the best or the worst of all existing types of economic organization. Its virtues and defects are not set off against those of a socialist, communist, or fascist economy in any absolute sense. Each individual citizen doubtless should arrive at some decision on the controversial issue of the preservation of capitalism versus the evolutionary or revolutionary substitution of another order for it. This should come from a thoughtful weighing of the various merits and deficiencies which could be expected to accompany the operation of each alternative type of economy. Unfortunately, these merits and deficiencies cannot be evaluated by setting down columns of absolute values and then, by addition and subtraction, finding which type of economic organization offers the greatest potential human benefit. While some of the advantages and disadvantages of each type can be valued in objective and definitely measurable terms, most of them cannot. It is the subjective elements that must pull the balance finally one way or the other when the individual seeks his evaluation of capitalism.

This does not mean that each person should shun contact with realities and seek superhuman inspiration for his decision concerning capitalism. Certain clearly observable defects and merits of the capitalist system can be discovered by studying its operations over a period of time. Certain probable consequences of the operation of an alternative system such as socialism, communism, or fascism may be evident from a knowledge of what each of these systems has been or would be like institutionally. The individual who evaluates capitalism should search for all these in the objective analyses which he or trained students of these phenomena may make. Moreover, everyone who seeks to judge capitalism should be acquainted with the comprehensive judgments passed upon it by others who have considered it both objectively and subjectively. These evaluations stimulate the individual's thinking and assist him in formulating his own subjective

values. In short, a broad knowledge of objectively ascertained facts about the operation of capitalism and wide contact with the subjective or philosophic views of others concerning it, as well as familiarity with the alternative forms of economic organization, are essential. However, having achieved all of this that is possible, one still faces a complexity, a subtlety, and a subjectivity of the issues which may create the feeling that the less thought and reflective effort devoted to them the better. Such cynicism has waxed strong among the citizens of various nations during recent decades. While the causes of its growth are understandable, the tide of its strength must be turned if human beings are to build for themselves societies which are to their liking.

A further word of caution is pertinent. The issues are not only complex, subtle, and subjective; they are also not wholly economic. The kind of economic organization we establish has a great deal to do with shaping non-economic institutions in our society and these in turn affect the nature of the economy itself. Hence capitalism cannot be judged solely, or possibly even principally, upon the basis of its economic consequences. It may be that capitalism exercises upon family life, religion, education, literature, art, or the natural sciences good or bad influences, the human significance of which outweighs the more narrowly economic results of its operation. If it is difficult to evaluate the subjective importance of economic phenomena, how much more difficult it is to compare subjective values, some of which are economic while others are non-economic. It may be very difficult, for instance, to compare the human suffering caused by unemployment which may be inseparable from capitalism with the human benefits derived from technological development which may have been fostered by capitalism. It would be still more difficult to compare the unhappiness represented by a higher divorce rate which may be related to capitalist institutions with the human benefits derived from artistic developments which capitalism may have stimulated or made possible in the motion picture industry. It is precisely because such difficulties are resolvable only on a subjective basis within the individual that no one, regardless of how well he may be versed in economic analysis, is competent to formulate a final comprehensive evaluation of capitalism.

To simplify matters, economists and others at times have suggested certain standards of performance or tests of a capitalist economy and have implied that some one of these could be accepted as the final all-important test. For instance, some have thought that capitalism should be judged solely (or nearly so) on the basis of whether it generates forces which keep *all the available means of production continuously employed* in producing goods for the satisfaction of human desires. It is clear that this test cannot be accepted as the conclusive one. This constitutes a sort of minimum standard which any economy ought to be expected to attain if it is to have a claim to existence. Moreover, it raises no question of how efficiently the

resources are used, what types of goods are turned out, what desires exist or where they come from, or how the human agent is used in the productive process. Even if it met this one test satisfactorily, the capitalist system might be so deficient in certain other respects that its human serviceability would be highly questionable.

To avoid the weaknesses of this test, it may be supplemented by the requirement that the utilization of resources must be for the purpose of *maximizing human well-being.* Continuous and complete utilization of the available resources to the end of producing the greatest possible amount of human welfare would then be the test. But this cannot be a satisfactory final test because of the subjective nature of the concept "human welfare." Each person has his own ideas as to what should happen to him and to others as workers, investors, and consumers in order to have his and their human welfare maximized. Human welfare surely involves matters far from the purely economic but yet it is influenced by economic institutions. Hence, this test fails to create objectivity in place of subjectivity in the evaluation process. A consideration of its true nature simply reinforces our conclusion that the evaluation inherently must be substantially subjective and for this reason must be made by each person for himself even to the point of establishing his own criteria.

Thus it seems that the process of evaluating capitalism must be pushed back further and further into the realm of the philosophic until we again arrive at the pure philosopher who retires to his dark closet and speculates, wholly isolated from the world of reality. If this were the case, there would be no reason to continue our discussion beyond this point. Fortunately it is not, for there are some rather generally admitted elements of strength which have been demonstrated and successes which have been achieved by the capitalist system as it has functioned in the United States during the last century and a half. Likewise some rather generally admitted weaknesses or failures have characterized its operation. Not only are they generally admitted, they have been so obvious that their objective reality cannot be questioned. Moreover, despite all the subtle subjective issues involved, their human importance is unquestioned. These successes and failures must be considered in any evaluation of capitalism, no matter how much each individual supplements them with his own thought and philosophy. A knowledge of them and their importance constitutes a starting point or common ground, from which point each individual must be free to pursue his own evaluation. Since they are so essential to any final verdict, they are reviewed here in some detail.

This evaluation of capitalism takes a different approach than did the description of the institutions of capitalism. There the point of view was somewhat theoretical. Each institution was described in a rather pure form and the function that it was supposed to perform was pointed out. Some recognition was taken of the fact that pure institutional forms did not

actually exist and that institutions did not perfectly perform their basic functions, but no attempt was made to evaluate the degree of the latter. In this and the following chapter the primary question will be: What successes and what failures have featured the operation of capitalism as it actually has functioned in the United States? They will not be related individually to the respective institutions which may have played major parts in their causation. The successes and failures described are the successes and failures of the collective institutions of capitalism.

When the successes and failures of a functioning system are listed, it is impossible to differentiate accurately between those which are due to the *nature* of the institutions of that system and those which are due to the *environmental* surroundings in which those institutions have functioned. Environmental forces include the natural forces of resources and climate and any physical and psychological traits of individuals that are not attributable to the economic institutions which comprise the economic system. To be more specific, one cannot clearly and surely differentiate between the successes of American capitalism which are due to the nature of its institutions and those which are due to the wealth of our natural resources and the physical and psychological traits of our people. No more can one be sure whether certain failures of capitalism have been caused chiefly by the institutional weaknesses of the system or by the psychological attitudes of Americans. No attempt to deal with this insolvable problem will be made in the ensuing discussion. The successes and failures of capitalism will be treated as arising from that system as it has operated in its American environment. The problem faced by the American citizen has to do with the desirability of retaining, modifying, or displacing *American* capitalism in *this* environment.

These problems take on added importance when one questions how far war is responsible for the failures of the capitalist system. Several of the deficiencies discussed below clearly are related to maladjustments which can be traced directly to war. Should they be held failures of capitalism, should they be attributed to some non-economic institution, or do they arise from the nature of human beings? It makes little difference in this discussion whether one concludes, as the Marxian would, that modern wars are caused by capitalism, or holds that they are principally due to some largely non-economic aspect of the human world. Wars have been, and may continue to be, parts of the environment within which capitalism functions in the United States. They are a part of the setting, whether they in turn have been caused by the institutions of capitalism or by some other cause; modern capitalism must be judged in its prevailing setting. If capitalism causes wars and they cause capitalism to fail in certain respects, these are failures of capitalism. If as part of its setting capitalism has

wars not of its own creation, and they cause it to develop certain weaknesses, these too must be considered defects of capitalism for they result from its failure to adapt itself completely to its environment.

Flexibility

One of the principal achievements of the capitalist system of the United States has been its adaptation to changing conditions. It has possessed a flexibility, an adaptability, and a resiliency which have permitted it to mold its forms and processes into conformity with innumerable changes in its environmental setting. It has, at least in a measure, adapted itself to war and then to peace, to swiftly advancing technology and then to a slowing of technological changes, to a fabulous exploitation of virgin resources and then to a relative paucity of undeveloped resources. The impact of such changes upon the delicate relationships in the operating economy has been severe. The fact that the capitalist system has been able thus far to withstand it is evidence of a high degree of flexibility in its institutions and processes.

The system itself, of course, has not generated this flexibility automatically. It is the product of individual initiative working in conjunction with capitalist institutions. It is the sum total of decisions made by entrepreneurs, workers, consumers, and owners, each presumably seeking his own economic advantage within the institutional framework of capitalism, that has brought the adaptation of the economy to new and often unpredictable changes. The important point is that the capitalist framework has permitted and induced the decisions that would bring this adaptation.

Several specific cases may clarify and emphasize the importance of this attribute of capitalism. When progress in the physical sciences and industrial technology made possible the use of power machinery and the advantageous grouping of batteries of machines into factories, the technological need for large-scale production was born. This created the necessity for large aggregations of funds to be concentrated in single business units. In terms of economic organization, the modern business corporation was the response. Without it the concentration of funds essential to large-scale production could not have occurred. The capitalist system was sufficiently flexible to permit this organizational adaptation to a newly created need. Prior to 1800, only 335 profit-seeking corporations had been organized in the United States. By 1899, two-thirds of all our manufactured goods were being turned out by corporations. The number of non-financial corporations increased to about 300,000 in 1929, and by 1932 it was estimated that 94 per cent of all manufacturing was carried on by corporate business units.[1] The corporation was woven into the fabric of the capitalist system

[1] A. A. Berle and G. C. Means, *The Modern Corporation and Private Property*, Commerce Clearing House, Inc., Chicago, 1932, pp. 10, 14, 32.

so completely that most of us have forgotten that the system once existed without it.

The institution of private property—the core of capitalism—has experienced an astounding degree of modification within the past century and a half. Comprising at one time ownership rights only to such things as land, buildings, cattle, draft animals, machinery, and durable consumption goods, it has been expanded to comprehend a maze of intangible possession and contractual rights and claims essential to the functioning of a highly specialized industrial system. These newer attributes represent the response of the institution to changing needs. They have not come automatically, they have been contrived in response to needs. The fact that the capitalist system has been sufficiently flexible to absorb and to correlate them in a useful fashion with the already existing features of private property is important.

We must not be confused by the fact that the development of the modern business corporation and the evolution of private property to its present form have involved legislation and the decisions of courts. These laws and decisions, truly enough, have given these institutions their concrete new forms. It is in corporation laws and property laws, and in court decisions relative thereto, that the current nature of these institutions is embodied. The specific provisions of these laws and decisions are the products of individual initiative. It was when entrepreneurs, owners, workers, or consumers visualized a new use or mode of use for the corporate form of business or for private property that modifying legislation and court decisions were sought. While the flexibility of the capitalist system permitted the modifications, it was individuals seeking their greatest advantage under that system who made the initial moves toward creating adaptation to new needs. Thus capitalism may be said to have both stimulated and made possible the evolution of these important institutions in newer and more useful forms.

In still another and equally important sense capitalism has possessed flexibility. It has adapted its operations to an increasing amount and complexity of regulation imposed largely through governmental action for the purpose of enhancing its contributions to social well-being. A student of capitalism a century ago, had he been able to visualize the social controls to be imposed upon business operations during the next hundred years, probably would have concluded that the system would thereby be destroyed. It would have been difficult for him to believe that individual initiative could continue to be the mainspring of productive energy in a system about to be subjected to such numerous and drastic socially imposed restraints. Yet the system not only has adjusted itself to them; possibly it has functioned better because of them. The flexibility which has permitted this is a too-often forgotten mark of the capitalist system's strength.

Rising Standards of Living

One need not be a statistician to realize that living standards in terms of economic goods consumed in the United States have experienced a long-run and substantial rise under our capitalist system. Up to the late nineteen-twenties this rise was steady, with an occasional change in pace. During the depression of the thirties our economy was hard pressed to preserve the increases established up to that time.

The question of what portions of this rise should be attributed respectively to the wealth of our natural resources and to the effectiveness of capitalism is, of course, debatable and unanswerable. That the same rise could have occurred in a country not blessed with access to a comparable wealth of resources is highly doubtful. However, it is significant that it did occur in conjunction with the existence of capitalism. No one knows or can know whether it would have been greater or less under some other form of economic organization—these years cannot be relived experimentally under various systems. Whatever one's views on these controversial issues, it is to capitalism's credit that this rise in living standards took place while it was functioning.

The fact that rich natural resources do not automatically create high living standards is obvious. Resources, no matter how plentiful, must be processed before they become consumers' goods or machinery to make these goods. It is a capitalist system through which we have processed increasing per capita quantities of consumers' goods from our wealth of natural resources.

There is no possibility of measuring precisely this rise in living standards. One carefully made study of real wages (that is, money wages adjusted for changes in the purchasing power of money) in all American industries except agriculture shows that average annual earnings rose from $469 in 1890 to $611 in 1926.[2] This calculation does not take into consideration either the improvement in the quality of many goods purchased with these earnings or the increased leisure which in late years wage earners have had to enjoy the goods they consume. Allowance for these two items would substantially increase this rise in living standards. Since the average length of the working week decreased by at least 10 per cent between 1890 and 1926, employed people had considerably more time in 1926 than in 1890 to enjoy the consumption goods they had and to enjoy leisure directly. The latter is a part of living standards just as much as is an increase in the food, clothing, or shelter available.

The Twentieth Century Fund's survey of *America's Needs and Resources*

[2] Paul H. Douglas, *Real Wages in the United States, 1890–1926,* Houghton, Boston, 1930, p. 646. While more recent data are not strictly comparable with these figures, the trend undoubtedly has continued upward, being retarded by the depression of the thirties and stimulated by the war years.

shows the per capita national income measured in 1940 prices to have increased from $200 to slightly less than $600, or by nearly three times, during the span of ninety years between 1850 and 1940.[3] Since these figures include the value of producers' goods turned out, data on increases in consumer expenditures should be noted. No figures are available for years earlier than 1909. In that year expenditures in the United States on consumption goods totalled $478 per capita in terms of 1940 prices. By 1940, they amounted to $533 per capita, also in 1940 prices.[4] Just as data showing the rise in real per capita national income exaggerate the true rise in living standards, the consumption expenditure data understate it since they make no allowance for improvements in the quality of consumers' goods or for the substantial increase in, and the ever-widening extent of, services rendered by the Federal, state, and local governments. Moreover, they make no allowance for the increased leisure which consumers have enjoyed when, for instance, the average number of hours worked per week in the United States declined from about 58 in 1909 to 43 in 1940.[5]

The news letter of a New York bank, in calling attention to the "tremendous improvement in the American standard of living," makes the following assertion: "For instance, in 1914 the average factory worker had to work 11½ hours to obtain enough money to buy a hat. In 1936, 3½ hours of work bought him the same hat. It takes him only half as many hours of work today as it did in 1914 to purchase his clothing. The house furnishings that he had to work 40 hours to get in 1914 cost him only 28 hours of labor in 1936. A study made in 1936 of 20 leading machine-made articles showed that a worker could buy them all for only 37 per cent of the work hours they cost him in 1914."[6] While these are striking contrasts they fail to indicate how many per capita hours of labor were available for use as the means of purchasing goods in each of the years compared.

Still another way of viewing rising living standards is to note the total consumption of certain widely used commodities and services. It has been reported that, between the years 1890 and 1929, the annual per capita consumption of steel increased from 152 to 1040 pounds; of coal, from about 58 to 132 millions of British thermal units; water power, from about 1.5 to 16 millions of British thermal units; gasoline, from an insignificant quantity to 130 gallons; newsprint, from 6 to 62 pounds; rubber, from half a pound to 19 pounds; cotton, from 20 to 28 pounds; rayon, from none to 1 pound; sugar, from 51 to 102 pounds; and eggs, from 13 to 18 dozen. Many other articles experienced comparable increases.[7] It is said that, by 1940, 40

[3] J. Frederic Dewhurst and Associates, *America's Needs and Resources,* The Twentieth Century Fund, New York, 1947, pp. 32, 39. The calculation of per capita national income is based on Tables 5 and 12.

[4] *Ibid.* The calculation is based upon Table 27, p. 81.

[5] *Ibid.* The calculation is based upon Table 3, p. 23.

[6] *Business Week,* November 6, 1937, p. 23.

[7] From a table presented in the National City Bank *Letter,* January, 1936, p. 12.

million homes were equipped with radios, 22 million with electric irons, 13 million with electric washing machines, 12 million with electric refrigerators, and 11 million with electric vacuum sweepers.[8] It is recognized, of course, that these articles have become available to consumers only in recent years. From 1890 to 1929 the number of telephones per thousand of population increased from 4 to 165, and by 1945 had reached 213 per thousand; the number of automobiles from a total of 4 (in 1895) to 218 per thousand of population, increasing by 1943 to 224 per thousand; the number of college students per ten thousand of population from 11 to 80, and the amount of life insurance in force from an average of $64 to $849 per capita, rising in 1944 to $1080 per capita.[9]

In considering the significance of these figures it is highly important to note two facts. First: While all these calculations are on a "per capita" basis, the total population was increasing substantially during the entire period under discussion. From 1890 to 1910 the population of the United States increased from 55 millions to 91 millions; by 1940 it had reached 130 millions, nearly two and a half times its 1890 size. This means that our economy not only was producing substantially more per person but was doing so for an increasing number of persons year by year.

Second: These rises in living standards have been widely diffused throughout all groups in the population. The distribution of the national income will be discussed in more detail in another connection. It is pertinent at this point, however, to note that there is no evidence of any substantial increase in the concentration of the national income having occurred. Hence the rises in per capita living standards must have been widely diffused. This fact is exceedingly important, for it could scarcely be considered desirable for an economy to produce more goods per capita and permit the increases to flow wholly or chiefly to persons already well supplied with income. As capitalism has operated in the United States it apparently has generated some automatic force which has diffused its increasing productivity over the population as a whole, each income group sharing roughly in proportion to its previous share of the total national income.

This diffusion of rising living standards has been furthered by two important institutions—taxation, particularly in its progressive rate forms, and philanthropy. Each of these has assumed a role of increasing importance in our capitalist system. Each is a means whereby personally received income is redistributed rather than spent by its recipient for his personal benefit. Tax receipts go into a fund used to pay for government services

[8] Report of the National Association of Manufacturers, New York *Times*, January 6, 1940.

[9] National City Bank *Letter*, January, 1936, p. 12; American Telephone and Telegraph Company, *World Almanac*, 1946, p. 468; Public Roads Administration, Federal Works Agency, *World Almanac*, 1946, p. 649; Life Insurance Year Book of the Spectator, *World Almanac*, 1946, p. 666.

which are consumed or used, at least roughly, in accordance with need. Private philanthropic contributions have the same effect, in that the donor sacrifices certain goods or services he might have purchased, thereby making more available to the beneficiary of his philanthropy.

The importance of each of these as a means of diffusing national income is often underestimated. Total Federal, state, and local tax collections increased from $68 per capita in 1922 to $76 per capita in 1935, and to $100 per capita in 1940, just prior to the heavy war time expenditure.[10] This was an extension of a long-run trend which set in decades ago. By 1940 the total tax collections accounted for 17 per cent of our total national income. During the entire period from 1922 to 1938, an average of approximately five millions of Federal income taxpayers turned over each year an average of 3.75 per cent of their net incomes to the Federal government under the operation of this tax alone.[11] This figure varied from 0.38 of 1 per cent of the net income for taxpayers with incomes under $5000, to 21.33 per cent for those with incomes of $1,000,000 or more.[12] It is evident that the higher-income groups gave up a much greater portion of their personal incomes than did the lower-income groups. Assuming that the revenues derived from this tax pay for governmental services utilized by citizens in accordance with their needs, this tax constitutes a significant agency of redistribution.

Several illustrative uses of tax revenues will serve to indicate the degree to which taxation has been made a means of redistribution. Government funds used for public education create certain basic equalities of opportunity for training which could not be realized otherwise. Total expenditures for public schools in the United States increased from 78 million to 2308 million dollars between 1880 and 1943.[13] While the number of children in public schools increased two and one-half times during this period, the expenditures increased nearly thirty-fold. During the four worst depression years of the 1930's over 3.5 billions were spent by the Federal government alone on direct unemployment relief.[14] These funds, supplemented by appropriations from state and local governments, were the source of cash grants that enabled unemployed families not only to keep from starving but also to refuse to work for wages below a subsistence level. A still more novel and possibly far-reaching innovation in the use of tax funds was introduced by the U. S. Department of Agriculture in 1939. The "food-stamp plan" made it possible for many thousands of needy families to

[10] National Industrial Conference Board, *Cost of Government in the United States, 1934–36,* National Industrial Conference Board, New York, 1937, p. 36; National Industrial Conference Board. *The Economic Almanac for 1945–46,* p. 107.

[11] J. P. Jones (ed.), *The Yearbook of Philanthropy,* The Inter-River Press, New York, 1940, p. 13.

[12] *Ibid.,* pp. 5-10.

[13] *The World Almanac, 1946,* p. 580. Data from the U. S. Office of Education.

[14] A. G. Buehler, *Public Finance,* McGraw-Hill, New York, 1940, p. 65.

purchase certain basic food items at below market prices, the Federal government making up the difference between what the purchaser paid and the producer received.[15]

It has been estimated that in 1945 private contributions for education, health, research, relief, and social betterment in the United States totaled $2,300,000,000.[16] In our eight largest cities in 1943 a total of $40,700,000 was left as bequests for charitable purposes.[17] In 1938 there were some 700 philanthropic foundations in the United States having a total endowment of one billion dollars and expending some fifty millions of dollars per year.[18] A study of the sources of these contributions indicates that four-fifths of the total comes from individual givers, about one-tenth from corporations, and another tenth from foundations.[19] Income tax returns indicate that, for the period 1922 to 1938, an average of 147 taxpayers per year reported incomes of $1,000,000 or more. Their philanthropic contributions, for which they took income tax credits, totaled $253,573,000 for the period as a whole, or $101,551 each per annum. While the total contributions of income taxpayers in the $5000-and-under category were greater in the aggregate, the annual average per taxpayer was only $42. In 1937, these amounts respectively were $159,000 and $68. The in-between income classes show contributions varying in accordance with the size of income.[20] Another indication of the importance of philanthropy in the United States is the total investment in charitable and educational institutions. Excluding institutions supported from tax funds, this is now estimated to be over 20 billion dollars, about three quarters of which is the value of physical properties, the other quarter being invested funds. It is estimated that from 1922 to 1931 these assets grew at a rate nearly three times the rate of increase of the total national wealth. In terms of capital investment, philanthropy stands fourth among American industries, being exceeded only by agriculture, the railroads, and public utilities.[21]

These estimates, and others which would be necessary to complete the picture, cannot at present be made with sufficient accuracy to permit us to say what portion of the total national income is redistributed after it is received privately. However, there is no doubt that certain forms of taxation and philanthropy as a whole have acted as significant diffusing forces in our economy in recent years.

[15] For a description of the food-stamp plan, see Ray Harvey, *Want in the Midst of Plenty, the Genesis of the Food Stamp Plan,* American Council on Public Affairs, New York, 1941.

[16] 1946 *Britannica Book of the Year,* p. 267. Data from reports of the John Price Jones Corporation.

[17] 1944 *Britannica Book of the Year,* p. 239.

[18] *Encyclopaedia Britannica,* 1944, vol. 17, p. 712.

[19] J. P. Jones (ed.), *The Yearbook of Philanthropy,* p. 17.

[20] *Ibid.,* pp. 17, 20.

[21] *Ibid.,* pp. 3–4.

New Consumers' Goods

One phase of the rising living standards in the United States merits separate attention. Innumerable new consumers' goods have been developed and advanced to the stage of large-scale production and old consumers' goods have appeared in tremendous varieties of new styles, shapes, colors, and sizes. This point need not be labored, for everyday observations clearly disclose the trend. Automobiles, electrical appliances, entirely new textile fibers, new building materials, air conditioning, moving pictures, rapid transportation, and many scores of other commodities and services have been initiated and developed to the status of the commonplace under the capitalist system.

Every shopper knows that the present-day range of colors, sizes, and styles of nearly every commodity far exceeds that of a generation ago. Men's hats are no longer available merely in different sizes; they can now be purchased in shapes to fit the particular heads that will wear them. Electric lamp bulbs today can be purchased in almost every imaginable shape, size, color, and wattage, and combinations thereof, at prices within reach of every householder. A 60-watt bulb cost $1.50 in 1907, while one of better quality now sells for twenty cents. Ice is no longer merely a fifty- or hundred-pound block; it is available in pea and nut sizes as well as cubes and small cylinders to fit the beverage glass. Breakfast foods and soaps can be purchased to satisfy almost any conceivable personal taste or condition of health. Illustrations need not be multiplied; a glance at the counters of a modern department store or a five-and-ten will amply demonstrate the point. A single large department store in New York City stocks 300,000 separate items of merchandise.

While this multiplication of commodities and their sizes and styles is not without its social disadvantages, it must be listed as one of the contributions of capitalism to modern life. As the individual's consuming power is advanced, he doubtless wishes to utilize portions of the increase in acquiring *new* commodities. Moreover, the greater the variety of sizes, shapes, styles, and colors in which a given commodity is offered, the greater is the consumer's ability to secure the article that will most closely meet his need. Hence these developments must be considered as generally serving the consumer and as legitimate aspects of rising living standards.

Again, capitalism, as a form of economic organization, is not solely responsible for these advances. The services of scientists and technicians have played important parts and these skills are not inherently the products of a capitalist system. However, these contributions of science and technology have come to the consumer *through* a capitalist system. The system has not generated fatal stoppages forestalling the flow of the services through to the ultimate end—new goods and new varieties of old goods for consumers. Moreover, in many or most cases it has been the pressure of capitalist busi-

ness units to expand sales that has induced the technician to act. For these reasons such developments must be considered a contribution of the capitalist system.

Entrepreneurial Energy

Capitalism in the United States has brought into use large quantities of enterprising ability and energy. The entrepreneur is of peculiar importance in the flow of economic activity for it is he who organizes, coordinates, directs, and, in a sense, activates the other agents in productive endeavor. Entrepreneurial activity is unique in that it involves response to a complex set of incentives. Natural resources are made available by nature, a potential worker is created whenever a person is born, and saving as the source of capital funds is a relatively simple process actuated by elemental human desires. Entrepreneurial activity must spring from combinations of circumstances none too easily created and not difficult to destroy. It arises from a combination of daring, risk-taking, desire for income and prestige, urge for self-expression and independence, and possibly other subtle psychic ingredients. It is a most vital requisite to the operation of a capitalist system and the most fragile part thereof. It is upon entrepreneurial activity that we depend for the constant adjustment and coordination of business activity to changing conditions, many of which are unpredictable.

It is a mark of strength that the capitalist system has been able to create the quantities and qualities of entrepreneurial skill that have characterized the operation of our economy. While we often think of a supply of business organizers and directors as though it were created automatically, this is not the case. Unless there exist the particular conditions to which entrepreneurial talent responds, this source of economic energy will disappear. Our capitalist system has created these particular conditions. In response, millions of persons have constantly been alert to find opportunities to organize business units rather than remain employed workers or merely lenders or owners. This entrepreneurial energy, constantly seeking utilization in any organizational task where opportunity appears, has continuously worked in the direction of expanding production and increasing efficiency.

It must not be concluded that the capitalist system in the United States has captured and put to use every iota of potential entrepreneurial energy; nor has it necessarily generated more organizing energy than any other type of economy would have created under similar conditions. Such claims could never be proved or disproved. The point is that, using the inducements which are an inherent part of it, this system has created and utilized entrepreneurial energy of such vast volume as to make possible rising living standards for an increasing population, many new consumers' goods

and new varieties of old goods, more leisure, and the rapid technological advance that has characterized our economic life.

Technological Progress

Concurrently with capitalism the advance in machine and process technology has been so fabulous that it is difficult to comprehend. There are various points of view from which the facts may be considered. For instance, the increase in power-producing machinery has been enormous. In 1850 mineral fuels and water power supplied industry with only 1.0 billion horsepower-hours of energy, whereas work animals supplied 13.9 billion, and human workers 2.7 billion horsepower-hours annually. By 1940 mineral fuels and water power supplied 260.4 billion horsepower-hours of energy annually, work animals supplied 18.5 billion, and human workers only 10.5 billion. Inanimate sources of industrial energy had risen from accounting for 5.8 per cent of the total in 1850 to providing 90 per cent of the total in 1940. The proportion supplied by work animals had declined from 78.8 per cent to 6.4 per cent, and that supplied by human workers from 15.4 per cent to 3.6 per cent.[22] In 1850, each American workman, for each hour worked, had the help of an average of only one-half horsepower of energy from animals and mineral fuels. By 1900 he was assisted by twice as much non-human energy, and in 1940 every hour of his labor on the average was supplemented by 2.7 horsepower-hours of non-human energy.[23] Moreover, the efficiency with which mineral fuel is converted into industrial energy has increased tremendously. The coal required to produce a kilowatt hour of electricity declined from 3.39 pounds in 1920 to 1.31 pounds in 1943. The coal used by railroads per 1000 ton-freight miles dropped from 172 pounds in 1920 to 114 pounds in 1943, while the coal consumed per passenger car mile declined from 18.8 to 15.0 pounds. Pig iron production required 3421 pounds of coal per ton of pig iron produced in 1920, whereas in 1943 only 2935 pounds were required.[24]

The net result of technological advance has been an increase in what the industrial worker turns out. One of the best measurements of this increase is found in *America's Needs and Resources.* By dividing the national income measured in terms of 1940 prices by the total annual man-hours worked each year, the authors derived the "net output per man-hour" in American industry. While this is expressed in cents-per-hour, the method of derivation permits it to represent an index of physical productivity per man-hour. The data indicate that output rose from 17.3 cents per man-hour in 1850 to 35.7 cents in 1900 and to 74.0 cents just prior to the war (1940). This is an increase of more than four times in the productivity of labor.

[22] J. Frederic Dewhurst and Associates, *America's Needs and Resources,* Appendix 32, Table B, p. 787.

[23] *Ibid.,* pp. 683, 685.

[24] *Ibid.,* p. 576.

The average rate of increase over the ninety years was 18.2 per cent per decade or about 1.7 per cent per year compounded.[25]

Since our natural resources could not increase and the skill of the human agent employed in manufacturing has remained pretty much the same, this increase of more than four times in labor productivity is due to technological improvements, such as the development of techniques for better controlling the flow of materials through plants, better machinery, and an increased amount of machinery per worker. The importance of the latter is evidenced by the large amount of capital employed for each wage earner in manufacturing industries. In textiles, in 1941, this amounted to $2514; in leather, $2603; in lumber, $3778; in stone, clay, and glass, $4899; in rubber, $5410; in metals, $6405; in printing, $5728; in food, liquor, and tobacco, $6983; in paper and paper products, $7815; and in chemicals, $15,460. For all manufacturing industries the amount per worker was $5937.[26]

Specific instances of technological improvement are dramatic. It is reported that the use of machinery has reduced the number of hours of man-labor required to produce a farm wagon from 221 to 48; for making a dozen pairs of knit woolen gloves, from 360 to 8; for shelling 100 bushels of peas, from 175 to 1; for making 25,000 pounds of soap, from 432 to 21; for manufacturing 100,000 cigarettes, from 520 to 14; for crushing 100 cubic yards of stone, from 630 to 10; and for unloading 100 bales of cotton from a ship, from 120 to 37.[27] While these figures presumably make allowance for neither the labor-hours required to make and service the assisting machinery nor the production of the power to operate it, the increase in productivity nevertheless is very great. Similar illustrations could be selected from many other areas of industry. A fishery, for instance, has an "automatic fish-filleting machinery that can open 50 fish and prepare 11 fillets a minute, and that is said to be capable of producing 17 per cent more edible flesh from fish."[28]

These improvements have not been confined to the manufacturing industries. Agriculture has become mechanized and has increased per acre yields. While the number of horses and mules on farms declined from 19 million in 1910 to 12 million in 1943, the number of tractors on farms increased from 1000 to 1,900,000.[29] The effects of this and the utilization of other machinery are illustrated by the following calculations: Whereas one man with two horses and a 12-inch walking plow can plow 1.6 acres per day, one

[25] *Ibid.*, Table 3, p. 23.

[26] Treasury Department, National Industrial Conference Board, *The Economic Almanac for 1945–46*, p. 185.

[27] E. L. Bogart and C. E. Landon, *Modern Industry*, Longmans, New York, 1927, p. 363.

[28] *Business Week*, February 18, 1939, p. 4.

[29] J. Frederic Dewhurst and Associates, *America's Needs and Resources*, Table 214, p. 616.

man with one tractor and a 3-bottom gang plow can plow 8 to 10 acres per day. Whereas one man with 4 horses and a 7-foot binder can harvest 15 acres of wheat per day, one man with a tractor and a 10-foot binder can harvest 35 acres of wheat per day, and one man with a tractor and a combine can harvest 75 acres.[30] It has been calculated that with the two-horse machinery which was in common use, it required 40 man-hours of labor per acre to produce a corn crop, whereas with more recently developed power-drawn machinery corn has been produced with an expenditure of 3.83 man-hours per acre.[31] At the peak of agricultural machinery sales in the 1920's, 123,000 tractor moldboard plows were produced annually. By 1941 the annual production was 183,000. Over the same span of years the annual output of corn pickers rose from 12,000 to 16,000; the output of combines (which cut and thresh grain in one operation) from 37,000 to 54,000; and the production of tractor cultivators from 56,000 to 145,000.[32] The index of total agricultural production in the United States, using 1935–1939 as the base period, rose from 110 in 1940 to 130 in 1945; meanwhile the number of persons employed in agriculture declined from 10.6 millions to 9.1 millions.[33]

Physicists, chemists, engineers, and other technicians have played their important parts in these developments. It is, however, a contribution of capitalism that so many of the fruits of scientific progress have resulted in reducing the man-hours of labor required to accomplish specific industrial tasks. Capitalism, as a form of economic organization, has created no insuperable barriers to advancement in industrial processes and equipment.

Indeed, there has been some causal connection between the institutions of capitalism and these advances. Competition and the profit motive account for this relationship. Capitalism has offered enterprisers the opportunity to expand sales and increase profits by cutting production costs and reducing prices. This has stimulated business enterprisers to find and make use of innumerable improvements for which others have been responsible. Our capitalist system has demonstrated its substantial strength in this regard.

Utilization of Productive Resources

Technological progress has occurred under our capitalist system without the creation of any *substantial long-run* unemployment of human or material productive resources. Unemployment of labor has been severe at times; from 1930 to 1940, it was persistent. In the absence of proof that the nineteen-thirties saw the beginning of a severe and permanent unemploy-

[30] E. S. Mead and B. Ostrolenk, *Harvey Baum, A Study of the Agricultural Revolution*, University of Pennsylvania Press, Philadelphia, 1928, pp. 80–81.

[31] National City Bank *Letter*, December, 1928, p. 189.

[32] J. Frederic Dewhurst and Associates, *America's Needs and Resources*, p. 615.

[33] 1946 *Britannica Book of the Year*, pp. 25, 188.

ment problem, it must be concluded that under capitalism there has been a relatively full use of labor resources.

As productivity per worker has increased, unneeded workers have been freed from their accustomed jobs. Over the long sweep of time, the capitalist system has possessed enough resiliency to bring about the reabsorption of these workers in addition to the absorption of new workers available through increased population.[34] Two sets of forces have caused this. First, as productivity per worker has increased, the length of the working day and working week has declined. In 1850 American labor was working an average of 70.6 hours per week. This had declined to 60.9 hours by 1900, and by 1940, just prior to an increase in hours due to the War, was down to 43.0.[35] We have utilized a substantial part of our expanded labor productivity to achieve increased leisure.

A more important channel through which displaced and new labor has been absorbed into industry has been the expansion of the production of old lines of consumers' goods and the development of entirely new goods requiring new industries for their production. A study of fifteen industries, each of which has come into existence within the past seventy years, shows that together they accounted for over one million employees in 1929. These industries and the wage earners employed in them in 1929 are as follows:[36]

Electrical machinery, apparatus, and supplies	328,722
Motor vehicles (not including motorcycles)	226,116
Motor vehicle bodies and parts	221,332
Rubber tires and inner tubes	83,263
Rayon and allied products	39,106
Manufactured ice	32,184
Aluminum manufactures	21,210
Typewriters and parts	16,945
Refrigerators, mechanical	16,883
Cash registers, and adding and computing machines	16,840
Cottonseed oil, cake, and meal	15,825
Aircraft and parts	14,710
Phonographs	14,416
Photographic apparatus and materials	12,967
Motion pictures (not including projection)	10,784

The U. S. census reports for the years 1931 and 1932 showed that in those years a total of 1,086,402 workers were employed in the electrical and

[34] Note that this is not a prediction of what *will* happen in the future; it is merely a statement of what *has* happened in the past. In no sense does it minimize the unemployment problem, for the "long sweep" is too long relative to human life to make unemployment tolerable.

[35] J. Frederic Dewhurst and Associates, *America's Needs and Resources*, p. 23.

[36] *U. S. Census of Manufactures, 1929.* Computation suggested by Ross Martin, *The Romance of American Industry*, James A. Bell Co., Elkhart, Ind., 1936, Plate III.

directly allied industries.[37] In the automotive and petroleum industries, including manufacturing, sales and servicing, road construction, truck and bus operation, aviation, and oil and gas wells and pipe lines, the total number of workers in the early nineteen-thirties amounted to 4,896,955.[38] If this figure is added to that for the electrical industries, the combined grand total for these relatively new industries amounts to nearly six million workers. Even this figure does not represent the total employment in these fields for it does not include such individuals as radio musicians and actors, many chauffeurs and delivery men in private service, and workers engaged in the production of materials for automotive industries and materials for highway construction.

Such developments, permitted and encouraged by the institutions of capitalism, indicate no long-run failure to employ any substantial part of our potential labor supply. If only the present century is considered, it has been estimated that, while our population has increased during the years 1900 to 1939 from 76 millions to 130 millions, our labor force has increased, a little more than proportionately, from 29 millions to 54 millions.[39] Another similar calculation based on census reports shows that, whereas horsepower installed in factories increased 12.5 times from 1879 to 1929 and population increased 2.5 times, the number of jobs in factories increased during the same period 3.25 times.[40]

When productive agents other than labor are studied, a similar situation is found. Our natural resources have been brought more and more completely into use and there has been no long-run tendency for machine idleness to increase. Studies sponsored by the Brookings Institution indicate that in a single field—transportation—the percentage of utilization of existing equipment showed a tendency to decline from 1900 to 1930. During these three decades, in the fields of agriculture, mining, manufacturing, and electric power "there was no general tendency to pile up capital equipment in continually growing excess above what could be commercially employed." Complete data were not available for construction and merchandising, where the physical plant is relatively less important, but it was concluded that there was "no reason to believe that full information on these industries would bring us to a conclusion departing at all widely from that reached in the other industries we have just mentioned."[41]

The success of the capitalist system in keeping productive resources fully employed over a long period must be viewed in the light of the develop-

[37] National City Bank *Letter,* November, 1935, p. 173.

[38] *Ibid.,* p. 174.

[39] National Industrial Conference Board, *Studies in Enterprise and Social Progress,* p. 32. "The labor force is here regarded as the number of persons ten years of age and over who are defined as gainful workers by the census, by virtue of their engagement in gainful activities prior to the taking of the census" (p. 33).

[40] Ross Martin, *The Romance of American Industry,* Plate I.

[41] Edwin G. Nourse and Associates, *America's Capacity to Produce,* Brookings Institution, Washington, D.C., 1934, pp. 421–422.

ment of certain forces which have made this task more difficult. Two of these are of primary importance: Consumers' desires have become steadily more fickle and productive resources have become steadily more specialized. As the per capita national income has risen, the individual's consuming power has extended beyond the realm of the necessities for which his demand is relatively stable. This has brought rapid and substantial shifts in consumer demands, and these in turn have enhanced the difficulty of keeping productive agents continuously employed. At the same time labor and machinery have become more highly specialized. This has created even greater uncertainty of the continued usefulness of each specialized unit of labor and of capital in its particularized use. The increasing heaviness and durability of capital equipment have added still further to these difficulties. From the long-run point of view our capitalist system has successfully counteracted these forces in utilizing the productive resources at its disposal.

Individualism

Capitalism's successes arise out of its close identity with individualism. Under it, individuals, singly and organized into corporations, have released tremendous amounts of entrepreneurial energy. The profit motive and the individual's relative freedom to pursue his own interests have directed this energy into channels yielding productive employment possibilities for our natural resources, our labor, and our capital funds. Utilizing the individual freedom characteristic of capitalism, human and corporate individuals have sought new forms of organization, new machinery, new processes, and new products to the end that our economy has yielded phenomenal increases in living standards.

The individualistic institutions of private property and inheritance have encouraged foresight, thereby stimulating the accumulation of productive wealth for future use. Moreover, the basic regulatory force is individualistic in nature. By keeping enough individual and corporate entities acting independently in the economic sphere, prices, wages, interest rates, and profits have been kept to fair levels and advances in the national product have been diffused widely over the population. Individualism is the essence of capitalism and the secret of its successes.

QUESTIONS FOR CLASS DISCUSSION

1. Can an evaluation of capitalism be wholly objective? Illustrate.
2. Why is it so difficult to separate the successes and failures of capitalism which are due to capitalist institutions from those that are due to its environmental setting?
3. Cite a number of instances in which the capitalist system has demonstrated its adaptibility.
4. Is it an indication of success or failure that capitalism has had to adapt itself to an increasing amount of government control?

5. How can rising standards of living be attributed to capitalism? Are they not the result of scientific discovery and progress?
6. What is the significance of the fact that rising standards of living have been widely diffused throughout the population? What parts have taxation and philanthropy played in this diffusion?
7. Why is it contended that the development of new varieties of consumers' goods represents a success of capitalism? Do not these increased varieties merely confuse the consumer when he tries to make his choices?
8. Why is entrepreneurial activity difficult to create and easy to destroy? What has capitalism achieved in this respect?
9. What is meant by technological progress? Give some illustrations of it.
10. Should we attribute our past technological progress to scientists, to capitalism, or to both? Why?
11. Why is the degree to which it utilizes its productive resources said to be a basic test of an economic system? How does capitalism meet this test?
12. How is individualism related to the successes of capitalism?

Chapter 5

THE FAILURES OF CAPITALISM: THE POST-WAR PROBLEM

THE operation of our capitalist economy has revealed two types of failures or defects of quite different import in an evaluation of capitalism. The first, the *economic problems* of the capitalist economy, comprise the failures of various detailed portions of the economy to operate as efficiently as they should. A remediable weakness in the banking structure, issuance of the wrong kind or quantity of money, or inefficient operation of the railroads is illustrative of this type.

The second may be called *basic deficiencies*. Specific defects may be evidence of more fundamental difficulties, but the latter are more comprehensive and persistent in their occurrence than are the former. Basic defects arise from the serious failure of the foundation institutions to function to the end of promoting human welfare. While detailed defects presumably can be corrected by getting the various respective portions of the economy to function more nearly as they should *in a capitalist system*, basic defects, if they become sufficiently important, are to be corrected only by drastically remodeling or replacing one or more of the fundamental institutions of capitalism. Only the basic defects will be dealt with in this analysis, for they constitute the failures or weaknesses of capitalism which challenge its continued existence.

THE CONFLICT BETWEEN PECUNIARY VALUES AND HUMAN WELFARE

Business processes in the capitalist system are carried on in terms of "wealth," "value," "price," and "cost." The concepts are pecuniary and in individual instances have little or no necessary relationship to human welfare.[1] Whereas the ultimate purpose to be served by economic activity is the generation of human well-being, entrepreneurial decisions which

[1] Probably no one has described this conflict more clearly than has the British economist, J. A. Hobson. His brilliant book entitled *Work and Wealth: A Human Valuation* (Macmillan, New York, 1926), develops in detail many of the points merely touched upon in these paragraphs.

en masse guide the operations of our economy are made in terms of strictly pecuniary calculations. Since a dollar has no consistent and inherent relationship to human welfare, decisions made on a dollar basis may, and in a substantial number of cases do, differ widely from decisions which would be dictated by considerations of human welfare.

Thus enterprisers in a capitalist economy expand production when price exceeds cost and reduce it, or possibly cease producing altogether, when cost exceeds price. Production methods which minimize per unit costs are selected and alternative processes are rejected. Natural resources are used in such a manner as to reduce the unit cost of the product. Methods of employing and managing labor are chosen on the same basis. Since price always means *money* price and cost always means *money* cost, these important decisions are based on pecuniary calculations. What will benefit or injure the consumer is a minor question, if, indeed, it is pertinent at all to entrepreneurial decisions in a capitalist system. The effects of certain production processes upon employees and upon the depletion of scarce nonreplaceable natural resources are thus, as such, largely or wholly passed by. Many elements of vital long-run importance to the well-being of individuals and of community life fail to influence directly entrepreneurial decisions as to what will be produced and how it will be produced in a capitalist system.

Capitalism assumes that all increases in the output of things having market value are good, and all decreases are bad; that all reductions in unit costs of production are desirable, and all increases therein undesirable. These assumptions are false, for it makes a world of difference *what* the goods are and *how* they are produced. In fact, this conflict between pecuniary values and human welfare has been recognized by society and numerous governmental controls have been superimposed upon pecuniary entrepreneurial decisions. Through law the production of certain goods is prohibited and certain productive processes are kept from being used. Such restrictions, however, are necessarily negative in their operation and limited in their scope. They may specify what goods shall *not* be produced and what production processes shall *not* be used, but they can rarely require a capitalist business unit to produce certain goods or to use certain methods of production in preference to others. Within the necessarily extensive scope of decisions left to entrepreneurial discretion there is every reason to believe that in many cases human welfare is not served.

This constitutes an important *inherent* deficiency in the capitalist system. Under capitalism, governmental controls cannot extend to the point of eliminating the conflict between pecuniary values and human welfare, for if they did, capitalism would no longer exist. Nor can business concerns be expected to put considerations of human welfare above calculations of pecuniary costs and receipts. The capitalist business enterpriser who tried to do so would not long continue to function in a competitive business

world. While monopolists have considerable power to consider the welfare of their customers, their employees, and even the community at large, if they choose to do so at the sacrifice of profit, it is the exceptional monopolist who refrains from maximizing his pecuniary profit. In any event, the existence of private business monopolies is just as foreign to a capitalist system as is the existence of comprehensive governmental control, and if their scope were substantially extended, the capitalist system as we have come to know it would be destroyed.

The social ramifications of this inherent deficiency of capitalism are too numerous and extensive to be explored here. The emphasis which the system places upon pecuniary values undoubtedly affects our personal and social evaluations of non-business phenomena. The "successful citizen" is likely to be the man who is the most successful *financially;* friendships may follow patterns of *pecuniary* success; art, music, and literature may be threatened by tests of the *pecuniary* worth of their products; a college education may come to be judged largely in terms of its effect upon the prospective *money* earnings of its recipient; and even community projects may be accepted or rejected on the basis of their effects upon the *financial* standing of the social groups involved. While these social implications of pecuniary valuations are not subject to measurement, their existence adds to the importance of this defect of capitalism.

Economic Inequality

Economic inequality means the unequal distribution of either the national *wealth* or the national *income.* In the first sense, it refers to the fact that the individuals comprising our population own very different shares of existing natural resources, industrial equipment, and durable consumers' goods. In the second meaning, it refers to the very different amounts of economic goods acquired in the course of each year by individuals or families. This income is measurable only in terms of dollars, although it is of course the real goods which are of importance. We are interested here only in the inequality of incomes, and because of the importance of the family unit, we shall consider only family incomes.

The facts are well known to all students of economics. Briefly, the situation in 1935–1936 was as follows: 116 million persons were included in the 29.5 million families living in the United States. These families received a total income of 48 billion dollars. If this had been divided equally among them, the average would have been $1622 per family per year. Actually 27 per cent of these families received less than $750 per year; 42 per cent (this includes the preceding 27 per cent) had incomes less than $1000 per year; and 65 per cent (including the preceding 42 per cent) received less than $1500 per year. The most prosperous tenth of these families received 17 billions of dollars in income while the least prosperous tenth received only

900 millions, or less than one-seventeenth as much. If the total income for all families is divided into tenths, the tenth received by the lowest-income families supported 62 times as many families as did the tenth received by the highest-income families.[2]

It is interesting to note that the degree of inequality may have shown some tendency to increase during recent decades. If all income recipients (including single persons as well as families) are divided into tenths or "deciles," it will be found that the portion of the total national income received by the first or highest-income decile increased from 33.9 per cent in 1910 to 34.4 per cent in 1937. The portion received by the lowest-income decile decreased from 3.4 per cent of the total in 1910 to 1.0 per cent in 1937; in the prosperous year of 1929 it received 1.8 per cent of the total. The other relatively high-income deciles experienced increases in their share of the total and the other lower-income deciles all experienced decreases. Only the 6th and 7th deciles received the same share of the national income at the end of the 1910–1937 period as at the beginning of that period, while the shares of the eighth and ninth deciles decreased.[3] Although such calculations may not be entirely accurate, all the available facts indicate the continued existence under our capitalist system of considerable inequality in income distribution.

Although the fact of inequality cannot be questioned, the responsibility of capitalism for its existence sometimes is challenged. The mere concurrent existence of capitalism and inequality does not prove a causal relationship between them. In a negative sense capitalism may be said to be responsible for inequality in that it has not created forces progressively diffusing the national income more widely over the population, but this does not prove capitalism to be the original or basic cause of inequality. It is when the distributive effects of the basic institutions of capitalism are examined that the causal relationship becomes more apparent. From this point of view the capitalist system may be presumed to foster or at least permit substantial inequality.

The direct relation of three of the most important institutions of capitalism to the existence of inequality should be noted. The free market is an inherent part of the capitalist system because it comes into existence as the result of buyers and sellers exercising their free individual initiative in attempting to better their economic positions. As long as markets are free, interactions of supply and demand forces will establish current prices for commodities, services, and productive agents sold thereon. On free markets, goods or productive agents which are scarce relative to the demand for them will have high values, while those which are plentiful relative to

[2] National Resources Committee, *Consumer Incomes in the United States, Their Distribution in 1935–36,* Washington, D. C., 1938, pp. 18, 96; Agricultural Adjustment Administration, Consumers' Counsel Division, *Consumers' Guide,* September, 1938, pp. 9–19. These are the latest reliable statistics.

[3] National Industrial Conference Board, *The Economic Almanac for 1945–46,* p. 74.

demand will possess low market values. Personal incomes arise from such market values and will therefore be unequal.

The person whose income consists of a differential between the cost of a commodity and its market selling price will receive a relatively high income if the commodity is in great demand but is not plentifully supplied by sellers. The producer of a novel commodity or service will sell it under these conditions until other potential producers enter the field. A producer who reduces his own production costs below those of his competitor may reap a substantial profit on the free market before other producers copy his methods and market price accordingly falls. In innumerable variations of such circumstances the free markets inherent to capitalism yield relatively high incomes and thus contribute to the existence of economic inequality. The person who sells under the opposite conditions of supply and demand will draw a relatively low income from such markets. For instance, the agricultural producer during the decades of the twenties and thirties occupied a prominent position in our lower-income groups.

Similarly, the person who sells the services of a relatively scarce agent of production on a free market receives a high income and the person who sells those of a plentiful agent receives little for them. Common and semi-skilled labor has been plentiful relative to demands for it while skilled and managerial labor and some kinds of natural resources have been relatively scarce. Free market valuation processes accordingly have yielded quite different incomes to members of these groups of sellers. Eighty per cent of the families receiving under $1000 each in 1935–1936 were "wage earner and farm families."[4]

The institution of private property in land has helped to create economic inequality. Natural resources, possibly of unsuspected quantity and quality, lying beneath the land surface at the time of the owner's purchase, have been exploited on a scale that has yielded many high incomes. There is a natural scarcity of such resources, for their quantity and quality do not change with time except as they are exhausted. Increased total potential supplies of non-reproducible natural materials do not become available with increasing demand; hence the owner pockets increases in their values arising on free markets. Since demands for natural materials generally increase as population and industrial activity expand, this class of owners has been in a peculiarly fortunate position to receive high incomes during the economic development of the United States.

Closely related to private property is the institution of inheritance, which is another source of inequality. Inheritance sometimes enhances inequalities by permitting a family fortune to grow for several generations through use in business. Or, it may merely perpetuate inequality by permitting heirs to retain possession of established sources of property income

[4] Agricultural Adjustment Administration, Consumers' Counsel Division, *Consumers' Guide*, September, 1938, p. 44.

for generations. In still other cases it may work less directly to permit an heir so to use an inherited fund as to prepare himself better for productive activity and thus place himself in a relatively small group of highly skilled workers whose services are in relatively great demand.

The distribution of the national income cannot be substantially equalized as long as the free market, private property, and inheritance exist. Since these institutions are inherent in a capitalist system, the latter can be said to foster economic inequality. If, under this system, some forces have tended to diffuse the national income more widely, the system has created other forces of sufficient strength to counterbalance them.

This relationship between capitalism and a high degree of inequality must be considered a defect or weakness of the system, for it detracts from the usefulness of an economic system in many ways. Extreme differences in living standards may create class feeling and strife which, in turn, may put restraints upon the close cooperation so essential to the satisfactory functioning of a highly complex economy. High-income groups possess power disproportionate to their numbers to direct society's productive agents into uses of their choice. Some of these uses may be of questionable human importance, and the result may be the production of comparatively unimportant luxuries for some while others go without things essential to barely satisfactory living. Inequalities of income may be the root cause of ostentatious consumption, the desire so to spend one's income as to show that it is as high as or higher than one's neighbor's. This in turn may lead to a perversion of consumption standards that seriously reduces the real welfare consumers derive from their incomes, no matter in what income category they are.

Economic inequality creates inequality of opportunity for higher education, for occupational training, and for the development of innate capacities. While this is costly to the individual, it may result in a more important social loss. Some who have little innate ability but much opportunity to acquire training and the proper connections may rise to positions in business and the professions which could have been occupied more productively by others with greater innate abilities but little or no opportunity to develop them. Thus economic inequality creates a perpetual doubt as to whether society's innately most competent members occupy the most responsible posts in the economy. If they do not, social loss of efficiency and national income is the result. The broader social and cultural ramifications of economic inequality are without number. High-income recipients may come into the possession of disproportionate power to control political, educational, religious, and other cultural institutions and organizations. If such controls insulate these social forces from responsiveness to mass social needs and desires, the very existence of a healthy human society may be endangered.

Unearned Incomes

An unearned income is the acquisition of economic goods or purchasing power from any source other than the sale of personal productive effort on a competitive market. Capitalism has permitted incomes of this type to exist, and in certain cases has unavoidably created them. Their existence means that certain individuals are thereby enabled to live, and in many cases to live well, without working. It means that some are overpaid for their efforts and hence others are underpaid, for the total national product is the sole source of individual incomes. If certain citizens consume without helping to produce the total heap of consumable goods, others must obtain from that heap less than they have added to it. Resultant potentialities of class antagonism may interfere with the harmony and cooperation that are essential to the most efficient operation of a complex economy.

Certain incomes which on first thought appear to be unearned need not concern us. A stolen income is of course unearned but it is clearly illegal and unjustifiable and society tries to prohibit it. An income received through gift need not concern us, although of course it has not been earned by the recipient. Incomes received by persons who are too old or too young to work or are otherwise incapacitated are not to be considered unearned. Interest an investor receives on funds which he personally has accumulated out of earned income and has lent on the competitive investment market is to be considered earned income, for the saving effort is a personal productive service. Indeed, three types of unearned income include all that is pertinent to this discussion—income from monopoly profits, income from the rent of land or other natural resources, and income from inherited funds.

A monopoly profit is a net receipt in excess of that which a competitive market would yield. It is unearned, for it is not necessary to induce the production of the commodity or service involved. While the monopolist may put forth personal productive effort, he is overpaid for it since, in a capitalist economy, fair worth is determined on a competitive or free market. Although unearned monopoly profits have been prominent in our economy, there is some question as to whether they are attributable to the capitalist system. Monopoly clearly is foreign to capitalism, since a fundamental institution of capitalism is competition. Presumably a well-functioning capitalist system would have little or no private monopoly. Only indirectly, then, is capitalism responsible for unearned incomes derived from the existence of private business monopolies. The situation is entirely different for unearned incomes derived from the private ownership of land and from inheritance, because these are basic and inherent institutions of capitalism. If their existence inevitably creates unearned incomes, the capitalist system is responsible for them and could not exist without them.

Ownership titles enable landlords to charge society the competitive worth of the use of their land. These titles can be traced back to original acquisitions by physical force. For instance, so-called original titles to land in Pennsylvania go back to grants by William Penn. Penn received his power to issue land deeds from the king of England; the latter in turn exercised that power because he could defend an asserted ownership against the challengers—the American Indians. The current landlord, if he is merely a landlord, supplies no personal energy to productive processes. Land being a product of nature, it presumably would be potentially productive and available for use even though the landlord did not exist. The owner, collecting the highest amount he is offered for the use of his land or other natural resources, receives an unearned income enabling him to consume a portion of the total real national income which he does not help to produce. The nonreproducible nature of land causes these incomes to rise generally as population increases and industrial activity expands.

Except in the case of dependent widows and immature children, the inheritor of a fund of investments or claims to man-made producers' goods is in a similar position. The inherited fund, as well as any current return it may yield, is an unearned income to the inheritor. Its recipient presumably has played no part in the saving process which was a productive effort of the accumulator. He is in a position to convert his receipts into consumable goods in whose production he, as inheritor, has played no part.

The student must use extreme care in analyzing and judging these unearned incomes and the place of their recipients in our society. While their existence is a defect of the capitalist system, this fact carries no implication of anti-social action or motivation on the part of the recipient. In so far as the sources of income lie in the private ownership of natural resources and in inheritance, these forms of income are perfectly legal and fully in accord with the ethical standards of a capitalist system. It is the *system,* not a *person,* that is being evaluated. Unearned incomes represent a weakness in that system, not a social wrong perpetrated by their recipients.

Several other aspects of unearned incomes may be clarified briefly. In some instances a landlord manages or administers the use of his land. He decides how it is to be used and he may exert considerable effort to prevent the wasteful exhaustion of its productive properties. An inheritor of a fund of investments likewise may administer them. He may vote inherited shares of stock and from time to time he may study closely the advisability of shifting funds from one use to another. These and other similar activities of landlords and inheritors are personal productive services and the competitive worth of such services is exempt from the designation of "unearned." It is income derived by landlords and inheritors who perform no such services, or whose incomes exceed the competitive worth of their managerial services, that is unearned.

There is no way to eliminate these land incomes and inherited incomes

from a capitalist economy. To remove the institutions from which they flow is to destroy capitalism; to retain them is to perpetuate important elements of unearned income in the distributive machinery of our society. Even taxation, so heavily relied upon to correct the injustices of capitalism, can be of only partial effectiveness in this connection. Portions of individuals' unearned incomes can be taxed away and devoted to social consumption, but anything like completely taxing away the rent from natural resources and the return on inherited funds would immediately destroy the institutions of private property in natural resources and inheritance. To do this would so modify the basic institutions of capitalism that the resulting system would be of a different order of economic phenomena.

Incentives to Create Scarcity

It is a weakness of capitalism that, on numerous occasions and in many ways, it has offered business units powerful inducements to reduce production and restrict supplies of goods. It has permitted a perversion of the profit motive to ends just the opposite of those it is supposed to serve. Whereas profit normally is expected to be realized through production and the expansion of productive facilities, it can also result from restricting output and obtaining a relatively high profit per unit of sales. Business enterprises have not failed to respond to such opportunities.

While the quantitative importance of this defect of capitalism cannot be judged, a summary of its various aspects indicates its general significance. Private monopoly is an inclusive term covering a tremendous variety of organizational forms and degrees of power directed to restricting output and forcing prices up, thereby enhancing private business profits. A government report, *Competition and Monopoly in American Industry,* describes an amazing variety of monopolistic practices which have prevailed in the American business system during recent decades. These include the following, the names being largely self-explanatory: price leadership, monopoly control, market dominance, basing-point pricing, machinery leases, trade association control, market sharing, intercorporate stock relationships, interlocking directorates, cartels, pools, exclusive selling contracts, concentration of production, production allocation, open-price associations, patents, price agreements, zone prices, patent licensing, control of production, patent pooling, and the control of raw materials.[5] One or more of these devices has been used at one time or another during recent years in nearly every field of manufacturing and mining. The specific business firms which have participated would make a fairly complete directory of our large-scale manufacturing and mining enterprises. In most cases it may be presumed that the practice has tended to result in lower output,

[5] Temporary National Economic Committee, *Competition and Monopoly in American Industry,* Monograph No. 21, Washington, Government Printing Office, 1940. Descriptions of these practices will be found in the various sections of this study.

higher prices, and greater profit than otherwise would have been the case.

Patents are included in the above list of monopolistic devices. In one sense, a patent system is foreign to the essential nature of capitalism. In practice it has been held that the temporary right to the exclusive use of a new product, machine, or process is a necessary stimulus to technological advance, and therefore a patent system has been grafted onto our capitalist system. This justification of patents, however, clearly assumes that the patented products will be produced and the potential machines and processes will be used. While this has been true in most cases, patents have proved highly restrictive in many important fields of American industry. The complexity of the patent system creates potentialities of endless litigation. In such costly proceedings a large and financially strong firm may be able to prevent a smaller firm from obtaining a patent it applies for or it may force a small concern to sell a patent it owns, thereby concentrating production in its hands. A patentee who licenses other firms to use his patent may attach restrictive controls over the licensee's production and price policies. When patents are "pooled" by a group of patentees, outsiders may be excluded or new members may be included only on terms which limit production, allocate markets, or control prices.[6] Moreover, patents may be "buried" by original patentees or by firms which purchase them. If a large fixed investment is endangered by the availability of a newly patented machine which will reduce production costs, it may be profitable for the owner of the patent to refrain from using his exclusive privilege to produce that machine. By carefully amending and filing new applications while a patent grant is pending in the Patent Office, and thereby postponing the date of the grant, it may be possible to extend the exclusive privilege a patent gives long beyond the legally intended time. These restrictive forces embedded in the patent system are important because they strike at the very roots of technological advance.

Our economy sometimes has developed a need for greater scarcity of certain categories of economic goods. This has been "needed" in the sense that, under conditions then prevailing, an entire industry would be threatened with disruption if output failed to respond to downward movements of prices. In some such cases the individual firms' incentives to reduce output have been too weak to be effective and a comprehensive scheme of restrictions has been placed in operation by the Federal government or under its aegis. An outstanding case of this occurred under the Agricultural Adjustment Act and related legislation, when agricultural producers were paid for not producing up to full capacity. Under this Act some six or seven million pigs were slaughtered to keep the price of hogs high, some fourteen million acres of cotton land were temporarily withdrawn from use to bolster cotton prices, and farmers agreed to plant about seven million acres less in wheat than they had been planting. The

[6] See *ibid.*, pp. 158–160.

National Industrial Recovery Administration of the early nineteen-thirties involved similar restrictions upon the outputs of many manufacturing industries. Among the industrial codes approved by the Federal government, 91 provided for "the restriction of output" and the distribution of available business among the firms in an industry, and 53 provided for some measure of restrictive control over production capacity.[7] The circumstances warranting such measures of "economic contraception"[8] were outgrowths of the operations of our capitalist economy. They, no less than the incentives to restrict output which private business has discovered unassisted by government, represent failures or weaknesses of the capitalist system.

Waste

While precise quantitative measurements cannot be made, important elements of competitive waste have accompanied the operation of our capitalist system. Waste occurs whenever any given quantity and quality of productive resources yield a smaller quantity of economic goods than they are capable of producing. Since no economic organization can achieve perfect efficiency in the utilization of resources, some waste is inherent in all economic activity. Under our capitalist system, however, wastes of gross proportions have persistently resulted from the existence of competition. As capitalism has not generated forces sufficiently powerful to eliminate or significantly reduce them, they represent a weakness of the capitalist system. Most of them have been analyzed in detail elsewhere and need only to be summarized here.

Competition has created a tendency for industrial equipment and staffs of workers to be unnecessarily duplicated. Each competitor in a given industry, needing to be fully equipped with machinery and labor to carry on production, acquires them without considering the possibility that the market may not absorb all the potential output of all the available productive facilities. The result is idle equipment and waste. Studies by the Brookings Institution indicate that in the middle nineteen-twenties (a relatively prosperous period) an average of about 20 per cent of our total productive capacity stood idle.[9]

In some cases a concern may acquire productive equipment merely to forestall its acquisition by a competitor. Oil companies have been known to acquire a site and erect a service station directly across the street from one of their own stations to prevent a competing company from getting a good location. Retail store facilities become expanded beyond legitimate needs. Railroads have built competing and duplicating lines to attract

[7] *Ibid.*, p. 264.

[8] This term is used by John Strachey in *The Theory and Practice of Socialism*, Random House, New York, 1936, p. 76.

[9] Edwin G. Nourse and Associates, *America's Capacity to Produce*, pp. 415–430.

business away from each other. A half dozen or more milk distributing companies may send their delivery trucks over precisely the same city routes morning after morning, each serving one-sixth or less of the homes it passes. While there have been few attempts to calculate the amount of this sort of waste, one illustrative study of gasoline service stations made a few years ago found that one billion dollars was invested at the time in "superfluous" stations numbering over one hundred thousand. These stations and the duplication of other equipment in the petroleum industry were estimated to be costing motorists two cents on every gallon of gasoline purchased.[10]

Competition often leads to the rapid obsolescence of industrial equipment and hence to waste. When competitive advantage is sought through developing new styles and varieties of commodities and services, old specialized equipment may have to be discarded before its physical usefulness is exhausted. Although some of the expense this entails is a legitimate cost of more fully satisfying consumer desires, an incalculable but substantial portion of it is waste. In those cases where style changes occur at regular intervals, largely for the purpose of inducing the consumer to feel that the commodity he has is obsolete and should be replaced, the waste of specialized equipment is severe. It was announced, for instance, that it would require an expenditure of more than $25,000,000 to adapt equipment to make a new style of automobile body which was to appear in the 1937 lines of General Motors cars.[11]

Cross-freights are another source of competitive waste. Free markets inherently require that each seller and each buyer shall be free to sell or to buy where he pleases. This often means that a seller in the East ships a standard product to a western buyer at the same time that a western seller is shipping the same product to an eastern customer. Materials and labor are wasted in needless transportation. While keen competition tends to reduce this practice, it no doubt actually occurs often enough to constitute an important source of waste.

Truthful and informative advertising is productive, because it is useful to the consumer and helps him satisfy his desires. Untruthful, misleading, or uninformative advertising or other selling efforts obviously are not productive, and expenditures thereon represent a waste of potentially productive resources. Although most retail store advertising in newspapers is productive in the above sense, much of the testimonial, flamboyant, psychologically tricky, and percussion advertising in periodicals, on billboards, and on the radio for such commodities as cosmetics, automobiles, cigarettes, and patent medicines is of highly doubtful usefulness to the consumer if, indeed, it does not pervert his consumption choices. Such advertising must be classified as economic waste arising from competitive

[10] Glenn B. Winshop, quoted in *World's Work*, May, 1932, p. 27.
[11] New York *Times*, October 14, 1936, p. 46.

business practice. In 1945, total advertising expenditures in the United States were estimated at $2,400,000,000. A substantial portion of this would be classified by the economist as non-productive.[12]

Competition often leads to the waste of natural resources. A coal company may "skim" its mines for the richest and lowest-cost coal in order to compete with other companies, thus leaving much coal unrecoverable after a mine has been abandoned. Pools of petroleum may lie under land which is owned by several persons. Each owner has the legal right to tap the pool. Any owner who refrains may find that the drainage of oil from underneath his land forces him to choose between getting it now or never. The result often has been the drilling of an excessive number of competitive "offset" wells and the tapping of petroleum reserves at a rate unwarranted from the point of view of both current prices and long-run social needs. Timber may be cut before it should be, and cut-over areas may not be replanted, because the former offers a competitive market advantage while the latter does not. The fertility of farm land may be destroyed and erosion and other forms of land destruction encouraged by the farmers' attempts to produce at costs low enough to enable them to sell on a competitive market. An estimate made for 1940 indicated that soil erosion costs the United States nearly four billion dollars per year.[13] Important elements of the physical waste of natural resources are embodied in all of these practices which stem from competition, an innate institution of capitalism.

Lack of Balance.

As the capitalist system has functioned in the United States, its various specialized parts have not been kept in complete and permanent balance with each other. The result has been temporary reductions in the volume of economic activity and the output of economic goods.

The institutions of capitalism, when functioning smoothly, are presumed to coordinate automatically the parts of the economy. If, for instance, consumers' desires for a given commodity decline, a decrease in its price and a reduction in the returns to the agents utilized in its production are expected to induce those agents to seek employment elsewhere. As unutilized agents, their worth presumably would continue to fall until they reached levels at which enterprisers saw possibilities of using them to produce other goods salable at prices covering costs. If agents of production were completely mobile and if all prices were highly flexible, yielding quickly and surely to every change in demand and supply, some such adjustment actually would take place and all parts of the economy would be coordinated at a level of full utilization.

This is not the case. Labor acquires specialized skills and becomes at-

[12] 1946 *Britannica Book of the Year*, p. 20.

[13] Department of Agriculture. National Industrial Conference Board, *The Economic Almanac for 1945-46*, p. 26.

tached to certain geographic locations. Machinery is built of highly durable materials and is designed for specialized purposes. Land varies in specialized qualities and has become improved for and adapted to specialized uses. Wage rates become crystallized by custom and union agreements. Interest rates and land rents become customary or are specified in long-term loan and rental contracts. The prices of consumers' goods become inflexible through custom, law, and monopolistic controls. The result is that the mobility of productive agents and the price flexibility requisite to the full and continued coordination of economic activity have not existed in our capitalist system. Changes occur in one part of the economy, and the other parts are not sufficiently flexible to adjust themselves immediately. There results lack of coordination and balance which, although temporary in nature, often is severe enough to constitute an important weakness of the capitalist system.

The business cycle represents such a defect of the capitalist system. Moreover, this deficiency is basic, for there is conclusive evidence that the business cycle is a product of the functioning of the institutions of a capitalist order. Just how these institutions, separately or in combinations, generate cyclical fluctuations of economic activity has not as yet been conclusively analyzed. Students of the business cycle, however, agree that its source must lie in entreprenеurial decisions in an environment that includes the profit motive, freedom of individual initiative, and competition.

The number and severity of fluctuations in economic activity during the two decades from 1920 to 1940 are concretely portrayed in the accompanying table. This indicates, for each downward fluctuation, the degree of decline in physical production from the immediately preceding peak and the number of months required to recover the previous level of production.[14]

Decline of	Percentage Decline	Months of Decline	Months to Recover to Previous Peak
1920–1921	33	14	19
1923–1924	18	14	9
1927	7	7	9
1929–1933	52	44	45
1934	13	5	4
1937–1938	33	12	17
1939–1940	12	4	3

As measured from the Federal Reserve Board Index of Industrial Production, adjusted for seasonal variation.

The most dramatic and socially important results of the depression phases of business cycles are unemployed labor and idle productive plants

[14] *Business Week*, December 7, 1946.

which decrease the output of economic goods. Through these phenomena cyclical fluctuations in business activity are transformed into human suffering—their real and final costs. It is sometimes held that these fluctuations have become more severe and the attendant costs progressively greater during the life of our capitalist system and that therefore this defect is capitalism's most important failing and the one likely to spell its final collapse. Such a conclusion is at least debatable. Our system's most severe cyclical depression occurred during the decade of the thirties. Its costs serve as ample proof of the importance of this weakness, although they do not prove that capitalism's final collapse is near. A study published in 1939 shows that "since 1930, our average unemployment has been approximately 10 millions a year," amounting altogether to a loss of about 80 million man-years of labor effort. At its peak in January, 1933, unemployment reached a total of 14,500,000. At an average wage of $50 per month, (the basic WPA wage) 48 billion dollars of wages were lost.[15] From the standpoint of idle machinery, this study discloses that, whereas the average number of hours per week worked by machines in manufacturing industries hovered around 48 during the nineteen-twenties, it suddenly dropped to about 44 in 1930, and then to 34.7 in 1934; in 1937 it stood at 38.5.[16] While a portion of this decline reflects a shortening of the normal work week, most of it represents cyclical idleness of productive facilities.

Another aspect of these maladjustments is reflected in the surplus of financial resources available for loans and investments. Normally, new funds flow freely into the expansion of old capital facilities, the equipment of new industries, and the financing of production thereby. During periods of cyclical maladjustment, however, funds accumulate in banks, fail to flow into industrial uses, and hence fail to act in their normal productive capacities. A calculation has been made to show the surplus of total funds available for loans and investments over actual loans and investments. In 1929 there was a surplus of 3 billion dollars, in 1933 it was 3.5 billions, and by 1938 it had increased to 10.5 billions.[17] Since idle funds represent potential productive facilities, the failure to convert the former into the latter has a restrictive influence upon production.

This defect of capitalism is far from superficial. The most elemental requirement one can set for an economy is that it must generate strong forces that will tend to keep the available human and material resources fully employed. It is a distinct failing of capitalism that under it these forces have been temporarily weakened from time to time. It should be understood, of course, that these temporary maladjustments, while of the utmost importance, have not served to create permanent surpluses of

[15] National Industrial Conference Board, *Studies in Enterprise and Social Progress*, p. 52; *The Economic Almanac for 1945–46*, p. 39.

[16] National Industrial Conference Board, *Studies in Enterprise and Social Progress*, p. 53.

[17] *Ibid.*, p. 54.

unutilized productive agents. There has been a period of fairly full employment of resources after each business depression. However, the apparent inability of the capitalist system to provide continuous employment of labor and resources is a serious defect.

Economic Insecurity

Economic insecurity means chiefly uncertainty as to the continuance of personal income. In so far as risk accompanies all economic activity, individuals in every type of economic system experience insecurity. In primitive economies the individual's acquisition of goods depends directly upon the vagaries of nature. As man has developed ways of counteracting unfavorable weather conditions and of storing goods, natural causes of economic insecurity have declined in importance. At the same time other causes have developed.

As specialization has increased and the process of production has grown more "roundabout," a new type of economic insecurity has emerged. The individual, dependent upon a specialized job for a living, finds his living jeopardized if something goes wrong with that particular job. The roundabout productive process, requiring as it does balance and coordination for its perfect functioning, is often interrupted by major and minor maladjustments which jeopardize the income of workers. Unemployment is the concise term describing the interferences with income which arise from a potential worker's inability to gain access to an opportunity to earn a livelihood. It is one of the major types of economic insecurity which have accompanied the existence of capitalism.

As machinery has come to operate at higher and higher speeds, and as the assembly-line principle of organizing production has been perfected, the worker's muscular control and adaptability have taken on added importance. Since these decrease with age, it becomes difficult for him to know how soon he will be "too old" for a job in a modern manufacturing plant. The increasing speed and complexity of machinery have brought their toll of industrial accidents, with consequent losses of earning power and family incomes. Industrialization of our society has been accompanied by urbanization. The individual urban family is far less able to raise a part of its own food supply and provide portions of its fuel and other consumption items than is a rural family. Thus a shift toward an urbanized population has enhanced economic insecurity. Adding its influence to all this has been the increasing fickleness of consumer desires. Through influences exerted on him by radio, movies, newspapers, magazines, and other media, the present-day consumer drops old consumption habits and acquires new ones almost overnight. The influence of changing demand upon production helps to create insecurity for specialized workers.

The developments from which insecurity has resulted have been a part

of the fabric of capitalism as it has existed in the United States. Hence, economic insecurity constitutes a failing of capitalism. The capitalist system has not generated from its own operation any forces which have been adequate to offset the tendency toward insecurity. Moreover, in terms of its human significance, this is one of capitalism's most serious weaknesses. There is little doubt that security of income is one of the most intense human desires and that its absence thwarts basic human purposes. Its consequences reach far beyond the economic sphere, affecting family life and other social relationships in innumerable ways.

Socially Disruptive Forces

Capitalism emphasizes the acquisitive and combative elements in human nature, thereby suppressing altruistic and cooperative potentialities. Under such institutions as private property and the profit motive, individuals place great emphasis upon acquiring and owning things. They contrive to exclude other persons from the use of as large a portion of the world's goods as they can. This is often done in a spirit of combat and under the assumption that the other person must be an enemy—that his interests and yours cannot coincide to any substantial degree. The institution of competition and the existence of the free market induce struggle and a spirit of opposition. Each person, assuming that the other is actuated by self-interest, finds it necessary to put his own interest uppermost. Acquisition, self-seeking, and conflict thus become predominant environmental influences that help to shape our psychological development. Potential cooperative and altruistic tendencies wither for lack of stimulus, while combative urges are developed and expanded. Disruptive forces are thereby created whereas many aspects of social life require cohesion. In the tasks of citizenship and social service where cooperative endeavor is essential to social progress we find ourselves handicapped by a lack of cooperative spirit and self-sacrifice.

More subtle than these influences of acquisition and struggle is the twist they give to our ethical standards. The dominant position of our economic efforts serves to place economic virtues high in our esteem. He who acquires the most or who succeeds to the greatest degree in the economic struggle is likely to receive an all-round rating of "best." That which contributes most to successful economic struggle is likely to be deemed the best policy or program. Ethical norms developed in and wholly consistent with the *economic* institutional setting are often carried over into political, religious, family, educational, and other non-economic areas of social life and assumed to be just as valid in the latter as in the former. Individual and hence social actions in these noneconomic matters thus come to be based upon sets of values and ethical standards of questionable validity. Broader considerations of human happiness and well-being are sometimes

put second, if indeed they are noticed at all, in shaping the political, cultural, educational, religious, and other institutions and procedures of our economy. This dominance of the ethical standards of the capitalist market place is a narrowing influence on human life. Along with the disruptive social forces arising from struggle and acquisition, it must be considered a defect or weakness of the capitalist system, although obviously its significance cannot be measured.

In still one other way, the institutions of capitalism generate certain important disruptive forces in our society. Private property and inheritance have certain tendencies to create a class structure which is not conducive to social cooperation, to say the least. Inequalities in wealth and income create inequalities of opportunity which tend to perpetuate class distinctions. Inheritance permits the passing on from generation to generation of a nest egg for a successful business or professional career or a trust fund which may permit succeeding generations to maintain a certain class status regardless of their non-productivity.

Quantitative measurements of this consequence of capitalism are of course out of the question. It is a matter of common observation that, by and large, children of unskilled workers tend to remain in the unskilled categories of our population or to rise only slightly above them, and that children of the owning and executive classes tend to become members of those classes. There is a strong probability, although no absolute proof, that this is due less to inheritance of innate abilities or the lack of them than it is to the economic institutions of our society. In their study of American business leaders, Taussig and Joslyn sent questionnaires to 15,000 business men who in 1928 were in Poor's *Register of Directors* and were receiving incomes of $25,000 to $1,000,000 per year. The answers showed that not over 10 per cent were the sons of laborers and only 12 per cent were farmers' sons. More than half were the sons of business men. The authors concluded that "business leaders are today being recruited to a substantially greater extent than was the case thirty or forty years ago among the sons of major executives."[18] Justice Robert H. Jackson of the United States Supreme Court is reported to have said some years ago: "The fundamental trouble with the inability of private enterprise to adjust itself to modern conditions is that the dream of ability rising to the top is seldom true."[19] Those who agree with this generalization contend that the true "Alger stories" of those who do rise to the top through sheer ability are merely publicized exceptions that prove the rule.

Capitalism by the very nature of its institutions generates some forces which tend to pull individuals and various groups of individuals apart, to make them mutually antagonistic and combative in their attitudes to-

[18] F. W. Taussig and C. S. Joslyn, *American Business Leaders,* Macmillan, New York, 1932, pp. 234–235.

[19] Reported in New York *Times,* March 16, 1939.

ward each other, and to perpetuate these divisions in a more or less durable class structure of society. The Marxian socialist holds these influences to be the essence of the inevitable self-destruction of the capitalist system. One need not go this far in admitting that they constitute a weakness of it. In a society as complex as ours there is great need for cooperation and even self-sacrifice in solving our social problems. Centripetal forces are needed to bring individuals and groups into closer harmony, mutual understanding, and cooperative endeavor.

Individualism

Can these failures be attributed to any common element running through the basic institutions of capitalism? Just as individualism was the element giving strength to capitalism and accounting for its many successes, so the individualistic nature of capitalist institutions is largely responsible for capitalism's failures.

Being free to make his decisions without regard to the decisions of others, the individual or corporate entity establishes a new business unit when it appears profitable to him, despite the duplication and social waste it may occasion. He or it makes those decisions which will yield profit regardless of the fact that the aggregate of such decisions may be leading to a socially unhealthy "boom" or "bust." The individual seeks to climb to the top of the income ladder and, through private property and inheritance, to preserve his place there for his son even though this may be leading to injurious permanent class divisions and distinctions. Should he see the opportunity to achieve a monopoly profit or some other form of "unearned income," he utilizes "free enterprise" and capitalist property institutions to attain this end. If creating scarcity rather than plenty serves his interests, capitalist institutions often permit him to follow the former path. In these and many other ways the individualistic nature of capitalist institutions has led to weaknesses and failures in our capitalist system.

Will Capitalism Work?

Our capitalist economy has served us well in the past. While its operations sometimes have overridden human values, while excessive economic inequality and insecurity and costly economic instability have featured the decades, per capita living standards just prior to the Second World War rose to heights never previously experienced anywhere in the world. Unquestionably, present-day public sentiment in the United States favors trusting our future fortunes to the mercies of capitalism. Specifically, the congressional elections of the fall of 1946 indicated a desire to return to free markets and freer business enterprise; these are the essence of a capitalist economy.

But what of the future? Neither capitalism's past contributions nor its

espousal by popular vote assures that it will meet the needs of coming decades. What has been the effect of the Second World War on capitalist institutions? What are its major problems for the post-war decades? What attempts are being or should be made to meet these problems? To these we turn in concluding our discussion of capitalism as a form of economic organization.

Capitalism and the Second World War

Preparation for and participation in the Second World War subjected our capitalist economy to the most severe test it ever has encountered. War production demanded a substantial and sudden shift of productive efforts from normal civilian channels to the creation of warships, planes, tanks, guns, and finally to the crowning glory (or curse) of the War—the atomic bomb.[20] Equipment, labor, and natural resources left idle as an aftermath of the depression of the thirties were pressed into war uses. Factories were retooled with specialized war equipment; unskilled labor acquired skills and specialized skilled labor learned new skills; scientists and engineers matched their knowledge against natural forces as never before and emerged with new technologies, numberless new chemical and metallic materials, and wonders such as radar and atomic energy. Industrial managers strained to contrive new combinations of men and machines to increase production. Labor union leaders bent their energies toward preventing strikes and slowdowns in production. Industrial technology was revolutionized and the major purpose of our economy shifted from conserving wealth and supporting human life to the destruction of enemy wealth and lives.

Whether our war-time economy is labeled "converted capitalism" or "war-time collectivism," we amazed ourselves and the rest of the world by exhibiting a productivity previously unknown. During the Second World War the United States turned out a total of 186 billion dollars' worth of war material. Included in this total were the following: 297,000 airplanes; 81,000 tanks; 76,000 cargo, transport, landing, and other ships; 17,000,000 rifles, carbines, and other sidearms; 315,000 pieces of field artillery and mortars; 4,000,000 tons of artillery shells; 41,000,000,000 rounds of small arms ammunition.[21] At least one-half of all the munitions used by the allied nations during the entire War was produced in the United States.[22] War industries such as synthetic rubber, aviation gasoline, radar, explosives, guns, ammunition, aircraft, and ships were built almost from scratch for when the War began they either were non-existent or mere pygmies compared with war-time needs. Permanent production facilities valued at 25 billion dollars were built during the War, including the 2-

[20] Whereas, in 1939, 1 or 2 per cent of manufacturing employment was in war work, by 1944 this had increased to 57 per cent. 1946 *Britannica Book of the Year*, p. 817.

[21] 1946 *Britannica Book of the Year*, p. 815.

[22] Estimate based on statistics of war production. *Ibid.*, pp. 847-848.

billion-dollar atomic energy plant. Moreover, all this was accomplished without serious encroachment upon civilian consumption. Mr. Krug, Chairman of the War Production Board, reported that when war-time production reached its peak in late 1943 the "civilian economy was receiving commodities and services at a greater rate than during the 'good' peace-time years of 1937 and 1939."[23]

Increases in the national income and rises in physical production indices show the over-all achievements of our war-time economy. Measured in terms of dollars of 1935–39 purchasing power, the per capita national income increased from $549 in 1939 to a war-time peak of $927 in 1944, an increase of 70 per cent. In 1944 the per capita national income was 64 per cent above that of prosperous 1929.[24] The Federal Reserve Board of Governors computes an index of the physical volume of production in manufacturing industries in the United States.[25] With 1935–39 as a base period, this index rose from 109 in 1939 to 239 in 1944, indicating that physical production in manufacturing industries more than doubled in five years. Since nonagricultural employment rose only 27.5 per cent during that period, it is apparent that only about one-quarter of this increase in physical production can be accounted for by an enlarged labor force. In 1944 the index of physical production in manufacturing industries stood at more than double the index for the prosperous year 1929. No nation, regardless of its type of economy and starting from such a high level, had ever increased its production so much during so short a span of time. Our pre-war capitalist economy, to say the least, laid the basis for this war-time accomplishment.[26]

The Post-War Problem

Turning from retrospect to prospect poses the major problem of our post-war economy: Will it yield its demonstrated war-time production potentialities to a peace-time civilian population? Our populace has observed its production possibilities; will it be satisfied with a peace-time economy which fails to measure up substantially to these potentialities?[27]

[23] *Ibid.*, p. 815.

[24] Statistics on national income are from the United States Department of Commerce and are published currently in the *Survey of Current Business.*

[25] Published in the Federal Reserve *Bulletin.*

[26] While the greatest increase in physical production occurred in manufacturing industries, this was accompanied by the following increases in other industries from 1939 to 1943: agriculture, 22 per cent; mining, 25 per cent; construction, 4 per cent; transportation, 102 per cent. National Industrial Conference Board, *The Economic Almanac for 1945–46.*

[27] For instance, in a letter to a columnist, the wife of a veteran asks why the government cannot get homes built for low-income veterans. After referring to their faith that the government would do something, she writes: "I didn't know how these homes would be built but I had worked in an aircraft plant during the war and saw the Government build houses and barracks overnight, almost. So, I didn't see why the Government couldn't do the job over again." Philadelphia *Record,* November 30, 1946.

If not, are there measures which will assure our society of the full potentialities of our economy—measures compatible with the basic institutions of capitalism?

The problem is thrown into bold relief by setting our war-time production level against production at the depth of the depression of the thirties. In 1932 our per capita national income measured in terms of 1935–39 dollars was only $334 as compared with $927 in 1944.[28] Under the stimulus of war-time conditions, per capita national income increased over two and three-quarters times in a span of twelve years. The index of physical production in manufacturing industries moved from a low point of 58 in 1932 to a war-time high of 239 in 1944, or to a height four times its 1932 level.[29] It is shocking to observe the deficiencies in production from a viewpoint which assumes that the per capita national income could have risen by equal annual increments from its 1929 level to its 1944 level. If it had done so, each person in the United States on the average would have realized a total of $3000 more real income during that period than actually was realized. For a family of four this would have been $12,000, and for the population as a whole some 380 billion dollars in terms of 1935–39 purchasing power. This "lost" production of the 1929–1944 period is well over the estimated 300 billion dollars of national wealth in 1940. Since this estimate includes the value of nature-made land, had our "lost" production power been devoted to that purpose it would have been adequate to build a duplicate of every piece of wealth in existence in 1940 with some billions to spare.[30]

The fact is that in industry after industry, during the decade of the thirties, plants, labor, and resources capable of producing staggering quantities of desired economic goods stood idle. In the steel industry of the United States, for example, steel-producing equipment from 1930 to 1940 inclusive had a productive capacity averaging about 78 millions of net tons per year, whereas steel production averaged only about 38.5 millions of tons per year. If the industry had operated at capacity during those eleven years, it could have turned out over 400 millions of tons in addition to the steel that actually was produced.[31]

How far short of these potential heights can capitalist production fall without inducing experimentation with collectivism? The answer cannot be framed in substantive terms. Capitalism may possess innate non-economic and subjective values insulating its existence against repetitions of its production failure of the thirties; or it may not; who knows? In any

[28] United States Department of Commerce, *Survey of Current Business.*

[29] Federal Reserve Board of Governors, *Federal Reserve Bulletin.*

[30] Apparently the "billions to spare" are just about enough to offset the expansion of production accounted for by the war-time employment of persons who should not be considered a part of our normal labor force.

[31] Estimate based upon data in reports of the American Iron and Steel Institute published in *Steel Facts,* October, 1946, pp. 4–5.

event he who would preserve a fundamentally capitalist economy, whatever his reason, must not evade the major problem. The ultimate *economic* test of an economy is its ability to produce goods from the scarce means of production at its disposal.

It has become popular to refer to this as the problem of "full employment." For the mass mind this catch phrase doubtless is useful and dramatic. However, students of economics are aware that our problem is *not* to *create jobs for people*. The true scope of full employment encompasses the *full utilization of all material and human resources for the production of goods and services*. Not only must all people who want and can fill jobs be able to find employment; all natural resources must be fully employed, and all capital instruments fully utilized. Not only must this happen occasionally, as, for instance, during the War; it must occur continuously. Not only must these material and human resources be used continuously; they must all be utilized to the full limits of their respective capacities to aid in production.

The problem of full utilization of resources includes two separate but interrelated parts requiring separate but integrated treatment in our public policies of regulation and control. The first comprises the manipulation or guidance of economic processes leading to full employment of resources. The other includes the more baffling problem of human motivation, of self-seeking versus social good, of restricting the use of whatever resources we as individuals control versus permitting their use in the most productive channels and through the most productive techniques.

These problems were solved during the War by the very nature of the war effort. When our national existence and the personal existence of ourselves, relatives, and friends were threatened, the stakes were so high that we felt compelled by an irresistible force to bring into use nearly every particle of productive resources. Hense, social pressure coupled with economic incentive brought our land, labor, and capital into fuller use than ever before. The common and vital objectives of the War broke down those restrictions upon production so commonly imposed by individuals and groups for their own limited ends during peacetime. Business monopolies, willingly or under compulsion, sacrificed long-standing and profitable monopolistic restraints upon production; organized labor lifted many peace-time make-work restrictions upon output and labor-saving devices, approving instead of condemning, for instance, such practices as piece-rate wage scales; farmers turned from production restrictions practiced with social approval during the thirties and squeezed increased quantities of food and raw materials from the land. Indeed, each of us personally became motivated much more than ever before by a common vital objective and in multitudinous decisions placed the social good, war production, above personal economic and non-economic interests.

Full Employment

The Employment Act of 1946 is the first comprehensive attack the United States has made on the problem of full utilization of resources. It requires that annually the President shall make to Congress a comprehensive report on the current condition of business, indicating therein the probable future trend of production, employment, and purchasing power. The President is to recommend measures to brake expansion if he foresees an unhealthy boom or to stimulate industry if he foresees recession. Such measures will include credit and monetary controls, tax measures, unemployment compensation, labor policy, anti-trust policy, and governmental spending for public works. To assist the President, the Act provides for an Economic Council of three members to be appointed by the President with the consent of the Senate. The Council's task is to collect and collate all pertinent statistical data, create new sources of needed data, develop economic forecasting techniques, and thereby assist the President in formulating his forecasts and recommendations. The Act also creates a new Joint Congressional Committee, consisting of seven senators and seven representatives, to consider and make legislative recommendations on the President's proposals and on all congressional bills relating thereto. This is the first permanent comprehensive economic body ever established in Congress.

This measure is the first step toward attempting to achieve full utilization of resources within the framework of our capitalist economy. The Act as passed did not contain, as proposed by many advocates, a pledge on the part of the Federal government to guarantee a job to any job seeker who at any time could not find employment in private industry. While it was contended by some that this omission fatally weakened it, the Act does still impose upon the Federal government the obligation to use all its power to smooth out the ups and downs of industrial activity. The Economic Council is the brain of the Act and comes nearer to an economic planning board than any previous agency of government in the United States. The Act requires the appointment to the Council of men "who, as a result of training, experience, and attainments, are exceptionally qualified to . . . interpret economic developments . . . appraise programs of the government . . . and . . . formulate national economic policy." The personnel of the original Council was heavily weighted with economic training and experience and appeared to meet the exacting requirements of the Act.

The Economic Council's first annual report to the President was impressive because it reflected the Council's clear perception of the post-war problems of our capitalist economy. It stressed the fact that our nation emerged from the War "with a plant, labor force, and technology whose productive capacities exceed anything known in our past." The Council concluded that the backlog of postponed consumer demand creates an "outlook for production and jobs . . . more than ordinarily favorable for

a period of some years ahead," and that this can be realized without "any material change in the traditional patterns of business life" and without "heroic measures of public works, consumer or producer subsidies to quicken employment or stimulate production." It sounded an ominous note of warning, however, for the longer period when demands for durable consumer goods may "be expected to drop to a replacement basis." It is held that "this might spell a deep depression for some later time—but only if we fail to make the gradual shift in expenditures and resource use that wise foreseeing and astute planning for this inevitable trend of development suggests to a sagacious people." For the latter problem the Council suggested "continuous study and collaborative guidance of the nation's business on a basis of competitive private enterprise and economic democracy."[82]

Neither the success nor the failure of the Employment Act of 1946 can be taken as a foregone conclusion. It is a worthy experiment whose results will go far to indicate the degree to which the continuous and full use of economic resources can be achieved in a capitalist economy actuated basically by individualistic motivation and decision-making. Its successes and failures will be a barometer which students of economics will do well to watch.

Cooperation

The other aspect of our major problem involves the question of how we can subordinate immediate individual and group economic interests to the long-run changes and technological advances which must be permitted to serve the common good if capitalism is to survive.

This was not a serious problem during the early history of our capitalist system in the United States. Economic interest groups then were not effectively organized and often lacked homogenous and unified purposes. Moreover, the rapid exploitation of our rich natural resources and the speed of improvement in technology outweighed the restrictions which such groups from time to time were able to impose upon broad economic progress.

With the turn of the century our natural resources came to be fully known and privately owned. Our industrial system matured and the boundaries between landowners, laborers, employers, farmers, monopolists, investors, engineers, and other groups became more and more clearly marked. Industries became settled and their respective sets of immediate interests became homogeneous and solidified so that it was possible to refer meaningfully to the interests of the railroads, agriculture (or the cotton farmers or the wheat farmers), petroleum, steel, electric power, coal, export or import industries, and this or that labor union. It is not unrealistic

[82] The quotations in this paragraph are from the text of the concluding section of the Report as published in the *United States News*, December 27, 1946, pp. 13–14.

to say that each economic group pitted its own immediate economic prosperity against that of every other group—that is, against the common interests of society as a whole. The severe depression of the thirties may have been due largely to the push and pull of these powerful economic interest groups, each determined to protect and serve its own immediate ends.

The Second World War brought a marked interlude in this trend and the result, as we have noted, was a phenomenal expansion of industrial output in the United States. At the close of the War we experienced a brief period of optimism during which there was much talk about continuing the war-time cooperation through the reconversion years to create a post-war economy of high production and stable prosperity. These fleeting hopes were unrealized. Shortly after V-J Day the groupings were reformed and today each again stands ready to promote its own immediate interests at the cost of society's economic progress. A recent survey indicates the presence in Washington of nearly 800 representatives (lobbyists) of such groups.[33] Although each is not an economic pressure group, the great bulk of them are. While each group may sincerely believe that its interests coincide with the interests of society as a whole, their programs and methods often seek to restrict technological progress and restrain competition which under capitalism constitutes the basic force promoting adjustments and changes for the common economic good.

Numerous agricultural groups seek "parity" or guaranteed prices which will protect against the shifts of world demand for, and supply of, agricultural products. Domestic industries seek tariff protection against foreign competition or, at least, resist reductions of tariff barriers. Unions jealously defend their rights and powers to establish jurisdictions and working rules which reduce the cost advantages of new processes, new machinery, and new materials, seeking to increase the immediate demand for existing labor skills by a host of "feather-bedding" rules. Water shipping lines seek subsidies so they may compete with railroads, while railroads seek to impose tax and other forms of penalties upon the movement of goods by

[33] Lobbyists are required by law to register. In reporting the May, 1947, registration of nearly 800, one newspaper correspondent referred to lobbying in Washington as having reached "a new pitch of activity in the present session of Congress" and as being a "multi-million-dollar annual business." Samuel H. Tower, New York *Times,* June 1, 1947. In August, 1947, 317 of these lobbyists represented "business firms, big corporations and trade associations"; 33 represented railroads; 24 represented "electric-power, natural-gas and other public-utility companies"; 10 represented insurance companies; 10, the sugar industry; 10, petroleum firms; 8, real estate interests; and 7, banks and loan companies. 105 represented various "labor organizations"; 26 represented "farmers"; and 19 represented veterans. The others were spokesmen for "religious, educational, health, professional and political organizations." *United States News,* August 29, 1947. "Back of some of the lobbyists are big staffs of researchers and nation-wide organizations which reach down into small hamlets. They can turn on, or off, a 'write your Congressman' campaign with a long-distance telephone call, or a telegram. . . . Quite a few of the better lobbyists get $25,000 a year, plus liberal expense allowances. Many draw from $3000 to $12,000 a year. Large expense accounts often go with the salaries." *Ibid.*

motor truck. The coal industry seeks to prevent the piping of natural gas from surplus areas to the metropolitan industrial centers of the East. Eastern seaboard interests work to forestall construction of the St. Lawrence Waterway to protect ocean shipping through eastern ports. The established dairy interests seek regulations making it more difficult to sell milk in paper containers in retail stores, while independent retailers urge penalizing taxation for chain stores and resale price maintenance and fair trade laws which would prevent or dull competition from new channels or methods of distribution. All manner of subtle monopolistic pricing and market-sharing devices are promoted by numerous monopolistic business organizations under cover of the government's weak anti-trust policy.[34]

These and other similar programs and practices pose a vital dilemma for capitalism. On the one hand, the individualistic protection and most profitable use of labor and privately owned resources and industrial plants is a right inherent to capitalism. However, there is some point beyond which emphasis upon immediate individualistic gain, especially when organized into powerful economic interest groups, becomes so restrictive as to threaten the very ability of a capitalist system to generate general economic prosperity. Are we now at the place in our economic evolution where these cross-currents created by economic interest groups must be redirected into correlated channels of economic progress for society as a whole? If so, what measures can be of permanent effectiveness?

No comprehensive attack on this phase of our problem has been essayed as yet. Possibly none can be set up with the concreteness of our Employment Act of 1946. Several suggestions may be in order, although their implementation admittedly offers baffling practical problems. Each legislative proposal urged by any economic interest group, or yielding economic benefits obviously focused in the direction of any such group, should be subjected to the most intense scrutiny. Such a measure should become a part of our public policy only if the narrow group benefits clearly are incidental and necessary to the accomplishment of some broad social benefit. Could it be that if our citizens had more opportunities to vote *directly* on such measures their answers would be more in line with long-run social well-being than are the votes of those whom we elect to legislate for us? The gap between popular will, the sovereign voice in a true democracy, and a congressional vote may be wider than we realize. Possibly narrowing that gap might give greater effectiveness to considerations of long-run social good.

Moreover, we should avoid whenever possible permitting the cost of economic progress to fall upon the individual. If, for instance, a new ma-

[34] For a more detailed analysis of the relation of some of these practices to the common good, see Henry Hazlitt, *Economics in One Lesson*, Harper, New York, 1946. While Mr. Hazlitt does not offer an adequate solution for the problem he presents, he reveals the basic problems most clearly.

chine is developed to replace some labor skill, it is society at large which eventually benefits from the resultant increase in productivity and decrease in cost. It is usually the individual who bears the principal cost of such change. Anticipating this, he and his brothers similarly affected organize to restrain the utilization of the new machine or method. While possibly unjustifiable, such action is at least understandable, for why should the individual suffer serious loss in order to promote society's prosperity or, even though he should, how can he be brought to do so willingly and without a strong propensity to sabotage the change? Such measures as unemployment compensation and social security for old age move in this direction. Current discussions of an "annual wage" have a bearing on this issue. Are there other means of placing on society at large, rather than upon the individual, the costs of social progress so that the individual or his group will not feel compelled to resist economic change and technological progress? This is almost virgin territory and deserves sympathetic and thorough exploration by those who seek means of preserving and strengthening our capitalist economy.

QUESTIONS FOR CLASS DISCUSSION

1. What is meant by a basic deficiency of capitalism? How does a basic deficiency differ from other deficiencies?
2. Is it necessary that capitalism be directed toward the realization of pecuniary values? Could it not just as well consider human welfare? Explain and illustrate.
3. How can it be said that economic inequality is a deficiency of the capitalist system? Is it not really the result of differences in inherent human capabilities?
4. What is the relation between the existence of free markets and economic inequality?
5. Would it be possible to create substantial economic equality and yet retain our capitalist economy? Why?
6. How can unearned income be distinguished from earned income?
7. Could unearned incomes be eliminated from our society without destroying the capitalist system?
8. In what way does a capitalist system create incentives to make useful things scarce?
9. Give a number of illustrations of waste which seem to be closely associated with the operation of a capitalist economy.
10. What may cause a capitalist system to lose its balance from time to time? What are the results of such a loss?
11. Economic insecurity is sometimes held to be the result of natural rather than economic forces. What does this mean? Is it correct?
12. In what ways may the deficiencies of capitalism affect the non-economic phases of life? Illustrate.
13. What major post-war problem was created by the very success of our economy's war efforts?

14. What is meant by full employment? What measures are being taken in the United States to assure full employment?
15. What is the problem of cooperation in our economy? Is it a fundamental problem?

SUBJECTS FOR STUDENT REPORTS FOR PART II

1. The Relations Between Economic and Non-Economic Institutions Under Capitalism.
2. A History of the Concept "Private Property."
3. A Detailed Analysis of the Restrictions Imposed upon Enterprisers in a Selected Industry.
4. The Effects of Inheritance Taxes upon the Institution of Inheritance.
5. The Degree of Competition Prevailing in a Selected Industry.
6. The Place of Philosophy in an Evaluation of Capitalism.
7. A History of the Corporate Form of Business Organization.
8. An Estimate of the Number of Business Enterprisers in Our Economy.
9. Plans for Creating Full Employment of Resources Under Capitalism.
10. The Place of Non-Pecuniary Considerations in Entrepreneurial Decisions.
11. The Social Consequences of Economic Inequality.
12. The Taxation of Unearned Incomes.
13. An Estimate of the Waste in a Selected Industry.
14. The Business Cycle as a Deficiency of Capitalism.
15. The Problems Encountered in Converting Our Economy from a War-Time to a Peace-Time Basis.

SUGGESTIONS FOR FURTHER READING FOR PART II

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Part III

Utopian Forerunners

Chapter 6

ECONOMIC MOVEMENTS, UTOPIAS, AND THE IDEA OF PROGRESS

SCATTERED through the literature of some thousands of years of history are scores of utopian plans in which thinkers have described their ideal worlds. No one of these utopias has ever been brought into permanent practical existence. Nevertheless, utopians have stimulated efforts to improve the lot of mankind and they have continued to set goals of hope for a better world.

Instead of setting up utopian promises, modern economic movements—such as socialism, communism, and fascism—confine themselves to what their proponents believe are practicable changes in economic and social systems. But all these modern movements bear traces of the influence of utopians. For this reason it is important to understand the broad foundations of economic and social philosophy upon which these modern movements have been built. Still more significant is the fact that socialism, communism, fascism, cooperation, and capitalism promise progress in one form or another. In fact, no economic movement in the modern world could hope to gain widespread support without this promise. Without belief in the possibility of progress, proposals for economic reform would lack vital appeal to the modern mind and the motive power for translating ideas into actions. This is due to the fact that the belief in the possibility of progress is the most fundamental "picture in the heads" of modern people. It is this idea of progress which distinguishes the modern mind from the medieval and the ancient mind. The idea of progress is to be contrasted with the idea of decadence. The latter held sway in the minds of the western world for the thousand years of the Middle Ages.

THE IDEA OF DECADENCE

The distinctive fact concerning the idea of progress is that it is wholly modern. The Roman and Greek philosophers did not conceive of the possibility of progressive change extending indefinitely into the future. Instead, they thought in terms of recurring cycles of civilization which

showed no upward trend. Under such conditions progress could not be a permanent feature of a human society. According to the idea of decadence, there had been a golden age in the past when man lived in a more or less perfect state. From this ideal state man had fallen to a less perfect and less hopeful existence. The Roman philosopher Seneca held this view to the point of contending that even the progress of knowledge or of science and invention could only lead to luxury and hence to decadence because of easy living.

In the western world the idea of the degradation of mortal man is illustrated by the story of the Garden of Eden. Man's existence in the Garden was the golden age in the past. When he was cast out he was condemned forever to earn his living by the sweat of his brow. Woman's lot was that henceforth children should be born in travail. This picture of the fall of man is at once an explanation of economic scarcity and a philosophy of the uselessness of this world in contrast to a future perfect existence in Heaven.

Christianity became the accepted religion of the Roman empire in the fourth century. St. Augustine, who lived from 354 to 430 A.D., became the philosophic and theological father of the Middle Ages, which followed the fall of Rome. His great work *The City of God* dominated religious and secular thought for a thousand years. In Augustine's philosophy the affairs of this world were governed by a divine Providence with whom individuals were powerless to interfere. Furthermore, the Christian Era was the last of the world's stages and was to end in Judgment Day, when a chosen few would find eternal happiness in another world. Man was a sinful fallen creature. The plan of man's life included no possibility of his progress in this world. How could there be progress when the world was destined to end? The only hope was to live such a life that mortal man would be prepared for his heavenly future.

One effect of the belief in decadence was to inhibit the devotion of attention to worldly affairs. This may explain why there was no economic progress during this period. "There is not to be found in the writers of the early Middle Ages, that is to say, from the eighth to the thirteenth century, a trace of any attention to what we at the present day would designate economic questions. . . . The writings of this period, therefore, betray no sign of any interest in economic affairs." Furthermore, a study of the prominent writers of this period fails to show "a single passage to suggest that any of these authors suspected that the pursuit of riches, which they despised, occupied a sufficiently large place in national as well as individual life, to offer the philosopher a subject fruitful in reflection and results."[1]

The idea of decadence is by no means completely abandoned. In certain

[1] George O'Brien, *An Essay on Mediaeval Economic Teaching*, pp. 3ff. Quoted by Charles A. Beard (ed.), *A Century of Progress*, Harper, New York, 1933, p. 7.

areas of thought it still competes with the idea of progress. In fact, many modern persons act on some occasions on the basis of a belief in decadence and on others on the basis of a belief in progress. During the nineteenth century scientific discovery was opposed on the basis that nature's secrets were not to be disturbed by mortal man. The use of anesthetics was originally opposed because it relieved pain sent to punish sinful man. The use of many modern inventions was discountenanced. Man was not meant to travel as fast as the locomotive and the motor would take him. In the same century, there began that great contest between the optimistic doctrine of evolution as developed by Darwin and the doctrine of decadence which still held sway in many quarters. The struggle for supremacy is not yet finished, since two American states prohibit the teaching of the doctrine of evolution in the public schools on the ground that it conflicts with the divine authority.[2]

The Renaissance, the rebirth of learning from the fourteenth to the sixteenth centuries, might have broken the sway of pessimism had it not exalted the past of Greece and Rome instead of the possibilities of the future. Though it brought a revival of learning, the weighty respect in which the ancients were held made the rebirth of learning backward-looking instead of forward-looking. There was the implication that there had been a golden age in the past and that man would do best to follow in its teaching. It was left to the thinkers of the sixteenth century to start the idea of progress on its way.

The Idea of Progress[3]

The idea of progress did not burst full-blown upon the modern world. Furthermore, it did not come from a single source. It began in a humble fashion with Jean Bodin, French historian, who rejected the doctrines of decadence and argued that history showed progress in the past—that man had developed gradually from primitive state to civilization.

This, of course, reversed the idea of degeneration. While Bodin's fame rests upon books published in 1566 and 1576[4] the essential optimism which the idea of progress possesses was expressed by Sir Thomas More in

[2] It should be noted that the emphasis in modern Christian doctrines is upon the practical application of religious doctrines to everyday life and toward social amelioration. Since the First World War there have appeared dozens of books emphasizing this point of view.

[3] The basic study in English of the idea of progress is J. B. Bury's *The Idea of Progress*, Macmillan, New York, 1920; rev. ed., 1932. An excellent brief treatment of progress and Bury's development of its history by S. B. Fay is to be found in Stuart A. Rice (ed.), *Methods in Social Science*, University of Chicago Press, Chicago, 1931, pp. 287–296. For a picture of practical contributions of the idea to social and economic progress in the nineteenth and twentieth centuries, see Charles A. Beard (ed.), *A Century of Progress*. The writers are indebted to these three sources for the material which appears here on the idea of progress.

[4] *Methodus ad facilem historarum cognitionem* (1566); *Les six livres de la Republique* (1576).

his *Utopia* a half-century before Bodin wrote. Following Bodin, Campanella's *City of the Sun* (1620) and Francis Bacon's *New Atlantis* (written about 1623) both constructed ideal states of society in strange places instead of at home. It is significant that Bacon suggested the experimental method of scientific discovery. Furthermore, he saw the accumulation of new knowledge as capable of being used for the benefit of mankind.

During the course of the seventeenth century other thinkers assisted the idea of progress to maturity. Descartes published his *Discourse on Method* in 1637. In elevating the reasoning qualities of man and arguing for the establishing of scientific laws, he opened paths along which future progress in science was later made. Scientific progress, in turn, promoted the acceptance of the belief in progress. The controversy over ancient and modern doctrines was developing. This was accelerated by Fontanelle, secretary of the French Academy of Sciences for more than forty years, who published his *Digression on the Ancients and Moderns* in 1688. In it he argued that, while the ancients were great, moderns had the advantage of time. Knowledge and improvements had accumulated, and hence the condition of his time was superior to that of ancient times. Furthermore, Fontanelle believed that future generations would exceed the achievements of his own. This was a substantial contribution to the idea of progress.

While it was clear that the idea of progress was making its way against the respect for ancient learning and the authoritarian doctrines of the Church, one further step was necessary before it was fully developed as a major modern stimulus. This was to apply it to *social* progress. This step was made by the Abbé de Saint-Pierre (1658–1743). He believed that man was in his infancy and that, while there had been progress in the past, the future held unlimited opportunities for the improvement of society. Among other things, Saint-Pierre was an inveterate social reformer, having schemes for equalizing taxation and reforming education. He was also a utopian, and anticipated a League of Nations in his *Project of Henry the Great to Render Peace Perpetual, explained by the Abbé de Saint-Pierre.* However, Saint-Pierre's claim to a place in the history of progress rests upon his work, *Observations on the Continuous Progress of Universal Reason,* published in 1737.

Many events of the eighteenth century prepared the way for the progress of the nineteenth and twentieth centuries. The French *Encyclopaedia of Universal Knowledge* not only exhibited the scientific progress which had been made, but opened the way for the economic, legal, and social reforms which the French Revolution was to bring. The authors of the American Revolution were hardly respecters of the past. The new ideals of liberty to act implied liberty to change and improve. Even if the French and American revolts were primarily of the new business and commercial classes against the ruling régimes, they broke the ground for political and economic change. The new spirit of freedom and democracy was to over-

run the original mold. In the nineteenth century the conception of social progress was naturally applied to the new working-class movement, as well as to amelioration of economic conditions. Adam Smith's *Wealth of Nations,* with its argument for economic freedom in the form of *laissez faire,* had implied that nations could progress by the accumulation of wealth. This optimism lent spirit to the progressiveness of the young capitalist economic systems.

The idea of progress was not without its opponents, however. Before the French Revolution, Rousseau had claimed that civilization had been, after all, a thoroughgoing mistake. His substitute, an Arcadia, was a utopia of the simple life. In 1798 Thomas Malthus interrupted the hopes of progress with his *Essay on the Principle of Population.* "How," he asked, "could mankind progress when population was certain to press upon the food supply?" Twenty years later David Ricardo contributed to the economic *malaise* the famous Iron Law of Wages, predicting a declining scale of wages which would reach the subsistence level. This gave Carlyle the opportunity to label the new study of economics the "dismal science." It also provided Karl Marx with his gloomy prediction of the "increasing misery" of the working class, leading inevitably to a revolutionary overthrow of the employing classes. To Marx, however, there was the long-run promise that after the revolution there would arise a workers' state whose ideals of social justice would prohibit the exploitation of one class by another. This led finally to the disappearance of the state as an instrument of coercion and the ultimate creation of a workers' utopia of anarchistic communism.

But the pessimists were overruled by two developments. First, the Industrial Revolution, resting upon basic discoveries of science, increased the abundance of goods and raised standards of living. Second, Darwin's announcement of the doctrine of evolution stimulated minds toward the possibility of future progressive change. If man had progressed by gradual stages in the past, why could he not do so in the future? The doctrine of evolution insisted that man had progressed slowly but steadily through small changes. Although Herbert Spencer and other writers had emphasized the possibility of social evolution, the new explanation of Darwin gave a tremendous fillip to its acceptance, and the application to social institutions and processes was quickly made. Social evolution became an accepted doctrine among many groups of thinkers. On this basis the processes of social amelioration at work in the nineteenth and twentieth centuries are to be distinguished from doctrines which are revolutionary and doctrines which are utopian. Revolutionary change requires an upheaval which is violent; but after destroying the old, it erects the new. Utopian doctrines contemplate so complete a reorganization of society that hard realities are lost from sight.

The idea of progress has to its credit a great list of achievements—the

spirit of scientific research and the resulting growth of knowledge, the conquering of disease, the lengthening of life, the expansion of free education, the freeing of women from legal, political, and masculine domination, the improvement of conditions of work and of standards of living. Its essential characteristic of optimism looks to further progress rather than past history. As an idea it has become universal, overriding national boundaries, and moving from western civilization to the Orient.

It is proper to raise a number of questions concerning the idea of progress. J. B. Bury[5] has noted that as the idea of progress has become accepted it has replaced the *illusion of finality*. Men of all ages have assumed that prevailing beliefs were final. In the Middle Ages the Day of Judgment was regularly expected, and no other expectation seemed satisfactory. Does the illusion of finality apply to the idea of progress itself? Will some different idea arise by which progress will be judged? Much of the answer may depend upon how progress is defined. If it is only an optimistic synomym for change, the goal remains undefined. The idea of progress has usually been associated with freedom and democracy. Do the rise of dictatorship and the resurgence of extreme nationalism imply that the goal of progress is not a universal one? Perhaps the answer to this can only be told by the future.

The Utopias and Progress

In modern times the various utopias have received stimuli from the idea of progress. More's *Utopia,* in looking towards a more perfect society, anticipated the optimism of progress. In locating his *Utopia* in a distant place, he was probably stimulated by the discovery of America and the exploration of the early sixteenth century. The new vistas of geography stimulated the imagination necessary to conceive of the possibility of progress. Fourier, writing in the early nineteenth century, lived in the midst of the search for the law of progress. Back of him was the stimulus of the expanding commercial system, the French and American Revolutions, Smith's *Wealth of Nations,* and other contemporary progressive influences. In fact, Fourier was one of the founders of the science of sociology, the practical purpose of which is to assist social progress along scientific lines. It is an important point that the modern utopias are placed *in the future,* indicating the hope of progress. This is well illustrated by Bellamy's *Looking Backward,* which described Boston as of the year 2000.

If utopias have received stimulus from the idea of progress, progress has received suggestions from the utopians. Progress, like evolution, advances by degree. In this sense proposals from the utopians have been incorporated in practical programs as the time became appropriate. A list of such

[5] Cf. J. B. Bury, *The Idea of Progress,* 1st ed., pp. 351–352.

formerly visionary conceptions would include free education, the eight-hour day, prohibition of child labor, and many other accepted standards of modern life. The whole cooperative movement finds its origin in many utopias. For this reason it is important that something of the breadth and sweep of utopianism be comprehended.

Utopias of Escape and of Reconstruction

Lewis Mumford in *The Story of Utopias* has given us an enlightening classification of utopias by dividing them into "utopias of escape" and "utopias of reconstruction."[6] Since the real world contains so many things which arouse in us unpleasant reactions, we are constantly seeking a "way out." There are only two. The one through the "utopia of escape" attempts to efface the unpleasant reality by merely dreaming of a situation different from that which exists. If the machine one tends demands a monotonous routine motion of the hands, post a picture of a cinema queen over it so that its monotony is lost in the dreams of a glorious love. If one's income is low, a perusal of "Society at the Races" or the "Daily Doings of a Débutante" will serve to create an existence in a make-believe world. The "utopia of escape" is thus the means and the end; it is dreaming merely for the pleasure of the dream; it is an ideal which, without hope of or attempt at realization, carries one away from the objective situation which arouses unpleasant reactions.

Utopias of escape are real in the sense that they can effectively displace the unpleasant with the pleasant in the mind of the dreamer, although their effect upon the dreamer is negative. By removing oneself from the real into the fancied world and thus avoiding the unpleasantness of the real, one evades all stimulus to change the real into something which will yield more pleasant reactions.

Utopias of reconstruction are quite in contrast with utopias of escape. They, too, arise as mental pictures of a more desirable situation than that which exists, but, instead of losing themselves within themselves, they include some conceptions of a means of really attaining that which is desired. While in the first instance, a utopia of reconstruction may not differ from a utopia of escape, the motive of its possessor at some point in the process becomes the actual attainment of his utopia.

To differentiate between these two types of utopias is not to deny that they have the most intimate interrelations with and interactions upon each other. Their common origin and their similarity up to a certain point are obvious. Moreover, the forces which may make a utopia one of reconstruction rather than escape, or vice versa, are subtle and imperceptible in their operation. Who can say just why one worker on a monotonous job

[6] Lewis Mumford, *The Story of Utopias*, Boni and Liveright, New York, 1922.

seeks a pretty-girl utopia of escape, while his neighboring worker at a similar job organizes a union demanding more rest periods and slower machine speeds?

Relation to Economic Movements

It is just as difficult to answer the broader question concerning the relationship between written utopias of escape and utopias of reconstruction involving organized efforts to achieve a more desirable economy. Scores of persons throughout history have described their ideals or utopias. In many cases these were purely utopias of escape, since the author's pleasure was derived entirely from contemplating that which might be, and since he evidenced no conception of or interest in practical ways and means of transforming contemporary institutions into those of his utopia.

What has been the influence of those utopias which are much more like utopias of escape than utopias of reconstruction, and which, when placed between the covers of books, have made a sizable contribution to the published literature of the ages? The question cannot be answered. It is certain that some of them—although no doubt written in the spirit of escape—have played far greater parts in movements of reconstruction than the intent or hope of their authors ever indicated. One person's utopia of escape when conveyed to another well may become his utopia of reconstruction.

The modern economic movements of socialism, communism, fascism, and cooperation have had piecemeal origins in the minds of men, for there is no other place from which they could spring. These modern movements possess their utopias of reconstruction; but their historic progenitors include not only other utopias of *reconstruction* but also numerous utopias of *escape,* which, although they have not acted separately and individually as direct constructive forces, nevertheless have offered a wealth of ideals upon which socialist, communist, fascist, and cooperative programs have drawn.

Utopian Thought Before Sir Thomas More

If the word "utopia" were used broadly to include all conceived changes in the objective world, our study would include all human thought. Even were we to limit the term to those ideals involving changes in the institutions and processes of organized society, we should have to go back to the earliest social institutions.

Without attempting to find any original social utopia, it may be noted that the Old Testament prophets, who lived during the eleventh to the fourth centuries B.C., had much to say about the evil institutions and practices they found in their world, and announced with great assurance changes which they felt would create a far better society.

It was Isaiah who wrote: "I create new heavens, and a new earth; and the former shall not be remembered, nor come into mind. . . . I create Jerusalem a rejoicing, and her people a joy. And I will rejoice in Jerusalem and joy in my people: and the voice of weeping shall be no more heard in her, nor the voice of crying. There shall be no more thence an infant of days, nor an old man that hath not filled his days: for the child shall die an hundred years old; but the sinner, being an hundred years old, shall be accursed. And they shall build houses, and inhabit them; and they shall plant vineyards, and eat the fruit of them. They shall not build, and another inhabit; they shall not plant, and another eat: for as the days of a tree are the days of my people, and mine elect shall long enjoy the work of their hands. They shall not labor in vain, nor bring forth for trouble: for they are the seed of the blessed of the Lord, and their offspring with them."[7]

Jeremiah, particularly, called down God's judgment upon ill-gained riches. He wrote: "For among my people are found wicked men: they lay wait, as he that setteth snares; they set a trap, they catch men. As a cage is full of birds, so are their houses full of deceit: therefore they are become great, and waxen rich. They are waxen fat, they shine: yea, they overpass the deeds of the wicked; they judge not the cause, the cause of the fatherless, yet they prosper: and the right of the needy do they not judge."[8] "As the partridge sitteth on eggs, and hatcheth them not: so he that getteth riches, and not by right, shall leave them in the midst of his days, and at his end shall be a fool."[9] "Woe unto him that buildeth his house by unrighteousness, and his chambers by wrong: that useth his neighbor's service without wages, and giveth him not for his work."[10]

Ancient Greece contributed to utopian literature one of its classics. Plato, who lived from 427 to 347 B.C., wrote into his *Republic* a description of what he conceived to be the best organization of society. In it complete communism prevailed under the all-powerful supervision of the state. Only men and women found physically fit were permitted to procreate. Children were the property of the state and were educated by it. Those persons attaining the highest reaches of education became members of the class known as the "Guardians." By middle life each Guardian had become a philosopher. Thus qualified to rule, the Guardians laid down the basic laws which shaped the lives of the citizens.

Some centuries later, preaching by precept and parable, Jesus described his ideal society. In the "Kingdom of God" meekness, modesty, service to others, and a disdain of things material were to be the underlying principles of life. "Blessed are the meek: for they shall inherit the earth," he

[7] Isa. 65:17–23.
[8] Jer. 5:26–29.
[9] *Ibid.*, 17:11.
[10] *Ibid.*, 22:13.

preached in the Sermon on the Mount.[11] "But he that is greatest among you, shall be your servant. And whosoever shall exalt himself, shall be abased; and he that shall humble himself, shall be exalted."[12] By word and deed, Jesus emphasized the importance of social service. The Samaritan was commended for dressing the wounds of the thief's victim, scorned by the priest and the Levite.[13] "Then shall the King say unto them on his right hand, Come . . . inherit the kingdom prepared for you from the foundation of the world: for I was an hungered, and ye gave me meat: I was thirsty, and ye gave me drink: I was a stranger, and ye took me in: naked, and ye clothed me: I was sick, and ye visited me: I was in prison, and ye came unto me. . . . Inasmuch as ye have done it unto one of the least of these my brethren, ye have done it unto me."[14]

The parable of the talents taught that each was to serve according to his capacity. The widow who dropped her mite into the treasury "hath cast more in, than all they which have cast into the treasury: From all they did cast in of their abundance; but she of her want did cast in all that she had, even all her living."[15] Hypocrisy, personified in the Pharisees, was scathingly condemned. The fact that "as Jesus sat at meat . . . many publicans and sinners sat also together with Jesus and his disciples," demonstrated the classless nature of the "Kingdom."[16] No social distinctions were to exist, "for," said Jesus, "whosoever shall do the will of God, the same is my brother, and my sister, and mother."[17] Brotherly love was to be the cohesive force. "Thou shalt love thy neighbor as thyself."[18] "Love your enemies, do good to them which hate you . . . and as ye would that men should do to you, do ye also to them likewise."[19] The inner man had to experience a change before human society could be perfect. "That which cometh out of the man, that defileth the man. For from within, out of the heart of men, proceed evil thoughts, adulteries, fornications, murders, thefts, covetousness, wickedness, deceit, lasciviousness, an evil eye, blasphemy, pride, foolishness: All these evil things come from within, and defile the man."[20]

Above all, the new society was not to be achieved by power of wealth or material things. Jesus took every opportunity to make this clear. "It is easier for a camel to go through the eye of a needle, than for a rich man to enter into the kingdom of God," he is recorded as saying to his disciples

[11] Matt. 5:5.
[12] *Ibid.*, 23:11-12.
[13] Luke 10:30-37.
[14] Matt. 25:34-40.
[15] Mark 12:43-44.
[16] *Ibid.*, 2:15.
[17] *Ibid.*, 3:35.
[18] *Ibid.*, 12:31.
[19] Luke 6:27, 31.
[20] Mark 7:20-23.

who were "exceedingly amazed, saying, Who then can be saved?"[21] His own recorded life was a demonstration of his attitude toward wealth: and, when he sent out his disciples, he " . . . commanded them that they should take nothing for their journey, save a staff only; no scrip, no bread, no money in their purse: But be shod with sandals; and not put on two coats."[22]

Contributions and Failings of the Utopians

Before examining in detail one of literature's famous utopias, it will be well to summarize certain general characteristics of the utopian writers.[23] Their contributions to progressive human thought have been notable. Possessing a keen sense of the possibility of human progress, they have stirred men's imaginations by constantly picturing goals far beyond immediate attainment. They have freely and pointedly criticized the societies of their times. They pressed home the idea that human behavior is a pliable thing; that it is molded by environmental pressures among which economic institutions are extremely important. The utopians stressed the man-made nature of social institutions and their consequent susceptibility to humanly contrived modification. They clearly perceived the age-old problem of the relationship between individual and social well-being: the individual was to invent new institutions and processes which were to work for the benefit of the masses of individuals. Utopian literature fully sensed the potential contributions to human happiness embodied in mechanical devices, accurately forecasting the development of many modern scientific wonders such as the radio. However, in their dreams the machine was always made for man, never man for the machine. Human happiness was always the supreme goal of their utopias. Pecuniary values were not confused with real wealth and welfare. Problems of economic inequality, unearned incomes, and the inheritance of economic power were attacked by many of the utopian writers. They stressed the human need for education, social experimentation, equality between the sexes, religious tolerance, and internationalism. These contributions of the utopians can be fully appreciated only when one realizes that most of them lived before the development of the analytical tools and methods now so commonly used by the modern social scientist.

However, certain failings or weaknesses in utopian thought set definite limitations upon its practical usefulness. While the utopians stimulated social progress by reconnoitering the promised land, they never played an

[21] Matt. 19:24–25.

[22] Mark 6:8–9.

[23] For some of the specific points noted here we are indebted to suggestions contained in three excellent treatises on utopias: J. O. Hertzler, *The History of Utopian Thought*, Macmillan, New York, 1923; Lewis Mumford, *The Story of Utopias;* Jerome Davis, *Contemporary Social Movements*, Appleton-Century, New York, 1930.

important part in actually organizing the march and effecting the capture of a state more satisfactory than the one left behind. They were unable to outline the onerous step-by-step measures necessary to convert the existing into the desired society. Unrealistically, they failed to see the opposition which would automatically arise from vested interests to threaten the attainment of their goals. They did not choose clearly between evolutionary and revolutionary methods of social change, nor did they evaluate the costs and difficulties of either method. The utopian mind oversimplified the nature of human behavior, assuming that changes in the social environment would automatically modify human motivations. As a result of this, many utopian ideas were fantastic and caused their authors to be labeled "visionaries" and "fanatics." Many utopians prescribed far too rigid structural forms for their ideal societies, squeezing the individual into specified niches and behaviors from which he could not deviate by one iota. Moreover, each utopian apparently considered his social ideal perfect, despite the fact that it was inherently restricted by his own personal bias, limited vision, and social philosophy. This attitude helped to create popular distrust of utopian thought and to relegate utopian schemes to the realms of panaceas.[24]

The contributions of the utopians to social progress warrant a careful examination of the ideas of at least one of them. Hence, before turning to an analysis of the first great system of socialism as a realizable form of social organization—the Marxian—we shall review the *Utopia* of Sir Thomas More, who is considered by many to be the greatest utopian of them all.

QUESTIONS FOR CLASS DISCUSSION

1. What is the difference between the idea of progress and the idea of decadence?
2. Has the idea of decadence been completely replaced by the idea of progress?
3. What part did the Industrial Revolution play in furthering the idea of progress?
4. In what sense did Charles Darwin play a leading role in the advancement of the idea of progress?
5. How are the utopians related to the idea of progress?
6. What is the chief difference between utopias of escape and utopias of reconstruction?

[24] The histories of numerous attempts to set up isolated communities following patterns laid down by various utopian writers amply demonstrate many of the weaknesses of utopian thought. In addition to others, some forty-five American utopian experiments were attempted during the early nineteenth century by the followers of Robert Owen, the British utopian and social reformer, and by persons influenced by the thought of Charles Fourier, the French utopian. For the stories of these and other communities see J. H. Noyes, *History of American Socialisms,* Lippincott, Philadelphia, 1870; C. Nordhoff, *The Communistic Societies of the United States,* Harper, New York, 1875; A. Kent, *Cooperative Communities in the United States,* U. S. Department of Labor, Bulletin No. 35, July, 1901.

7. Would it be correct to say that utopias of escape have had no effect upon the world and its institutions?
8. Why is it important to understand the nature of utopian thought before attempting to understand such movements as socialism?
9. How far back into the history of human thought can utopian thinking be traced? Did utopian thinking exist even before that?
10. Is there any evidence that the Old Testament prophets were interested in the *economic* conditions and institutions of their time?
11. Compare Jesus' concept of economic justice with the concepts of the Old Testament prophets. Do they differ in fundamental principles or only in details?
12. What specific contributions did the utopians make to human thought?
13. What failings set practical limitations to these contributions of the utopians?

Chapter 7

SIR THOMAS MORE'S "UTOPIA"

THE LIFE OF SIR THOMAS MORE

THOMAS MORE was born in London in 1478, the son of a lawyer who later became a justice of the Court of King's Bench. After some years of elementary schooling in London, he became, at the age of thirteen, a member of the household of the Archbishop of Canterbury. Later he studied at Oxford, which he left at the insistence of his father, who felt that his son was developing intellectual tastes not in harmony with his intended training for the bar. As a student and later, More maintained a close personal contact with eminent scholars of his day. Among these friends, of whom Erasmus was the outstanding, there were Greek and Latin scholars, astronomers, theologians, divines, and physicians. More himself learned Greek and Latin, publishing some translations from the former and writing in the latter. These early influences, weighted heavily as they were with the religious, gave him a lifelong faith in a Supreme Being who not only should be worshiped and served but who should inspire his earthly subjects to do good deeds. At several periods in his life More appears to have entered upon the life of a monk. A substantial portion of his description of "Utopia" is devoted to the religious beliefs and practices of the "Utopians."

At the age of twenty-six, More was a member of Parliament. His opposition to a certain grant of money upon the marriage of a member of the royal family caused his withdrawal from public office until after the death of Henry VII whom he had affronted. In 1509 he entered public life again. "From this time there was scarce a cause of importance in which he was not engaged." His income at this time is said to have been about the equivalent of fifty thousand dollars today. He was appointed undersheriff of London and engaged in numerous foreign diplomatic missions for the king. By 1518, More had become a member of the privy council of Henry VIII. In a few years he was knighted and made subtreasurer to the

king, and later he became speaker of Parliament and then chancellor of the Duchy of Lancaster. During these years Henry VIII often sought More's advice, visiting his home, without prior arrangement, to dine and converse.

Sir Thomas More succeeded Wolsey in the chancellorship in 1529. More's refusal to submit to Henry's plan to make himself the head of the Church led to his resignation upon the pretext of failing health. Upon leaving office More was a poor man, but nevertheless he refused a proffered gift from the clergy. His differences with the king did not cease with his departure from the chancellorship. He was imprisoned for his refusal to admit the religious supremacy of Henry. Upon testimony that More had denied Parliament's power to make the king the supreme head of the Church, the death sentence was executed and More's head set upon London Bridge on July 7, 1535. The king then confiscated the small remainder of More's property.

Sir Thomas More thus had the most intimate contact with the learning and the active affairs of state in his day. Moreover, this was a new day and a new learning. If the Renaissance may be said to have reached its culmination between the years 1450 and 1500, it is notable that Sir Thomas More was born into the midst of this transition from the Middle Ages to the modern era. These vast changes of the Renaissance period included: "The decay of these great fabrics, church and empire, which ruled the Middle Ages both as ideas and as realities; the development of nationalities and languages; the enfeeblement of the feudal system throughout Europe; the invention and application of paper, the mariner's compass, gunpowder, and printing; the exploration of continents beyond the ocean; and the substitution of the Copernican for the Ptolemaic system of astronomy." The developing "humanism" stressed the idea that these inventions and discoveries, and the means of spreading knowledge of them, should be used for enhancing the happiness of mankind. While the Middle Ages "with their fixed institutions, their blind faith, and their acceptance of authority" so bound human thought that no comprehensive picture of an ideal society had been set down in writing since Plato's *Republic* (written two thousand years before), it is no surprise that the changes which the Renaissance wrought in human life and learning should give rise to a utopia of the merit and influence possessed by More's.

The economic changes which his own particular country was experiencing no doubt exercised a most powerful influence upon More's ideas. England was in the midst of a transformation from an agricultural to a commercial and industrial nation. "New conditions of industry and commerce had made impossible the retention of the old manorial system; villenage was disappearing and the villeins were becoming copy-holders; agriculture was ceasing to be profitable under the old methods; money was taking the place of payments in kind; and the dispersion of the ma-

norial tenantry was increasing vagabondage and the number of the unemployed. The old towns, too, like Norwich, Exeter, York, Winchester, and Southampton, with their narrow gild restrictions were falling into decay, and were making way for new industrial centers like Birmingham, Manchester, Leeds, and Sheffield. More important still was the introduction, in many of the counties, of the enclosure system. Landlords, discovering that farming was more profitable when done on a large scale, and that sheep raising brought even larger returns than agriculture, turned arable lands into pasture, thus depopulating the old villages, setting adrift large number of villeins to find work wherever they could, and bring great distress and misery to the people."[1]

How Utopia Came to Be Discovered

"Utopia"—a word coined by More meaning literally "nowhere"—was a country described to him by a mythical figure named Raphael Hythloday. According to More's tale, it was while he was engaged on a diplomatic errand for Henry VIII to Flanders that he and a friend encountered this most wondrous Hythloday—than whom "there is none alive that can give so copious an account of unknown nations and countries." Learned in Latin and Greek, Hythloday had foregone an inherited estate in his native Portugal and had sailed on three of the voyages of Americus Vespucius. On the last of these, Hythloday remained at "the farthest place at which they touched." After he "had traveled over many countries" he had "beyond all men's expectations returned to his native country."

While residing in these farthermost regions, Hythloday had "got so far into the heart of a prince" that he furnished Hythloday and several companions with boats, wagons, and a guide "who was to introduce and recommend them to such other princes as they had a mind to see." After crossing a vast desert "under the equator, and as far on both sides of it as the sun moves," they came to a new world—"nations, towns, and cities, that had not only mutual commerce among themselves, and with their neighbors, but traded both by sea and land, to very remote countries." On these voyages in this new world Hythloday accompanied the sailors. "He got wonderfully into their favor by showing them the use of the needle, of which till then they were utterly ignorant."

After making sure that the locale of Hythloday's new world was such that no one ever could find it again, More recounts how he and his friend questioned this traveler "concerning those wise and prudent institutions" which he observed among those people vaguely termed "the Utopians." This questioning was confined to the realm of social institutions and modes of human living. More writes that they "made no inquiries after monsters, than which nothing is more common; for everywhere one may hear of

[1] Charles M. Andrews (ed.), *Famous Utopias*, Tudor, New York, Introduction.

ravenous dogs and wolves, and cruel man-eaters; but it is not so easy to find states that are well and wisely governed."

Criticism of Modern England

Fortunately for More, since Hythloday had spent some time in England he was familiar with the institutions of that country. Through having Hythloday recount an extended conversation which he had had in England with the Archbishop of Canterbury, More creates an opportunity to speak his mind on the failings of the England of his day. The discussion turns on the point of whether robbery should be punished with death. Through the mythical Hythloday, More contends that crime is the result of the conditions which prevail in society, and that to punish the criminal without changing the social environment which causes the crime is quite useless. He condemns particularly the poverty and insecurity which had resulted from the enclosures of common lands into sheep ranches. Through enclosures the agricultural population was uprooted from its accustomed and relatively secure sources of livelihood. After spending what little money they had saved or received for their small pieces of land, "what is left for them to do, but either to steal and so to be hanged (God knows how justly), or to go about and beg? And if they do this, they are put in prison as idle vagabonds; while they would willingly work, but can find none that will hire them; for there is no more occasion for country labor, to which they have been bred, when there is no arable ground left."[2]

To this strikingly modern theory of crime causation, More added a stinging condemnation of the contemporary classes which lived by exploiting labor. "There is a great number of noblemen among you," Hythloday said to the Archbishop and his friends, "that are themselves as idle as drones, that subsist on other men's labor, on the labor of their tenants, whom, to raise their revenues, they pare to the quick."[3] More, through the mouth of Hythloday, challenged the very motives of the rulers of his day and his country. "For most princes apply themselves more to affairs of war than to the useful arts of peace; . . . they are generally more set upon acquiring new kingdoms, right or wrong, than on governing those they possess."[4] Christianity he felt had failed to make any substantial mark upon the England of his time. It had compromised its precepts, for its preachers, "observing that the world would not willingly suit their lives to the rules that Christ has given, have fitted his doctrine as if it had been a leaden rule, to their lives, that so some way or other they might agree with one another."[5]

[2] *Ibid.*, p. 139. All page references are to this edition of the complete text of More's *Utopia. Famous Utopias* also contains the unabridged texts of Rousseau's *Social Contract*, Bacon's *New Atlantis*, and Campanello's *City of the Sun.*

[3] *Ibid.*, p. 137.

[4] *Ibid.*, p. 134.

[5] *Ibid.*, p. 156.

The heart of the trouble appeared to More to be the existing property institutions. There can be no question as to the meaning of Hythloday's remark: "Though to speak plainly my real sentiments, I must freely own, that as long as there is any property, and while money is the standard of all other things, I cannot think that a nation can be governed either justly or happily; not justly, because the best things will fall to the share of the worst men; nor happily, because all things will be divided among a few (and even these are not in all respects happy), the rest being left to be absolutely miserable."[6] In such terms this early sixteenth-century analysis of the effect of basic economic institutions upon human society was written by a man who shortly was to occupy the powerful chancellorship.

From this gloomy picture of contemporary England, More turned to the "wise and good constitution of the Utopians, among whom all things are so well governed, and with so few laws; where virtue hath its due reward, and yet there is such an equality, that every man lives in plenty," where "the good institutions that are among them" are "the true cause of their being better governed, and living happier than we, though we come not short of them in point of understanding or outward advantages." What of the detailed nature of these institutions discovered among the Utopians by Hythloday, who "never should have left them, if it had not been to make the discovery of that new world to the Europeans"?[7]

Geography and Buildings of Utopia

Utopia is described as a crescent-shaped island two hundred miles wide at its center. Its ends make a great harbor whose entrance, known only to the Utopians, is protected on the one side by rocks and on the other by shallows. The opposite side of the island has many harbors protected by both natural and man-made fortifications.

The island contains fifty-four cities "all large and well built" and laid out as near to a standard pattern as the topography permits. No city is nearer than twenty-four miles distant from another, and the distance between the two cities farthest apart can be covered on foot in one day. Amaurot, the chief city and capital of Utopia, is situated on the fresh-water river Anider which rises eighty miles above Amaurot, is a half mile broad at the city, and empties into the sea sixty miles farther along its course.

Amaurot stretches about two miles along the river bank on land which rises from the river to the top of a hill two miles away. The city's water supply comes partly through pipes from another river, whose head is near the city and is fortified to protect it against poisoning or diversion by an enemy, and partly from cisterns which collect rain water. The city is fortified on the three sides away from the river by a high thick wall and by a

[6] *Ibid.*, p. 157.
[7] *Ibid.*, pp. 157–160.

broad, deep, dry ditch "set thick with thorns." The streets are twenty feet wide and "well sheltered from the winds."[8]

In Amaurot all the buildings are well constructed and cared for so that they last a long time. They "are so uniform, that a whole side of a street looks like one house." Each house has a street door and a rear door opening upon a garden, the doors all having "two leaves, which, as they are easily opened, so they shut of their own accord." Hythloday was particularly impressed by the gardens of Amaurot. They were carefully cultivated and contained "vines, fruits, herbs, and flowers." The residents of the various streets contested with one another to prove their superiority at gardening.[9] The houses were three stories high, with stone, plaster, or brick fronts; "and between the facings of their walls they throw in their rubbish"! The roofs were flat and made of fireproof and weather-resistant plaster. The windows were of glass and of "a thin linen cloth, that is so oiled or gummed that it both keeps out the wind and gives free admission to the light." Considerable improvement in housing had taken place since the founding of Amaurot. The city records which "run back 1760 years" show that the first homes were "low and mean, like cottages, made of any sort of timber" and "built with mud walls and thatched with straw."[10]

Two types of establishments were always located outside the city walls. The hospitals, of which each city had four, were "so large that they may pass for little towns" and were "furnished and stored with all things that are convenient for the ease and recovery of the sick." Thus, "such of them as are sick of infectious diseases may be kept so far from the rest that there can be no danger of contagion." The "places appointed for killing their beasts and for washing away their filth" were also located outside the city walls "lest the air should be infected by ill smells which might prejudice their health."[11]

Education

Traveler Hythloday found that the Utopians had arrived independently at much of the knowledge of the Greeks "both in music, logic, arithmetic, and geometry." While only a few people in each town—"only such persons as discover from their childhood an extraordinary capacity and disposition for letters"—devoted themselves entirely to study, the entire citizenry was subject to compulsory education.[12]

There were various types of education. First, everyone was compelled to learn the methods of agriculture. "Agriculture is that which is so uni-

[8] *Ibid.*, p. 166.

[9] Probably much as contests are now sponsored by local garden clubs in some sections of the United States.

[10] *Famous Utopias*, pp. 166–167.

[11] *Ibid.*, pp. 175–176.

[12] *Ibid.*, p. 184.

versally understood among them, that no person, either man or woman, is ignorant of it." Even the children are "led out often into the fields, about the town, where they not only see others at work, but are likewise exercised in it themselves." This training in agricultural pursuits is continued into mature years when the city-dwellers are sent by turns into the country to join agricultural families, each of which consisted of some forty adults, besides two slaves. Each year about half of each of these families, having stayed two years, returns to the city, and another contingent of twenty takes their places on the farms. This two-year compulsory and universal apprenticeship in agriculture thus consists of one year of learning and one year of teaching the newly arrived city-dwellers. Those who particularly like agricultural pursuits remain on the farms, forming a permanent nucleus of agricultural workers.[13]

Secondly, every man is required to learn some trade besides agriculture. Usually the son follows the trade of his father and learns it from him, but if anyone prefers another trade he may attach himself to the household of a workman in that trade, becoming an adopted member of that family during his apprenticeship. More provides that a man may in this manner learn as many trades as he desires to know.[14]

A third phase of compulsory education is described briefly. It consists of the formal education of children in "schools" taught by the "priests" who would "not take so much care of instructing them in letters as in forming their minds and manners aright." The priests were to "infuse very early into the tender and flexible minds of children such opinions as are both good in themselves and will be useful to their country." This would "conduce much to preserve the peace of the government, which suffers by nothing more than by vices that rise out of ill opinions."[15]

Finally, general cultural opportunities pervaded the entire life of the Utopians. The time generously allotted to leisure was not to be used in "luxury and idleness," but to be employed "in some proper exercise according to their various inclinations, which is for the most part reading." Public lectures were held "every morning before daybreak." Attendance at these was compulsory for "those who are marked out for literature," with widespread voluntary attendance by "a great many, both men and women of all ranks."[16]

Work

In Utopia idleness was the greatest sin. Aside from very small groups of students and the magistrates, every person had to "follow his trade diligently," and, of course, even the students and magistrates were per-

[13] *Ibid.*, pp. 163–168.
[14] *Ibid.*, p. 169.
[15] *Ibid.*, p. 223.
[16] *Ibid.*, pp. 169–170.

forming certain functions considered productive. One set of public officials, the Syphogrants, as almost their sole function had "to take care that no man may live idle." Even these officials, although formally excused from following a trade, "do not excuse themselves, but work, that by their examples they may incite the industry of the rest of the people." More notes that certain classes, elsewhere idle, in Utopia are engaged in productive labor. These include "women" who "generally do little"; "the great company of idle priests, and of those that are called religious men"; "all rich men, chiefly those that have estates in land, who are called noblemen and gentlemen, together with their families, made up of idle persons"; "all those strong and lusty beggars, that go about pretending some disease, in excuse for their begging"; "many trades that are both vain and superfluous, and serve only to support riot and luxury." In some detail More points out how turning the idle groups into producers doubly benefits the Utopians by increasing production and decreasing the luxurious consumption of the idle, "every one of whom consumes as much as any two of the men that are at work."[17]

As already noted, agriculture occupies a basic position in More's scheme. Aside from this no trade was held in greater "esteem" than another. Each person who had learned more than one trade was permitted to follow the trade of his choice "unless the public has more occasion for the other." The price test was wholly absent as a measure of the desirability of a trade in Utopia. For instance, soil conservation was considered very useful work whereas the making of luxury goods was not.[18]

Public honors were used as incentives to perform service for Utopia. Statues were erected "to the memory of such worthy men as have deserved well of their country . . . both to perpetuate the remembrance of their actions, and to be an incitement to their posterity to follow their example."[19] Unemployment was unknown. When supplies of the ordinary goods exceed need "vast numbers are sent out to mend the highways."[20] Also reserves of building materials were prepared in advance of the need for them.[21] During a harvest the country magistrates had the power to send to the cities for laborers to assist, "and the number they call for being sent to them, they commonly dispatch it all in one day."[22]

Working Conditions

While idleness was intolerable, the Utopians "do not wear themselves out with perpetual toil, from morning to night, as if they were beasts of

[17] *Ibid.*, pp. 169–171.
[18] *Ibid.*, pp. 169–174.
[19] *Ibid.*, p. 203.
[20] *Ibid.*, p. 173.
[21] *Ibid.*, p. 172.
[22] *Ibid.*, p. 165.

burden, which as it is indeed a heavy slavery, so it is everywhere the common course of life among all mechanics except the Utopians." The working day in Utopia was of six hours' duration—three before dinner and three after. Eight hours' sleep, beginning at the eighth hour after noon, was sufficient physical relaxation from their toil.[23] The working day is shortened when there "is a great abundance of all things among them" and "when no public undertaking is to be performed."[24] The trades which "suit best with their weakness" are left to women, while the "ruder" trades are all occupied by men.[25] Apparently the best available mechanical devices are used in Utopia, for "they breed an infinite multitude of chickens in a very curious manner; for the hens do not sit and hatch them, but vast numbers of eggs are laid in a gentle and equal heat, in order to be hatched"—in a modern incubator.[26]

Crime and Its Punishment

More conceived of crime chiefly as a product of the social institutions under which men lived. Particularly the economic institutions forced them to resort to crime in order to gain a livelihood. Utopia with its better property institutions would thus have far less crime than other communities had, but would still have some. For this irremovable residue, apparently attributed to man's imperfect nature, a novel punishment was proposed. More solved the two difficult problems of how to punish crime and how to get Utopia's unpleasant work done by letting the one solve the other.

Criminals were condemned to slavery and slaves were forced to do the unpleasant work. Without enumerating these tasks in detail, More suggests that the hunting and butchering of animals are two of the most degrading tasks, because of their effects upon the human beings who perform them. These, then, are two of the activities which would be turned over to slaves.[27] Other forms of punishment were employed for some crimes, but slavery was the chief punishment "even of the greatest crimes." There was no set scale of punishments for various crimes, it being left to the Senate "to temper it according to the circumstances of the fact." Moreover, "those who bear their punishment patiently, and are so much wrought on by that pressure that lies so hard on them that it appears they are really more troubled for the crimes they have committed than for the miseries they suffer" may be fully or partially pardoned. It is interesting to note that the Utopians believed "that a deliberate design to commit a crime is equal to the fact itself." The Utopians held capital punishment to be a

[23] *Ibid.*, p. 169.
[24] *Ibid.*, p. 173.
[25] *Ibid.*, p. 169.
[26] *Ibid.*, p. 164.
[27] *Ibid.*, pp. 175, 190–191.

foolish policy, for criminals' labor would be "a greater benefit to the public than their death could be" and "the sight of their misery is a more lasting terror to other men than that which would be given by their death."[28]

Several other types of slaves also were to be found in Utopia. Prisoners of war, if "taken in battle," were placed in slavery, as were "such as their merchants find condemned to die in those parts to which they trade, whom they sometimes redeem at low rates." In some cases "the poor of neighboring countries" sell themselves into slavery to the Utopians. These slaves they treat with great consideration. While prisoners of war and those purchased from foreign countries find their burdens more onerous, even they are treated better than the native Utopians who are condemned to slavery as punishment for crimes, since these latter "are considered as more profligate than the rest, and since they could not be restrained by the advantages of so excellent an education."[29]

Consumption Goods

More directed some of his most severe criticism at luxury and ostentatious consumption. In condemning the extremes of wealth prevailing in England, More has Hythloday say: "Luxury likewise breaks in apace upon you, to set forward your poverty and misery; there is an excessive vanity in apparel, and great cost in diet; and that not only in noblemen's families, but even among tradesmen, among the farmers themselves, and among all ranks of persons."[30] Again, he points out that "pride thinks its own happiness shines the brighter by comparing it with the misfortunes of other persons; that by displaying its own wealth, they may feel their poverty the more sensibly."[31]

Accordingly, in Utopia material consumers' goods possessed a plainness approaching the "simple life." The uniformity and implied sturdy plainness of the homes of Amaurot have been noted. The same kind of clothes, never changing in fashion and suited to both winter and summer, were worn throughout Utopia. The attire included no distinctions of any sort except those indicating the sex and marital status of the wearer.[32] Work clothes were fashioned from leather and skins and lasted seven years. Over these the Utopians threw an upper garment when appearing in public. All cloth garments were of the natural color. They used little woolen cloth but more linen which "is prepared with less labor." They "value cloth only by the whiteness of the linen, or the cleanness of the wool, without much regard to the fineness of the thread." "While in other places, four or five upper garments of woolen cloth, of different colors, and as many vests of

[28] *Ibid.*, pp. 201–202.
[29] *Ibid.*, p. 198.
[30] *Ibid.*, p. 140.
[31] *Ibid.*, p. 231.
[32] *Ibid.*, p. 169.

silk, will scarce serve one man; and while those that are nicer think ten too few, every man there is content with one, which very often serves him two years. Nor is there anything that can tempt a man to desire more; for if he had them, he would neither be the warmer, nor would he make one jot the better appearance for it."[33]

Complete Communism

More's condemnation of private property as the source of all of society's important ills has been cited. He felt that justice and happiness were impossible "as long as there is any property, and while money is the standard of all other things."[34] As long as there is private property, the curing of any of the specific ills of society merely causes others to break out—all offshoots of a fundamentally wrong institution.[35] "And who does not see that the frauds, thefts, robberies, quarrels, tumults, contentions, seditions, murders, treacheries, and witchcrafts, which are indeed rather punished than restrained, would fall off, if money were not any more valued by the world?"[36]

Consequently, in More's Utopia complete communism of consumers' goods reigns. All goods are owned by the entire group and each consumes from the common store as he desires. The occupancy of the houses, which are not kept locked so that "every man may freely enter into any house whatsoever," is shifted every ten years by lot.[37] "When they want anything in the country which it does not produce, they fetch that from the town, without carrying anything in exchange for it."[38] Each region produces a surplus of certain commodities which is freely available to other regions. In their "great council" they "examine what towns abound in provisions, and what are under any scarcity, so that the one may be furnished from the other; and this is done freely, without any sort of exchange; for according to their plenty or scarcity, they supply, or are supplied from one another; so that indeed the whole island is, as it were, one family."[39]

Distribution is on precisely the same basis within each city. "Every city is divided into four equal parts and in the middle of each there is a market place: what is brought thither, and manufactured by the several families, is carried from thence to houses appointed for that purpose, in which all things of a sort are laid by themselves; and thither every father goes and takes whatsoever he or his family stand in need of, without either paying for it, or leaving anything in exchange. . . . Near these markets there are

[33] *Ibid.*, pp. 172–173.
[34] *Ibid.*, p. 157.
[35] *Ibid.*, p. 159.
[36] *Ibid.*, p. 230.
[37] *Ibid.*, p. 166.
[38] *Ibid.*, p. 164.
[39] *Ibid.*, p. 179.

others for all sorts of provisions, where there are not only herbs, fruits, and bread, but also fish, fowl, and cattle."[40]

The Utopians who dwell in cities eat in common dining halls. Each hall has a steward who brings provisions from the common market "according to the number of those that belong to the hall."[41] When the food is distributed, the hospital stewards are first given what the physicians have prescribed for their patients. It appears also that some prior claims to the best foods are possessed by the "Prince, the chief priests, certain classes of officials, the ambassadors and strangers." After the stewards have gotten their supplies, whatever is left may be taken by the separate families to consume in their own homes if they so desire. This seldom occurs "since it is both ridiculous and foolish for any to give themselves the trouble to make ready an ill dinner at home, when there is a much more plentiful one made ready for him so near at hand."[42]

The menial tasks about the dining halls are performed by slaves, and the cooking is done by the women, each family taking its turn. "The old men distribute to the younger any curious meats that happen to be set before them, if there is not such an abundance of them that the whole company may be served alike." Some "lecture of morality" is read at the beginning of "dinner" and "supper." During the meals the old men lead the conversation into pleasant and beneficial channels. While this communal dining prevails in the cities, in the country "where they live at great distance, every one eats at home, and no family wants any necessary sort of provision, for it is from them that provisions are sent unto those that live in the towns."[43]

Consistent with his theory that institutions wield tremendous power in shaping "human nature," More contends that this communal sharing of the plenty resulting from the diminution of the twin evils of idleness and luxury has so changed people that commonly anticipated difficulties have not accompanied communistic distribution. He points out that "there is no danger of a man's asking for more than he needs . . . since they are sure that they shall always be supplied." "Greed" and "ravenousness" he contends are created by a "fear of want." Since each can get all he wants from the communal market merely by taking it, there is no longer any opportunity for a man to possess a "pride that makes him fancy it a particular glory to excel others in pomp and excess."[44] Where "no man has any property" and yet each is secure in his knowledge that he will not want, "all men zealously pursue the good of the public." What could be more ideal than this state where "though no man has anything, yet they

[40] *Ibid.*, pp. 174–175.

[41] This would seem to be a modification of the communistic distribution otherwise prevailing.

[42] *Famous Utopias*, pp. 175–176.

[43] *Ibid.*, pp. 176–178.

[44] *Ibid.*, p. 175.

are all rich; for what can make a man so rich as to lead a serene and cheerful life, free from anxieties; neither apprehending want himself, nor vexed with the endless complaints of his wife? He is not afraid of the misery of his children, nor is he contriving to raise a portion for his daughters, but is secure in this, that both he and his wife, his children and grandchildren, to as many generations as he can fancy, will all live both plentifully and happily; since among them there is no less care taken of those who were once engaged in labor, but grow afterward unable to follow it, than there is elsewhere of those that continue still employed."[45]

Money and Precious Metals

The communistic distribution prevailing in Utopia made money useless. This pleased More for he attributed society's ills to the institution of private property and its inevitable companions, money and monetary values of commodities. The Utopians, however, possessed large quantities of gold, other precious metals, and jewels. The domestic uses of these were so unimportant, according to the Utopians' scale of values, that they were employed for such lowly purposes as forging chains to confine their slaves, and were left to the children as playthings. As the children grew up they lost interest in these childhood playthings and considered it a mark of maturity to disdain them.[46] To illustrate the attitude of the Utopians toward these objects so highly prized elsewhere the following incident is recounted:

I never saw a clearer instance of the opposite impressions that different customs make on people, than I observed in the ambassadors of the Anemolians, who came to Amaurot when I was there. As they came to treat of affairs of great consequence, the deputies from several towns met together to wait for their coming. The ambassadors of the nations that lie near Utopia, knowing their customs, and that fine clothes are in no esteem among them, that silk is despised, and gold is a badge of infamy, used to come very modestly clothed; but the Anemolians lying more remote, and having had little commerce with them, understanding that they were coarsely clothed, and all in the same manner, took it for granted that they had none of those fine things among them of which they made no use; and they being a vainglorious rather than a wise people, resolved to set themselves out with so much pomp, that they should look like gods, and strike the eyes of the poor Utopians with their splendor. Thus three ambassadors made their entry with an hundred attendants, all clad in garments of different colors, and the greater part in silk; the ambassadors themselves, who were of the nobility of their country, were in cloth of gold, and adorned with massy chains, earrings and rings of gold: their caps were covered with bracelets set full of pearls and other gems: in a word, they were set out with all those things that, among the Utopians, were either the badges of slavery, the marks of infamy, or the playthings of children. It was not

[45] *Ibid.*, p. 228.
[46] *Ibid.*, pp. 181–182.

unpleasant to see, on the one side, how they looked big, when they compared their rich habits with the plain clothes of the Utopians, who were come out in great numbers to see them make their entry: and, on the other, to observe how much they were mistaken in the impression which they hoped this pomp would have made on them. It appeared so ridiculous a show to all that had never stirred out of their country, and had not seen the customs of other nations, that though they paid some reverence to those that were the most meanly clad, as if they had been the ambassadors, yet when they saw the ambassadors themselves, so full of gold and chains, they looked upon them as slaves, and forbore to treat them with reverence. You might have seen the children, who were grown big enough to despise their playthings and who had thrown away their jewels, call to their mothers, push them gently, and cry out, "See that great fool that wears pearls and gems, as if he were yet a child." While their mothers very innocently replied, "Hold your peace, this I believe is one of the ambassador's fools." Others censured the fashion of their chains, and observed that they were of no use; for they were too slight to bind their slaves, who could easily break them; and besides hung so loose about them, that they thought it easy to throw them away, and so get from them. But after the ambassadors had stayed a day among them, and saw so vast a quantity of gold in their houses, which was as much despised by them as it was esteemed in other nations, and beheld more gold and silver in the chains and fetters of one slave than all their ornaments amounted to, their plumes fell, and they were ashamed of all that glory for which they had formerly valued themselves, and accordingly laid it aside; a resolution that they immediately took when on their engaging in some free discourse with the Utopians, they discovered their sense of such things and their other customs.[47]

Whereas the Utopians among themselves placed no value upon gold, they found it useful in their relationships with other peoples, and Utopia therefore sought to acquire gold through international trade. Surpluses of "corn, honey, wool, flax, wood, wax, tallow, leather, and cattle" were sold to other nations. The Utopians ordered that one-seventh of whatever they exported "had to be freely given to the poor of the countries to which they sent them." For the other six-sevenths, the Utopians took in return what few imports they needed to purchase elsewhere, "indeed they scarce need anything but iron," and "likewise a great deal of gold and silver." Years of this sort of trade had accumulated large stocks of the precious metals in Utopia, until "they do not much care whether they sell off their merchandise for money in hand, or upon trust." The Utopians thus became creditors of other nations, permitting the debtors to keep their gold until the Utopians should want it or until "they see that any of their other neighbors stand more in need of it, then they call it in and lend it to them."[48]

Utopia had found only one important use for its gold reserve. In time of war they were accustomed to use gold to hire "foreign troops, whom

[47] *Ibid.*, pp. 182–183.
[48] *Ibid.*, pp. 179–180.

they more willingly expose to danger than their own people." For this purpose the Utopians possessed an "incredible treasure" so that they could pay the necessary troops high rewards, "knowing well that this will work even on their enemies, that it will engage them either to betray their own side, or at least to desert it, and that it is the best means of raising mutual jealousies among them."[49]

Population Problems

Certain population problems which Utopia might encounter were clearly envisioned. No city was to have more than six thousand families; and to keep all cities of about the same size "they supply cities that do not increase so fast, from others that breed faster." There is no indication of the method used to induce the Utopians to shift their residences in accord with this plan. Likewise "if there is any increase over the whole island, then they draw out a number of their citizens out of the several towns, and send them over to the neighboring continent; where, if they find that the inhabitants have more soil than they can well cultivate, they fix a colony, taking the inhabitants into their society, if they are willing to live with them." "But if the natives refuse to conform themselves to their laws, they drive them out of those bounds which they mark out for themselves, and use force if they resist. For they account it a very just cause of war, for a nation to hinder others from possessing a part of that soil, of which they make no use, but which is suffered to lie idle and uncultivated; since every man has by the law of nature a right to such a waste portion of the earth as is necessary for his subsistence." If the population of any town should decrease, it is first made up from the other towns of the island, and in an extreme case, those who have colonized other lands are called home, "for they will abandon these rather than suffer the towns in the island to sink too low."[50]

Government

More had a high conception of the function of government as a servant of the people. Close contact with the monarchies of his day probably accounts for his condemnations of self-seeking monarchs and officials. More had Hythloday assert that not only the king's "honor but his safety consisted more in his people's wealth, than in his own," that "they choose a king for their own sake, and not for his; that by his care and endeavors they may be both easy and safe; and that therefore a prince ought to take more care of his people's happiness than of his own, as a shepherd is to take more care of his flock than of himself." He commended an arrangement in a country near Utopia whereby "their king, on the day on which he begins

[49] *Ibid.*, p. 180.
[50] *Ibid.*, p. 174.

to reign, is tied by an oath confirmed by solemn sacrifices, never to have at once above a thousand pounds of gold in his treasures." This sum was "sufficient for any accident" and yet "not enough to encourage a prince to invade other men's rights."[51]

Every other government except that of Utopia More held to be "a conspiracy of the rich, who on pretense of managing the public only pursue their private ends, and devise all the ways and arts they can find out; first, that they may, without danger, preserve all that they have so ill acquired, and then that they may engage the poor to toil and labor for them at as low rates as possible, and oppress them as much as they please. And if they can but prevail to get these contrivances established by the show of public authority, which is considered as the representative of the whole people, then they are accounted laws."[52]

Utopia had a relatively simple government. There were few laws and no lawyers, since every man was to plead his own case before a judge who rendered a verdict. Officeholders did not seek office but were sought out by the people. "If any man aspires to any office, he is sure never to compass it."[53]

The basic unit in the governmental machinery is the family. Grouped by proximity of residence, every thirty families, consisting of from ten to sixteen persons each,[54] choose their magistrate or "Philarch" each year. Over every ten Philarchs, and the families under them, there is an Archphilarch, also chosen every year, but "for the most part continued." The Philarchs by secret ballot choose from a list of four nominees of the people the Prince who occupies office for life "unless he is removed upon suspicion of some design to enslave the people."[55]

The Archphilarchs "meet every third day, and oftener if necessary, to consult with the Prince, either concerning the affairs of the state in general, or such private differences as may arise sometimes among the people; though that falls out but seldom." The Archphilarchs can make no decision on any matter relating to the public "till it has been first debated three several days in their council." Any meeting or consultation by the Archphilarchs on the affairs of state, outside of either their council or the "assembly of the whole body of the people," is punished by death. To avoid any conspiracy between the Archphilarchs and the Prince, matters of "great importance" must be referred to the Philarchs who, after consulting the families under them, report back. Extremely important matters are "referred to the council of the whole island." Deliberation in making de-

[51] *Ibid.*, pp. 153–154.

[52] *Ibid.*, pp. 229–230. Thus More appears to have anticipated by three centuries the Marxian theory of the state!

[53] *Famous Utopias*, pp. 203–204.

[54] Apparently these are the city families, as the agricultural families were described earlier as including about forty adults each.

[55] *Famous Utopias*, p. 167.

cisions is attained by the rule "never to debate a thing on the same day it is first proposed." This was to prevent the making of rash statements which, although later regretted, could not be withdrawn or modified but would have to be supported because of pride.[56]

By injecting liberal doses of democracy into it, and by removing from the officials and princes the opportunity (and, therefore, also the desire) to obtain private wealth, More sought to establish the best possible government in Utopia. In fact, he wrote that the neighboring countries "who are masters of their own liberties" borrow magistrates from the Utopians, returning them after a period of years "with great expressions of honor and esteem" and carry away "others to govern in their stead."[57]

The Family

The family is the basic economic and governmental unit in Utopia. Each family is to consist of from ten to sixteen persons.[58] Children are removed from the larger families and placed in the smaller in order to preserve this uniformity of size. When a girl reaches maturity she marries and resides with her husband's family; "but all the males, both children and grandchildren, live still in the same house, in great obedience to their common parent, unless age has weakened his understanding: and in that case, he that is next to him in age comes in his room." "Wives serve their husbands, and children their parents, and always the younger serves the elder."[59]

Religion

While More described in detail Utopia's religious beliefs and practices they may be summarized briefly. A diversity of religions characterized Utopia. "There are several sort of religions, not only in different parts of the island, but even in every town: some worshipping the sun, others the moon, or one of the planets: some worship such men as have been eminent in former times for virtue, or glory, not only as ordinary deities, but as the supreme God: yet the greater and wiser sort of them worship none of these, but adore one eternal, invisible, infinite, and incomprehensible Deity: as a being that is far above our apprehensions, that's spread over the whole universe, not by his bulk, but by his power and virtue; him they call the Father of All, and acknowledge that the beginnings, the increase, the progress, the vicissitudes, and the end of all things come only from him; nor do they offer divine honors to any but to him alone."[60]

Upon being told of the "doctrine, the course of life, and the miracles of

[56] *Ibid.*, pp. 167–168.
[57] *Ibid.*, p. 204.
[58] See note 54 above.
[59] *Famous Utopias*, pp. 173–174.
[60] *Ibid.*, pp. 215–216.

Christ," many of the Utopians accepted Hythloday's religion. The latter confesses his inability to determine "whether this proceeded from any secret inspiration of God, or whether it was because it seemed so favorable to that community of goods, which is an opinion so particular as well as so dear to them; since they perceived that Christ and his followers lived by that rule, and that it was still kept up in some communities among the sincerest sort of Christians."[61]

The Utopians had an "ancient" law that none was to be punished for his religion. Each was free to convert others to his faith, except that he could "use no other force than that of persuasion." However, all those who were "so far degenerate from the dignity of human nature as to think that our souls died with our bodies, or that the world was governed by chance, without a wise overruling Providence," were looked down upon as "scarce fit to be counted men." Some of the Utopians found self-conceived religious duties in "rough, hard, and sordid" work; some lived abstemious lives, "unmarried and chaste, . . . weaning themselves from all of the pleasures of the present life."[62]

Every town had thirteen priests, chosen by secret ballot and "consecrated by the college of priests." "The care of all sacred things, the worship of God, and an inspection into the manners of the people are committed to them." The number of priests was kept small "lest greater numbers sharing in the same honor might make the dignity of that order which they esteem so highly to sink in its reputation." Their temples were magnificent but "a little dark within, which proceeds not from any error in the architecture, but is done with design; for their priests think that too much light dissipates the thoughts, and that a more moderate degree of it recollects the mind and raises devotion."[63]

War

It has been noted that Utopia was not a warless state. The capital city, Amaurot, was well fortified, as were the island's harbors. The gold reserves were used to hire foreign soldiers to fight the Utopians' battles. Utopia entered no "leagues" or "alliances" with other countries for "they think leagues are useless things, and believe that if the common ties of humanity do not knit men together, the faith of promises will have no great effect."[64] While the Utopians "detest war as a very brutal thing" and "think that there is nothing more inglorious than that glory that is gained by war," they nevertheless "accustom themselves to military exercises and the discipline of war."[65]

[61] *Ibid.*, p. 216.
[62] *Ibid.*, pp. 218–221.
[63] *Ibid.*, pp. 222–225.
[64] Witness the tribulations of the League of Nations and the United Nations.
[65] *Famous Utopias*, pp. 205–207.

They do not "rashly engage in war, unless it be either to defend themselves, or their friends from any unjust aggressors; or out of good nature or in compassion assist an oppressed nation in shaking off the yoke of tyranny." They counted as "just" causes of war an "inroad" made by one neighbor upon another, or an oppression by one country of the merchants of another. However, if the merchants of Utopia were the oppressed, they would merely "forbear trading with such a people."[66] If any Utopians were injured by either the government or private citizens of a neighboring state, Utopia demanded that the guilty parties be delivered up; and, if they were not, war was declared. As previously noted, the Utopians considered it a just cause of war for a neighboring country with a surplus of land to resist attempts at colonization.

While there is every indication that wars were numerous and bloody, the Utopians resorted more to "dexterity" than to bloodshed in waging war. Sheer force was resorted to by animals, and the Utopians reserved special honors for that man who "conquers his enemy in such a way as that no other creature but a man could be capable of, and that is by the strength of his understanding." In practicing trickery in the conduct of war, they secretly post in the enemy country offers of great rewards to any citizen who kills or delivers to them the prince or other important personages; they induce the prince's brother or some noble to aspire to the crown, thus sowing "seeds of contention among their enemies"; they stir up old enmities between other neighbors and the enemy nation.[67]

Having attained victory, the Utopians "kill as few as possible, and are much more bent on taking many prisoners than on killing those that fly before them." "If they agree to a truce, they observe it religiously." "They never lay their enemies' country waste . . . for they do not know but that they may have use for it themselves." When a town is surrendered to them they kill only those "that opposed the rendering of it up," the rest of the garrison being enslaved. After a war has ended they take reparations from the enemy either in money or in lands. These revenues are paid to Utopians who are sent to collect them and who are instructed to "live magnificently, and like princes, by which means they consume much of it upon the place; and either bring over the rest to Utopia, or lend it to the nation in which it lies."[68]

Travel

In Utopia anyone who wished to travel to visit friends or see the country had to have a permit with a time limit from a Syphogrant or Tranibor.

[66] *Ibid.*, pp. 207–208. As provided in modern "sanctions" and "neutrality legislation."

[67] *Ibid.*, pp. 208–210.

[68] *Ibid.*, pp. 213–215. Their method of solving the transfer problems which so baffled those modern governments which attempted to collect inter-Allied and reparations debts following the First World War.

Each traveler was supplied with a wagon and a slave but carried no provisions, since wherever he wished to stop he was treated as a member of the family. If a traveler stayed in one place more than one night he was to follow his occupation while there. Traveling without license was punished, upon first offense, by being "sent home disgracefully," and, upon second offense, by being condemned to slavery.[69]

The Ultimate Goal

The Utopians were seekers after happiness—a sort of natural happiness. "Thus, as they define virtue to be living according to Nature, so they imagine that Nature prompts all people on to seek after pleasure, as the end of all they do." "Thus, upon an inquiry into the whole matter, they reckon that all of our actions, and even all our virtues, terminate in pleasure, as in our chief and greatest happiness: and they call every motion or state, either of body or mind, in which Nature teaches us to delight, a pleasure, . . . for they say that Nature leads us only to those delights to which reason as well as sense carries us, and by which we neither injure any other person, nor lose the possession of greater pleasures."[70]

"They reckon up several sorts of pleasures, which they call true ones; some belong to the body and others to the mind. The pleasures of the mind lie in knowledge, and in that delight which the contemplation of truth carries with it; to which they add the joyful reflections on a well-spent life, and the assured hopes of a future happiness." The bodily pleasures include those of supplying the body with food, of satisfying "the appetite which Nature has wisely given to lead us to propagation of the species." the pleasure that arises from music, and pleasure which "results from an undisturbed and vigorous constitution of body." "But of all these pleasures, they esteem those to be most valuable which lie in the mind."[71]

These pleasures, however, were not to be pursued on an individualistic basis. "They also observe that in order to our supporting the pleasures of life, Nature inclines us to enter into society, for there is no man so much raised above the rest of mankind as to be the only favorite of Nature, who, on the contrary seems to have placed on a level all those that belong to the same species." Therefore "no man ought to seek his own conveniences so eagerly as to prejudice others." Utopians considered it virtuous to use one's "utmost endeavors to help forward the happiness of all other persons, . . . there being no virtue more proper and peculiar to our nature, than to ease the miseries of others, to free from trouble and anxiety, in furnishing them with the comforts of life." On the other hand, "no man can be more bound to look after the good of another than after his own; for Nature cannot direct us to be good and kind to others, and yet at the same time to

[69] *Ibid.*, pp. 178–179.
[70] *Ibid.*, pp. 187–188.
[71] *Ibid.*, pp. 191–193.

be unmerciful and cruel to ourselves."[72] In Utopia there prevailed that natural balance between self and others, between individual and society, that fostered the greatest conceivable happiness of humankind.

QUESTIONS FOR CLASS DISCUSSION

1. It is often suggested that utopians are impractical visionaries. Could this be said of Sir Thomas More?
2. Around what institutions did More's criticisms of contemporary England center?
3. To what did More attribute much of the crime of his day? How does this compare with modern theories of crime causation?
4. Was the education More proposed for Utopia of a utilitarian or a cultural nature?
5. How were educational opportunities distributed in Utopia?
6. What incentives were used in Utopia to get people to work?
7. What economic aspects did human slavery have in Utopia?
8. Contrast the way in which the Utopian citizen acquired consumption goods with the way this occurs in our society.
9. Did More believe that it was possible to change human nature? If it could be changed, what was the most effective method?
10. Why did the Utopians as individuals hold gold in so little esteem?
11. Did Utopia have a democratic government? Illustrate.
12. Did More admit the importance of the economic causes of war?
13. Were the goals of the Utopian society materialistic?

SUBJECTS FOR STUDENT REPORTS FOR PART III

1. A Description of the Economic Institutions of My Ideal Society.
2. The Utopia of Charles Fourier.
3. The Utopia of Edward Bellamy.
4. The Influence of Edward Bellamy upon American Political Programs.
5. A Chronological Bibliography of Published Utopias.
6. A Comparison of Certain Selected Recent Utopian Writings with Those of Sir Thomas More.
7. A Comparison of the Proposals in Recent Programs of the Socialist and Communist Parties with the Chief Features of More's Utopia.
8. A History of a Selected Utopian Community.
9. A Résumé of the Utopian Writings of H. G. Wells.
10. The Influence of Charles Darwin upon Human Thought.

SUGGESTIONS FOR FURTHER READING FOR PART III

Andrews, C. M. (ed.), *Famous Utopias,* Tudor, New York. (This book contains the complete texts of Rousseau's *Social Contract,* More's *Utopia,* Bacon's *New Atlantis,* and Campanella's *City of the Sun.*)

Beard, Charles A. (ed.), *A Century of Progress,* Harper, New York, 1933.

Bellamy, Edward, *Looking Backward,* Houghton Mifflin, Boston, 1898.

[72] *Ibid.,* p. 187.

Bury, J. B., *The Idea of Progress,* Macmillan, New York, 1920, rev. ed., 1932.

Davis, Jerome, *Contemporary Social Movements,* Appleton-Century, New York, 1930; Part II, Utopias. (Pages 64 to 68 contain an extensive bibliography of Utopian writings.)

Ely, Richard T., *French and German Socialism in Modern Times,* Harper, New York, 1883.

Fourier, Charles, *Selections from the Works of Fourier,* translation by Julia Franklin, Sonnenschein, London, 1901.

Hertzler, J. O., *The History of Utopian Thought,* Macmillan, New York, 1923.

Kent, A., *Cooperative Communities in the United States,* U. S. Department of Labor, Bulletin No. 35, July, 1901.

Laidler, Harry W., *Social-Economic Movements,* Crowell, New York, 1944; Part I, Utopianism and Its Precursors.

Mumford, Lewis, *The Story of Utopias,* Boni and Liveright, New York, 1922. (Pages 312 to 315 contain a bibliography of Utopian writings.)

Part IV

The Marxian Theory of Socialism and Communism

Chapter 8

THE LIFE OF MARX; HIS PHILOSOPHY AND INTERPRETATION OF HISTORY

The Nature of Marxian Theory

To most of the world Karl Marx and his theories were and have remained an enigma. While their tremendous influence upon human thought appears indisputable, many consider the man and his theories fanatical. Although discussions of Marxism have engaged millions of participants throughout the world, relatively few have read, and fewer still have in any measure understood, the Marxian writings. Accepted by some as religious dogma, they are condemned by others as the products of a crackbrained fool; whereas they sometimes are considered so idealistic as to be worthless, they also are damned as crass materialism. While some have held that their significance is limited to certain epochs and places, others have found in Marxism the basic and universal explanations of all important historical events. In some sections of the modern world students are forbidden the study of Marx's works since there they are considered the very antithesis of truth, while in other parts all except Marxism is heresy. Marx has been interpreted, reinterpreted, added to, and subtracted from by his "followers," who have never come to any complete agreement as to what he meant. Even while he wrote, Marx and his close collaborator Engels repudiated as unorthodox many doctrines their adherents ostensibly gleaned from Marxian thought. Only death saves Marx from the pains he would experience as the titular father of the heterodoxy of theories which today are known as Marxism.

Despite all this, or possibly because of it, the modern student of economic movements must attempt to understand Marxian theory. It forms the theoretical foundations of modern socialism and communism, and constitutes a portion of the background of fascism and the cooperative movement. As already hinted, it is no easy task to grasp Marxian theory. To make the confusion created by his interpreters still more confounding, Marx himself was ambiguous and vague in his writings. Some key points

in his theories were left undeveloped while he took excursions into pet ramifications of the main stem of his reasoning. In no one work did Marx set forth an organized, consistent, and comprehensive statement of his system of thought. The Communist Manifesto, which he and Engels prepared as the program of the League of Communists, outlines the broad sweep of his conclusions on the nature and future of the capitalist economy, but it does not reveal the close reasoning a careful student seeks as support for such assertions. Although apparently Marx intended to include such an exposition in his *Capital,* this work leaves much to be desired. Only one of the proposed three volumes was completed prior to Marx's death, leaving Engels to write two additional volumes from Marx's notes. Abstruseness, labyrinthian reasoning, and some inconsistencies feature this volume, which in hybrid fashion combines masses of deductive reasoning with extended surveys of current and historic data which Marx considered empirical support for his conclusions.

While much that is accepted today as orthodox Marxism bears only a stepchild relationship to Marx, there is a certain body of theory that represents the thread of Marxian thought. This will be summarized in succeeding paragraphs. After a preliminary glimpse at the biographical facts of Marx's life we shall note the general nature of his approach by studying the Marxian dialectical method and the economic interpretation of history. We shall then proceed through Marx's analysis of the origins of the capitalist system to his description of the chief processes and phenomena which feature capitalist production. We shall review his theory of commodity values and his theory of wages which, taken together, support the theoretical existence of "surplus value." These theories are then extended into explanations of the formation and accumulation of capital. We shall then examine the numerous consequences which Marx contends flow from these capitalist processes and will culminate in the destruction of capitalism. There will follow a résumé of the establishment of the dictatorship of the proletariat and socialism, and then full communism, as steps in social evolution. The place of the proletariat and the Communist party in the developments will be noted. Completing the analysis of Marxian theory, we shall consider its strength and weakness.

THE LIFE OF KARL MARX

Marx's Family and Residence

The *Encyclopaedia of the Social Sciences* summarizes the life of Marx as follows: "Karl Marx (1818–83), social philosopher, revolutionary leader and founder of the chief current in modern socialism." The principal biographical facts concerning the setting of his life may be noted briefly. Marx was born in southeastern Germany of Jewish parents. His father was a lawyer, his paternal grandfather a German rabbi, and his

mother a descendant of a Dutch rabbi's family. His father had "acquired a respectable practice" but had "never learnt the art of making money."[1] When Marx was very young his family turned from the Jewish faith to Christianity.

After completing elementary school in his native German town, he spent one year at the University of Bonn and about four years at Berlin University, receiving a Doctor of Philosophy degree from the University of Jena. After remaining in Germany for several years he moved to Paris. In 1845 he was forced by the Prussian government to leave France, and he settled for three years in Brussels. The Belgian government, fearing his revolutionary propensities, forced him to remove to Paris. Later in the same year he returned to Germany, thence to Paris, and finally, in 1849, took up residence in London where he remained.

Marx as Journalist

This constant moving about during the decade of the forties was largely involuntary. Marx's revolutionary doctrines were feared by the European governments during those unsettled years, and on several occasions he found himself an unwelcome resident of his native country or an equally unwelcome alien in a foreign country. Moreover, during these years the chief sources of Marx's meager living were journalistic activities. The high mortality rate of these projects was due to the opposition of the established régimes and the financial weakness of the journals with which he was connected.

Immediately after receiving the doctorate at Berlin, Marx free-lanced for various journals. His work attracted the attention of the editors of a liberal newspaper in the Rhine provinces, and at the age of twenty-four he became its editor. Voluntarily retired from this post a year later, he became editor of the *Franco-German Year Books*, to be published in Paris as an organ for the expression of criticism of social institutions. The project failed to produce more than one issue, in which was included an article by Friedrich Engels, later to become Marx's close collaborator.[2] After an intervening

[1] M. Beer, *The Life and Teaching of Karl Marx*, Parsons, London, 1921, p. 31.

[2] "Engels, Friedrich (1820–1895), social theorist and revolutionist. Engels shares with Marx the distinction of being the founder of scientific socialism. He was born in Barmen, Germany, of a prosperous commercial family. Although reared in an intensely pietistic Protestant atmosphere he soon broke completely with his religious traditions. . . . In 1842 he left Germany to take a position with a firm in Manchester, England, in which his father had shares; there he acquired a knowledge of *laissez-faire* economics. . . . He also wrote at this time for Chartist and Owenite papers. In the fall of 1844, when in Paris on his way to Germany, Engels met Marx, whom he had previously known in 1842, and their lifelong friendship and intimate collaboration began. . . . The years from 1845 to 1850 he spent in France, Germany and Belgium, organizing the underground revolutionary groups and collaborating with Marx on various publications including the Communist Manifesto. . . . After 1850, when hope of immediate revolution in Europe faded, he reluctantly returned to England to engage in business and from

period of study and writing, Marx became editor of another Rhenish paper with an opposition policy. After a year this failed financially and Marx's outstanding bills exhausted his limited resources. Throughout these years and later, Marx carried on many additional sporadic journalistic activities. In addition to writing for European journals he was for a time European correspondent for the New York *Tribune.*

Financial Status

These endeavors yielded Marx neither a large nor a stable income. Several years after leaving Berlin University he married the daughter of a privy counselor residing in his native city. His wife, who came from a middle-class family, and the three of their children who grew to maturity shared Marx's financial insecurity which at times approached poverty. The pawnshop was used regularly to tide over the worst crises in the family's fortunes. It is said that at one time Marx pawned his only coat to pay for paper needed for a manuscript in preparation. During the latter portion of his life, which was spent in London, Marx was in better economic circumstances. This was due to his friends rather than his own efforts. He was given a legacy by a friend who thought well of his work, and for a substantial period of time he received an annual stipend from his collaborator Engels who owned a prosperous family business.

Marx as Student

Beside the journalistic, two threads weave themselves through Marx's life; he was a student and a revolutionary leader. Always and everywhere Marx was the student. As a youth of seventeen he entered the University of Bonn to study law, a career more the choice of the father than the son. After one year, Marx transferred to Berlin University where he broadened his studies to include philosophy, literature, history, and art. During these years he increasingly lost interest in legal study and was drawn irresistibly to philosophy. This, together with his withdrawal from all university activities except the intellectual, brought censure from his father, who recommended that his son follow the example of his fellow students. He advised as follows:

Indeed these young men sleep quite peacefully except when they now and then devote the whole or part of a night to pleasure, whereas my clever and gifted son

his income he was able to provide for Marx while the latter was engaged in writing *Das Kapital.* He retired from business in 1869 and devoted the rest of his life to literary and practical revolutionary activity. He was a member of the General Council of the First International and played an important part in the early years of the Second International. In this period he developed the philosophy and sociology of Marxism, and after Marx's death edited the second and third volumes of *Das Kapital* from rough drafts and notes left by Marx." Sidney Hook, in *Encyclopaedia of the Social Sciences,* vol. v, pp. 540–541.

Karl passes wretched sleepless nights, wearying body and mind with cheerless study, forbearing all pleasures with the sole object of applying himself to abstruse studies: but what he builds today he destroys again tomorrow, and in the end he finds that he has destroyed what he already had, without having gained anything from other people. At last the body begins to ail and the mind gets confused, whilst these ordinary folk steal along in easy marches, and attain their goal if not better at least more comfortably than those who contemn youthful pleasures and undermine their health in order to snatch at the ghost of erudition, which they could probably have exercised more successfully in an hour spent in the society of competent men—with social enjoyment into the bargain![3]

Apparently this parental advice fell on deaf ears, for Marx continued exclusively an intellectual during his university days. He spent much time in the realm of philosophy, outlining for himself whole systems of thought and taking his principal interest in the philosophy of the German Hegel. A "Graduates Club" at the university afforded him the desired opportunity for intellectual companionship and controversy. In fact, at this time Marx hoped to follow an academic career. After receiving his doctorate at Berlin he applied for a lectureship at the University of Bonn. It was only after he failed to secure this, because of his nonconformist thinking, that he turned to journalism.

Although Marx remained an intense student throughout his life, these early studies, particularly in the realm of philosophy, were his most important. In accepting basically a Hegelian philosophy, he adopted certain positions, assumptions, and points of view which vitally influenced all his further studies. It is true that these philosophical conceptions were not hastily accepted by Marx. It was through the most laborious and searching studies of philosophical systems that he arrived at the one which to him seemed adequate. However, it is also true that, once having adopted the theses of this philosophy, he retained them substantially unchanged throughout his life. Although he continued to be an omnivorous student of human affairs, whatever the conclusions his later studies dictated, they were always fitted into the mold of these early-adopted philosophical concepts. It would be interesting to speculate whether these candidly accepted philosophical principles made Marx a less scientific and more biased student of human affairs than others of his time and since have been, or whether he merely adopted his bias or his philosophy more systematically and more openly than have others. At least Marx reveals fully the philosophical positions from which his analysis starts; there is no subtle concealment of predetermined assumptions.

In the decade immediately following this early philosophical study, Marx studied contemporary socialist literature, largely French and English. During the middle years of the century there was a great volume of writing critical of existing social institutions. Through these influences,

[3] M. Beer, *The Life and Teaching of Karl Marx*, p. 39.

Marx became a socialist, although not in the utopian sense. Early in these studies he was convinced that socialism was to come only through the operations of social processes whose workings he must understand.

During his decade of shifting residence, Marx took every opportunity to study local economic phenomena, and to fit his findings into his philosophical scheme. At Brussels he used the extensive library of his friend Engels. After moving to London, and prior to the publication of *Capital,* Marx is reported to have spent some ten years of incessant study in the British Museum. He stayed from the opening to the closing hour, searching out masses of detailed descriptions of economic processes and institutions prevailing throughout the centuries.

Marx appears considerably more striking in the role of student than as journalist. Most of the energy of his life went into the youthful formulation of his philosophical skeleton and the later avid study of the economic aspects of human life from which he filled out the body of Marxian theory.

Marx as Revolutionist

Marx the revolutionary leader is less well known than Marx the journalist, or Marx the student. While a relatively small portion of his efforts went directly into it, the organization of the working classes was the ultimate objective of his life. Although feeling deeply the necessity and the desire to engage in the active struggle to free workers from their bondage, Marx's abilities along this line appear to have been meager. While a student at Berlin, Marx, who was given to writing poems and short stories, penned what was probably a deeply felt desire:

> Let us not in base subjection
> Brood away our fearful life,
> When with deed and aspiration
> We might enter in the strife.[4]

During his movements about Europe in the 1840's Marx kept in contact with groups of dissatisfied workingmen who desired comprehensive and fundamental changes in the economic and political spheres. These groups usually were composed of workingmen who had emigrated from Germany. They maintained a loose international organization, known as the "League of the Just," through which local observations were communicated from group to group. During his residence in Brussels, this organization got in contact with Marx, and late in 1847 at a conference which both Marx (who was twenty-nine years old) and Engels (who was twenty-seven) attended, they were requested to prepare a program for the League. This organization later was known as the "League of Communists," and the program

[4] Quoted by Harry W. Laidler, *A History of Socialist Thought,* Crowell, New York, 1927, p. 153.

prepared by Marx and Engels was the "Communist Manifesto." The term "Communist" was chosen to distinguish the League and its program from various utopian and social reformist groups which then were known as socialists and for whose doctrines Marx had no respect.

Coincidental with the appearance of the Communist Manifesto, the French Revolution of 1848 occurred. There were outbursts shortly thereafter in Vienna, Italy, and the German provinces, while in Switzerland and England there were demands for drastic governmental changes. These disturbances led the established governments to crush out all signs of revolutionary working-class activity. The leaders of the Communist League were imprisoned and the organization dissolved.

For many years after this brief contact with a working-class organization, Marx devoted himself to study and writing in London, where, in 1864, he represented German workingmen at an international conference. Here was organized the "International Workingmen's Association," commonly referred to as the "First International." During that year Marx delivered several addresses and communications to this International and drew up a statement of its principles. The International was composed of various factions holding different views as to how the working-class interests could best be promoted, and for a time the group led by Marx controlled its policies. Through the International he gave advice (which was not followed) to the French workers during their revolt in 1871. After the fall of the Paris Commune in that year, Marx, who was then general secretary of the International, advised that the headquarters of the organization be established in New York City. When this was done, Marx resided for a brief period in the United States. Controversies within the organization and the failure of revolutionary activities in France had so weakened the International that it expired in 1876.

Thus it appears that Marx, while sensing the interrelationship between organized revolutionary activities and doctrines, and while demonstrating a readiness to throw his energies into the promotion of such activities, was unable to breast the counteracting forces at work in the world of action and of thought. The experiences and contacts of these years played an important part in the formulation of his theories. However, just as his journalistic activities failed to result in any enduring working-class organ of propaganda, so his organizational efforts and leadership failed to create any lasting working-class agencies of revolution. We are thus left with Marx the student and writer. These aspects of Marx's work have endured and exercised world-wide influence. We therefore turn to a somewhat extended account of Marxian theory.[5]

[5] The numerous quotations from Marx, Engels, and Lenin which appear in the succeeding exposition of Marxian theory are for the purpose (1) of giving the student some familiarity with the writing styles of these men, and (2) of making sure that Marxian theory is presented accurately.

PHILOSOPHY

The Hegelian Basis

The philosophical bases of Marx's thought were laid early and remained unchanged throughout his life. As a student, Marx accepted the philosophy of the German Hegel as the only sound and adequate explanation of the universe. According to this philosophy, "the only immutable thing is the abstraction of movement."[6] The one universal phenomenon is change, and the only universal form of this phenomenon is its complete abstraction. Thus, Hegel accepted as real only that which existed in the mind. Objective phenomena and events were of no consequence; only the conceptions of them possessed by human minds were real. Ideas, not objects, were the stuff of which the universe was made. The universe and all events therein existed and transpired only in the mind, and all change was a change in ideas. Therefore, to account for these changes in ideas was to account for change in the universe.

In the Hegelian philosophy no idea could exist without an opposite. Thus the idea of "light" could not exist unless there was an idea of "darkness," nor "truth" without "falsity," nor "high" without "low." If an idea was labeled a "thesis," its opposite would be its "antithesis." Consequently, in this realm of the mind within which the universe had its only real existence, innumerable theses and antitheses existed. Struggle or conflict was the inevitable fact in such a universe—conflict of the thesis and its antithesis. In this struggle thesis and antithesis acted and reacted upon each other, and a new phenomenon—a "synthesis"—was created. All action or change occurring in the universe was, under the Hegelian philosophy, the product of thesis, antithesis, and resulting synthesis—all in the realm of ideas, since objective reality could exist only in that sphere. Since this process was universal and never-ending, it offered a complete explanation of the causal processes creating all phenomena within the universe.

Modification by Marx

The fundamental idea of change occurring as a synthesis of opposing forces Marx accepted as the germ of the universal truth which he as philosopher sought. However, he found unacceptable the Hegelian assumption that these conflicting opposites had realistic existence only in the mind of man. Marx consequently accepted the one portion of Hegel's philosophy and rejected the other.

[6] Karl Marx, "The Poverty of Philosophy," *Handbook of Marxism,* p. 355. The *Handbook of Marxism,* E. Burns, compiler, published by Random House in 1935, is an excellent collection of excerpts from the writings of Marx, Engels, Lenin, and Stalin. It presents original text material taken from various books and documents, with brief notes explaining the significance of each selection. Since this volume constitutes a most useful book for students who wish to read further in Marxian theory, page references to the Marxian writings, except for direct references to *Capital,* are to the *Handbook.*

To Marx the thing which the mind perceived was reality in itself. Objective existence was exterior to the mind of man, and ideas were the reflections of those exterior phenomena. The phenomena to be explained were therefore the objective events in the universe and not the ideas of those events residing within the mind. It might be said that Marx rejected Hegel's idealism and substituted for it realism. The thesis and antithesis became to Marx actual opposing forces existing in the universe, with a synthesis as the resulting objective phenomenon which, becoming in its turn thesis or antithesis, played its part in the creation of a new synthetic phenomenon. That this realism constituted a vital modification of the Hegelian system is attested by the numerous clashes Marx had with the followers of the more purely idealistic Hegel. Whereas the latter never departed from the realm of mental images, Marx set out to study the operation of this (to him) universal truth in the everyday events of the world of human affairs. Thus Marx adopted what is usually referred to as the "Marxian dialectic" as the most useful tool wherewith to gain an understanding of the universe.

Limitation by Marx

The Marxian dialectic is a universal explanation in two senses. First, it constitutes a philosophical explanation of all categories of realistic phenomena. It could be applied to physical, chemical, astronomical, mathematical, geological, and all other phenomena, as a universal explanation of what exists and is transpiring in the universe. Second, it includes the mind of man as a part of the universe within which change through thesis, antithesis, and synthesis constitutes the never-ending creative process. There is nothing within the dialectic itself which excludes any category of phenomena from its scope, nor is there anything in it which gives special place to any particular type of phenomena as occupying a more creative or deterministic position than any other.

Marx placed two limitations upon the dialectic as he came to apply it in his studies. First, while admitting that it constituted a universal explanation of all phenomena, he had no interest in applying it outside the field of social institutions and processes. Indeed, it would be impossible for any student to apply a philosophical concept intensively to any but a limited field of phenomena.

Furthermore, within the scope of social institutions and processes, Marx contended that *one* species of phenomena had incomparably greater creative potentialities than any other. These were the economic phenomena or, to use a Marxian term, "the mode of production." According to Marx, it was within this economic realm that the *basic* theses, antitheses, and syntheses existed, while all social institutions were the offshoots of economic forces. Since the basic philosophical assumption from which Marx starts

does not include any corollary which makes economic forces superior to any other, this aspect of the Marxian approach must be examined further.

INTERPRETATION OF HISTORY

Marx's Purpose

Marx's interpretation of history constitutes an integral part of Marxian doctrine. It was his intent to peer into the future and to determine what historical fate was in store for the capitalist system. Only by understanding the forces which *have caused* historical events could the forces which *would cause* future events be envisaged. For this reason Marx sought the ultimate or basic causes of historical events.

To seek out the creative forces in history was somewhat more novel and daring in Marx's day than it is now, when so many historians are vitally interested in studying the causes of historical events. Marx attempted to do something which neither historians nor economists had done. Historians had recorded events and economists had explained causes of economic events in specific historical settings without analyzing the creation of these settings. Lenin has summarized as follows the questions which Marx felt had to be answered:

"People make their own history; but what determines their motives, that is, the motives of people in the mass; what gives rise to the clash of conflicting ideas and endeavors; what is the sum total of all these clashes among the whole mass of human societies; what are the objective conditions for the production of the material means of life that form the basis of all the historical activity of man; what is the law of the development of these conditions?"[7]

If history may be presumed to have a significant economic slant, it might be supposed that the economists would have sought out the laws of historical development, particularly in the field of economic phenomena. Marx found this not to be the case. He expressed this deficiency in "The Poverty of Philosophy," when he wrote:

"Economists explain how production takes place in the above-mentioned relations, but what they do not explain is how the relations themselves are produced, that is, the historical movement which gave them birth."[8]

Other Interpretations of History

Marx dealt, and then only briefly, with two theories of history other than his own. These may be referred to as the "idealist" and the "providential." The former held that historical events were the products of human ideas—that these ideas were the original creative stuff from which, in their complex intermingling, historical events flowed. Marx held this

[7] V. I. Lenin, "The Teachings of Karl Marx," *Handbook of Marxism*, p. 545.
[8] *Handbook of Marxism*, p. 350.

explanation to be entirely inadequate. He contended that ideas cannot exist as pure products of a brain, that "the idea is nothing else than the material world reflected by the human mind, and translated into forms of thought."[9]

Engels, repeating the same thought, wrote that "the products of the human brain, being in the last analysis likewise products of nature, do not contradict the rest of nature, but correspond to it."[10] Writing further, he described the idealists as forced to the untenable position "that spirit existed before nature," and since they therefore have no explanation for the *greatest* of all historical events, the creation of the world, they "*assume* in one way or another that the world was created."[11]

Marx had only scorn for the theory that some providential person or force ruled the universe, creating historical events as mere extensions of its omnipotent will. In his "Poverty of Philosophy," he gave this theory the brief attention which he thought it deserved when he wrote:

"Providence, providential aim, this is the great word used today to explain the movement of history. In fact, this word means nothing. It is at most a rhetorical form, one of the various ways of paraphrasing facts."[12]

To express his utter contempt for the providential theory, Marx wrote the following paragraph of what he held would be "providential history":

> It is a fact that in Scotland landed property acquired a new value by the development of English industry. This industry opened up new outlets for wool. In order to produce wool on a large scale, arable land had to be transformed into pasturage. To effect this transformation, the estates had to be concentrated. To concentrate the estates, small holdings had first to be abolished, thousands of tenants had to be driven from their native soil and a few shepherds in charge of millions of sheep to be installed in their place. Thus, by successive transformations, landed property in Scotland has resulted in the driving out of men by sheep. Now say that the providential aim of the institution of landed property in Scotland was to have men driven out by sheep, and you will have made providential history.[13]

Stated by Marx and Engels

In the preface to his "Critique of Political Economy," Marx wrote as follows:

> My investigations led to the conclusion that legal relations as well as forms of

[9] Author's preface to the second edition of *Capital,* p. 25. The Modern Library edition of Volume I of *Capital* probably is the most convenient and available edition for students. Hence, page references herein are to that edition. Unless otherwise indicated all references are to Volume I.

[10] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism,* p. 539.

[11] Friedrich Engels, "Ludwig Feuerbach," *Handbook of Marxism,* p. 539. Italics ours.

[12] *Handbook of Marxism,* p. 364.

[13] *Ibid.,* p. 364.

state could not be understood from themselves, nor from the so-called general development of the human mind, but, on the contrary, are rooted in the material conditions of life . . . that the anatomy of civil society is to be found in political economy. . . . The general conclusion I arrived at—and once reached, it served as the guiding thread in my studies—can be briefly formulated as follows: In the social production of their means of existence men enter into definite, necessary relations which are independent of their will, productive relationships which correspond to a definite stage of development of their material productive forces. The aggregate of these productive relationships constitutes the economic structure of society, the real basis on which a juridical and political superstructure arises, and to which definite forms of social consciousness correspond. *The mode of production of the material means of existence conditions the whole process of social, political, and intellectual life.*[14]

Marx's collaborator Engels has closely paraphrased Marx in his *Anti-Dühring*. There he describes the economic interpretation of history as follows:

"According to this conception, the ultimate causes of all social changes and political revolutions are to be sought, not in the minds of men, in their increasing insight into eternal truth and justice, but in changes in the mode of production and exchange; they are to be sought not in the *philosophy* but in the *economics* of the epoch concerned."[15]

Modern Statements

Many modern writers have sought to summarize lucidly this theory of history. Few, if any, have been able to improve upon the attempts of Marx and Engels. Harry W. Laidler, in his *History of Socialist Thought,* gives a concise summary of the theory, as follows:

"The materialist or economic interpretation of history . . . means that in any given epoch the economic relations of society, the means whereby men and women provide for their sustenance, produce, exchange, and distribute the things they regard as necessary for the satisfaction of their needs exert a preponderating influence in shaping the progress of society and in molding political, social, intellectual and ethical relationships."[16]

Professor Bober, who has devoted an entire volume to *Karl Marx's Interpretation of History,* summarizes the theory as follows: ". . . Production is the alpha and omega of history, all else is a vexatious parenthetical digression. Except for slight modifications, retardations or accelerations brought about by other agencies, the mode of production is the prime cause of history, the sole cause."[17]

[14] *Ibid.,* pp. 371–372. Italics ours.

[15] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism,* p. 279.

[16] Harry W. Laidler, *History of Socialist Thought,* p. 199.

[17] M. M. Bober, *Karl Marx's Interpretation of History,* Harvard University Press, Cambridge, 1927, p. 274. Quotations from this book are used by permission of the President and Fellows of Harvard College.

Scientific Nature

It is clear that Marx and Engels considered economic forces as operating with the inevitability of natural laws. Two brief statements emphasize this:

"It is a question of the laws themselves, of these tendencies working with iron necessity toward inevitable results. The country that is more developed industrially only shows, to the less developed, the image of its own future."[18]

"The forces working in society work exactly like the forces operating in nature: blindly, violently, destructively, so long as we do not understand them and take them into account."[19]

Marx and Engels thought of the economic interpretation of history as scientific and realistic. There is some justification for their attitude when this theory is compared with others of their day. In a joint work on *German Ideology*, Marx and Engels press this point as follows:

"In direct contrast to German philosophy, which descends from heaven to earth, here the ascent is made from earth to heaven. That is to say, we do not start from what men say, imagine, conceive, nor from men as described, thought of, imagined, and conceived, in order thence and thereby to reach corporeal men; we start from real, active men, and from their life-process also show the development of the ideological reflexes and echoes of this life-process."[20]

In more absolute terms, Engels refers to the Marxian method as "positive science":

"If we deduce the world schematism not from our minds, but only *through* our minds from the real world, deducing the basic principles of being from what is, we need no philosophy for this purpose, but positive knowledge of the world and of what happens in it; and what this yields is also not philosophy, but positive science."[21]

Meaning of the "Mode of Production"

The economic interpretation of history sometimes has been made to appear absurd by a too narrow interpretation of the phrase "mode of production." If this were taken to mean merely the technique of production—that is, the kind of tools and machinery used—it would be ridiculous to argue that all social institutions take their form and content from such a narrow base. There is plenty of evidence in Marxian writings that "mode of production" means something much broader than the technique of production. Professor Bober, a severe critic of the Marxian theory of history, holds that labor and land are just as much a part of Marx's concept

[18] Karl Marx, *Capital*, p. 13.
[19] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 294.
[20] *Handbook of Marxism*, p. 212.
[21] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 234.

"mode of production" as is the technique of production.[22] "Thus the general nature of the laborer and the grouping of the workers in a scheme of division and of cooperation of labor characterize a mode of production and exert a powerful influence on it."[23] Changing productiveness of the workers may exert powerful influences upon the nature of production. The organization of workers is similarly important. The characteristics of the available natural resources, as, for instance, the abundance or lack of a certain type of power, such as wind or water, the presence or absence of raw materials of good or poor quality, must be included in the Marxian "mode of production." Moreover, each of these varying characteristics of technique, labor, and land reacts upon the other so that the existing mode of production includes elements which are the result of interactions of the basic agents of production.

Engels, in summarizing his conception of the economic interpretation of history, made "changes in the mode of production *and exchange*"[24] the basis of change in social institutions and processes. The fact that Engels read to Marx the entire manuscript from which this is taken is proof of Marx's approval of this extension of the "mode of production." Marx himself referred to an "aggregate of production relationships" as constituting the "economic structure of society, the real basis upon which a juridical and political superstructure arises, and to which definite forms of social consciousness correspond."[25]

It is not far from the original Marxian thought to phrase the economic interpretation of history as follows: In a given situation in which certain natural resources, human resources, and technical knowledge of processes prevail, the economic processes of production, exchange, distribution, and consumption will come to be organized into certain institutions primarily of a social sort, since they involve relationships among men. The totality of these relationships, including of course innumerable interactions among them, constitute as a whole the "mode of production" which will set the form and content of all other social institutions. Changes in any one or more of the elements included within this "mode of production" will be reflected in changes in social institutions and processes, and thus all historical events find their basic or prime causes in changes in the "mode of production."

Time Limitation

In passing, it should be noted that, as G. D. H. Cole has pointed out,[26] this interpretation of history explains events only within a civilization.

[22] M. M. Bober, *Karl Marx's Interpretation of History,* chap. 2.

[23] *Ibid.,* p. 17. The remainder of this paragraph merely paraphrases Professor Bober.

[24] Italics ours.

[25] Karl Marx, "Critique of Political Economy," *Handbook of Marxism,* pp. 371–372.

[26] G. D. H. Cole, *What Marx Really Meant,* Knopf, New York, 1934, pp. 35–36.

Engels refers to this theory as applicable to "a given historical period."[27] Thus the economic interpretation of history does not hold *all* history to be a continuous process dominated by changes in the "mode of production." It does not, for instance, necessarily account for the historical change from the ancient civilizations to the modern on the basis of economic forces. It pretends only to account for a continuity of historical events occurring within an historical era. It is a universal explanation of history only within these limitations.[28]

Comprehensiveness

It is exceedingly important to realize the comprehensiveness of the influence of the "mode of production." Not a portion of the social organization, but all of it, is held to be determined by these economic relationships. Numerous passages from Marxian literature indicate that this was clearly the intent of Marx. For instance, he wrote: "In acquiring new productive forces men change their mode of production; and in changing their mode of production they change their way of earning their living—they change *all their social relations.*"[29] Engels emphasized this aspect of the economic interpretation of history in the following passage:

". . . The economic structure of society always furnishes the real basis, *the whole superstructure* of juridical and political institutions as well as of the religious, philosophical, *and other ideas* of a given historical period."[30]

Other references could be cited to show that Marx and Engels meant fully what they appear to say. Not only social institutions but man's ideas and ideals spring from economic foundations. A few representative statements may be noted:

> Your very ideas are but the outgrowth of the conditions of your bourgeois production and bourgeois property, just as your jurisprudence is but the will of your class made into a law for all, a will whose essential character and direction are determined by the economical conditions of existence of your class.[31]
>
> My standpoint, from which the evolution of the economic formation of society is viewed as a process of natural history, can less than any other make the individual responsible for relations whose creature he socially remains, however much he may subjectively raise himself above them.[32]
>
> We maintain . . . that all former moral theories are the product, in the last analysis, of the economic stage which society had reached at that particular epoch.[33]

[27] Quoted by M. M. Bober, *Karl Marx's Interpretation of History*, p. 283.

[28] However, neither Marx nor Engels clearly defined what he meant by "historical epoch" or "historical period."

[29] Karl Marx, "The Poverty of Philosophy," *Handbook of Marxism*, p. 355. Italics ours.

[30] Quoted by M. M. Bober, *Karl Marx's Interpretation of History*, p. 283. Italics ours.

[31] "Communist Manifesto," *Handbook of Marxism*, p. 41.

[32] Karl Marx, *Capital*, p. 15.

[33] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 249.

What else does the history of ideas prove than that intellectual production changes its character in proportion as material production is changed.[34]

But during this long period from Descartes to Hegel and from Hobbes to Feuerbach, the philosophers were by no means impelled, as they thought they were, solely by the force of pure reason. On the contrary. What really pushed them forward was the powerful and ever more rapidly on-rushing progress of natural science and industry.[35]

Relation of Economic to Other Forces

Students of Marxian theory have long been troubled over the question of whether Marx intended to make economic forces the sole determinants of historical events or merely the most important within a totality of heterogeneous forces. Marx's intention is clear; he will not be satisfied with any causal explanation of history except that it be a prime, original, or ultimate cause. It was in this sense that the "relations of production" or the "mode of production" became the ultimate factor in history. To modify Marxian theory so as to weaken this tenet is to destroy that concept of history which is essential to consistency within the Marxian system as a whole.

And yet such fatally weakening interpretations of Marx are constantly being made. For instance, G. D. H. Cole, in discussing the point already noted—that man's ideas are the product of economic forces—interprets Marx to mean that "the situation acts as a stimulus; for it suggests the starting from which we can alone work out the ultimate explanation of problems, and arouses the sense of need. But a stimulus does not necessitate a response. The universe is full of abortive stimuli."[36] This would appear to be a complete negation of the Marxian theory, for Mr. Cole implies that some non-economic force may determine which stimuli in the environment will induce a response and which will not. If, on the other hand, we were to assume that economic forces determine which stimuli will be effective and which will not, the "situation," presumably economic in Mr. Cole's meaning, not only acts as a "stimulus" but acts as the determinant of the idea. Either Mr. Cole, in this statement, rejects entirely the Marxian thesis of the origin of ideas in economic forces, or he admits it, merely choosing to state the thesis in more palatable phrases. In either case he adds no legitimate interpretation to the Marxian contention.

Indirect Operation of Economic Forces

The unwillingness of certain students of Marx to admit that he means what he says concerning the place of economic forces in history may arise from their failure to realize that this causal relation between the mode of

[34] "Communist Manifesto," *Handbook of Marxism*, p. 44.
[35] Friedrich Engels, "Ludwig Feuerbach," *Handbook of Marxism*, p. 218.
[36] G. D. H. Cole, *What Marx Really Meant*, p. 97.

production and social institutions and processes need not, in Marx's opinion, be either immediate, direct, or generally understood. Marx emphasized the evolutionary nature of social institutions and processes, and it is an inherent feature of evolutionary change that it takes place gradually, in a sense indirectly, and certainly unconsciously in that the ultimate sources and ends of the evolutionary process are not observed by onlookers at any one stage of the process.

The operations of the economic forces have inherent in them a time factor, an indirectness and an imperceptibility which Marx's economic interpretation of history comprehends. For instance, it would not be consistent with the economic interpretation of history to expect a new invention to be followed immediately by the creation of the full-blown economic relations which eventually may result from it. The invention takes place within an environment which consists of institutions—moral, legal, political, and others—all of which Marx contends change but slowly. Therefore it is perfectly consistent with Marxian theory to argue that these non-economic social institutions may have considerable bearing upon the time lag with which the changes ultimately to come from the invention are created. Thus non-economic factors may be operative in a time sense without affecting the vital causal connection between a change in the mode of production and the ensuing changes in social institutions and processes.

In another sense non-economic institutions may be operative without affecting the Marxian theory of history. There is nothing in this theory to deny the contention that, once non-economic institutions have crystallized from basic economic forces, they operate as independent forces modifying the "mode of production." Reverting to the realm of ideas, for instance, Engels points out that the very idea of "equality" is the product of historical development in which economic forces played the prime role.[37] However, once an idea of "equality" takes a certain place in man's mind it may modify the result which follows some change in the mode of production. An idea of "equality"—itself the product of economic forces—may substantially modify the manner in which the inventor or society uses a given invention. But note that in this case economic forces are still the prime forces working indirectly by creating ideas which in turn modify the operations of economic forces in determining social institutions and processes. When one allows for the almost infinite variety of interdependent relations and reactions between existing institutions—formerly created directly or indirectly by economic forces—and changes in the "mode of production," it becomes obvious that students of Marx may confuse the indirection of the effect of economic forces with the existence of what they believe to be independent non-economic prime causal forces.

Engels has stated this point so clearly and authoritatively that a quotation from his writings is pertinent:

[37] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 254.

According to the materialistic conception of history, the production and reproduction of real life constitutes in the *last instance* the determining factor of history. Neither Marx nor I ever maintained more. Now, when someone comes along and distorts this to mean that the economic factor is the *sole* determining factor, he is converting the former proposition into a meaningless, abstract, and absurd phrase. The economic situation is the basis. But the various factors of the superstructure—the political forms of the class struggles and their results, i.e., constitutions, etc., established by victorious classes after hard-won battles, legal forms, and even the reflexes of all these real struggles in the brain of the participants, political, jural, philosophical theories, religious conceptions which have been developed into systematic dogmas—all these exercise an influence upon the course of historical struggles, and in many cases determine for the most part their form. There is a reciprocity between all these factors in which, finally, through the endless array of contingencies (i.e., of things and events whose inner connection with one another is so remote, or so incapable of proof, that we may neglect it, regarding it as non-existent), the economic movement asserts itself as necessary. Were this not the case the application of the theory to any given historical period would be easier than the solution of a simple equation of the first degree.[38]

Similar confusion arises from the fact that the evolution of social institutions and processes takes place by imperceptible stages with imperceptible causal relationships. For instance, several writers have pointed out how the rise of Protestantism may have been a response in the field of religious institutions to economic forces at work in the world of that day. It is obvious that, if such causal relations did exist, they were not perceived by the participants in this struggle. To them the religious were the exclusive issues and the change was merely the self-evolving of an institution to meet a higher need than the one it was serving. Yet the fact that this historical event may have been so overlaid with certain mental images conceived in terms of the institution itself as to make the real prime causes of the change imperciptible does not change the basic nature of the causal forces.

QUESTIONS FOR CLASS DISCUSSION

1. Why should a student of modern economic movements and systems be familiar with Marxian theory?
2. The inclusiveness of the term "Marxian theory" is somewhat uncertain. In what sense and why?
3. Would you say that Marx was a man of restricted or broad training? Of wide or limited experience with the day-by-day affairs of the world? Of a scientific or a non-scientific turn of mind?
4. From what basic assumption or position do all of Marx's doctrines spring? Was this assumption an original contribution of Marx?
5. What is meant by an "interpretation of history"? Did Marx hold that there

[38] Quoted in Sidney Hook, *"Towards the Understanding of Karl Marx,* Day, New York, 1933, p. 179.

was just one interpretation of history or that there could be many? Would you agree?

6. What meaning did Marx attach to the phrase "mode of production," and how was this related to his interpretation of history?
7. Did Marx contend that his was an interpretation of history for an indefinite number of centuries into the past?
8. In what sense was Marx's interpretation of history also a theory of the origins of institutions? In his mind was it a theory of the origins of *all* institutions?
9. Did the basic causes of historical events, according to Marx, always operate directly and perceptibly? Of what significance is this in relation to some common misunderstandings of the Marxian interpretation of history?
10. Why is the Marxian interpretation of history sometimes referred to as "materialistic"?
11. How would Marx apply his interpretation of history to those important historical events known as "wars"? Illustrate from your knowledge of the circumstances surrounding some specific war.

Chapter 9

THE MARXIAN THEORY OF VALUE AND WAGES

THEORY OF VALUE

MARX AS ECONOMIST

HAVING studied Marx as a philosopher, and having traced his dialectic and his economic interpretation of history, we now consider him as an economist, analyzing the processes at work in the capitalistic economy of his day. How good an economist he was, or whether he should be called an economist at all, often has been questioned. Some commentators have argued that Marx's philosophy or revolutionary purpose and his economic theory cannot be separated because they are component parts of a whole.[1] Marx to them was not a scientific economist, seeking the true explanations of economic phenomena regardless of results or consequences. He was rather a revolutionist, explaining economic phenomena in a manner to induce his fellows to hate the economic system and overthrow it.

Moreover, Marx is often said to be a poor economist because his explanations of economic phenomena are in some respects (to be considered later) invalid in the light of more recent developments of economic theory. If this were to be made the test, the names of such eminent pioneers of economic science as Smith, Mill, Malthus, and possibly even Marshall, would have to be read out of the profession.

Despite these doubts, in purpose and method Marx has established himself as an economist. A mere reading of Marxian theory discloses his attempt at a valid explanation of economic phenomena, particularly those of value, price, and profit. When Marx dealt with economic phenomena his purpose quite apparently was the same as that of the modern economist —to find an objective, valid explanation of economic phenomena and their causal relationships as they exist within some historic era. Marx sought to explain what actually determined exchange values and wage rates, just as do modern economists in presenting value and wage theories. Indeed,

[1] Sidney Hook, *Towards the Understanding of Karl Marx*, p. 223; G. D. H. Cole, *What Marx Really Meant*, p. 206.

the close deductive reasoning and scattered inductive data presented by Marx in his theories of value, wages, and profits bear a striking resemblance to modern economic theory so far as their presentation is concerned.

Marx, moreover, felt that the valid explanations of economic phenomena lay deep beneath their surface manifestations. In discussing his explanation of value he remarks that "the same difference holds that holds in respect to all phenomena and their hidden substratum. The former [that is, the phenomena] appear directly and spontaneously as current modes of thought; the latter must first be discovered by science."[2] Such were Marx's purposes in analyzing economic phenomena, and such he thought were his accomplishments.

In several other respects Marx has earned the title of "economist." First, he spent many years on two types of study which are quite orthodox within the profession. His decade of study of economic data in the British Museum has been mentioned. He also studied intensively the leading economists of his day. His writings show that he was thoroughly acquainted with the works of such English economists as Petty, Smith, and Ricardo, and the French Sismondi.[3] Second—and this may be surprising to new students of Marx—when considered in the light of the economic science of his time, Marx was an orthodox economist. The bases of his theories of value and wages were, in fact, lifted bodily from contemporary orthodox schools of economic thought. The replacement of these partially correct and one-sided theories by more accurate, comprehensive, and well-balanced explanations of economic phenomena no more keeps Marx from being an economist of standing than the modern development of the half-truths of early natural sciences prevents their discoverers from being included in the ranks of scientists.

Use-value, Exchange-value, and Price

In analyzing the value-determining forces at work in the capitalist economy, Marx distinguishes clearly between two kinds of value: "use-value" and "exchange-value." The former means the usefulness a thing has to its possessor, its utility, or the pleasure or satisfaction derived by its possessor from its utilization. "Use-value" is a purely subjective thing, an abstraction which can exist quantitatively only in the mind of the user or prospective user of the thing, and then only as a plus or minus quantity relative to the similarly realized use-value of some other thing. By "exchange-value" Marx means the power of a thing to command all other things in exchange for itself, or "the proportional quantities in which it exchanges with all other commodities."[4] Since it is only exchange-value that he seeks to analyze, he commonly drops the prefix and uses just

[2] Karl Marx, *Capital*, p. 594.

[3] See Harry W. Laidler, *A History of Socialist Thought*, p. 204.

[4] Karl Marx, *Value, Price and Profit*, International Publishers, New York, 1935, p. 29.

"value." By "value" Marx means precisely the same thing the orthodox economist of today means when he uses that term in economics textbooks.

Marx points out that use-value and exchange-value are obviously vitally related, since no exchange-value can exist unless some use-value is present. Only in very primitive forms of economy could a thing have use-value without having exchange-value. If little specialization prevailed and little exchange took place, most things would have use-value and yet no exchange-value. Since Marx is analyzing the determinants of value in a capitalist economy featured by specialization and intricate exchange processes; the masses of things commonly produced are destined to be exchanged by their producers for other things and therefore have not only use-value but exchange-value. Things having both of these values he terms "commodities." It is the determination of the "exchange-value" (or merely "value) of commodities which he attempts to explain.

Marx uses the term "price," just as do modern orthodox economists, to mean the power of a commodity to command money in exchange for itself. As he puts it, price is the "money-name" of the value of a commodity.

Normal Value and Market Value

Marx, like modern economists, points out that there are several kinds of "exchange-value" (from this point on to be called merely "value"). He distinguishes between what he calls "natural values" (and the corresponding "natural prices") on the one hand, and "market values" (and the corresponding "market prices") on the other. By the former, which Marx also calls "real value," he means the "normal value" of the modern economist. This is the normal long-run level of the value of a commodity, on the average, about which short-run values of the commodity oscillate. Deviations from normal value or real value Marx held were caused by supply and demand forces, while the normal itself, which became the market value when supply and demand were in perfect equilibrium, was determined by another force to be described presently. He therefore makes numerous references to market values or prices being out of line with normal values or prices.[5] Just as modern economists devote their principal efforts to explaining the determinants of normal value, so Marx was primarily interested in this. "The question is what determines the amount which becomes the amount at which supply and demand are in equilibrium."[6]

Marx phrased this distinction between normal or real value and market value in several clear paragraphs in his *Value, Price and Profit.*

"... You will find that the fluctuations of market prices, their deviations from values, their ups and downs, paralyze and compensate each other; so that apart from the effect of monopolies and some other modifications I

[5] For instance, in one place he refers to the "price realized" as possibly being "abnormally above or below the value." Karl Marx, *Capital,* p. 121.

[6] Karl Marx, *Value, Price and Profit,* p. 26.

must now pass by, all descriptions of commodities are, on the average, sold at their respective values or natural prices."[7]

"At the moment when supply and demand equilibrate each other, and therefore cease to act, the market price of a commodity coincides with its real value, with the standard price round which its market prices oscillate. In inquiring into the nature of that value, we have therefore nothing at all to do with the temporary effects on market prices of supply and demand."[8]

It is interesting to note how closely this distinction follows the words of Adam Smith whom Marx quotes in his *Value, Price and Profit* as follows: "The deviations of market prices from values are continual, but, as Adam Smith says: 'The natural price is the central price to which the prices of commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance they are constantly tending toward it.' "[9]

Labor as the Value-determining Element Common to All Commodities

A basic tenet of Marx and other economists of the "labor-cost" school of that time was that, whatever the value-determining force was, it had to be something common to all commodities.[10] This meant that an adequate explanation of value necessitated the discovery of something objective (therefore "use-value" would not be suitable) and common to all commodities, and an analysis of the metamorphosis whereby that common element as it existed in all commodities became value.

Marx accepted labor, or muscular and mental human effort, as the one element common to all commodities. In question-answer form, Marx puts it thus: "What is the common social substance of all commodities? It is labor. To produce a commodity a certain amount of labor must be bestowed upon it, or worked up in it."[11] If labor is the one element common to all commodities and therefore the clue to values, what common element can be found in all labor? Clearly no qualitative characteristic, for labor obviously varies much from one specialized occupation to another. The common element must be quantitative, and the only element in this category found in all labor is one of time. Thus labor-time becomes the value-creating and value-determining element in all commodities. Marx follows this line of reasoning in a concise summary in *Capital:*

"A use-value, or useful article, therefore has value only because human

[7] *Ibid.*, p. 36.
[8] *Ibid.*, p. 26.
[9] *Ibid.*, p. 36.
[10] Recall that a "commodity" is anything which has both "use-value" and "exchange-value."
[11] Karl Marx, *Value, Price and Profit*, p. 30.

labor in the abstract has been embodied or materialized in it. How, then, is the magnitude of this value to be measured? Plainly, by the quantity of the value-creating substance, the labor, contained in the article. The quantity of labor, however, is measured by its duration, and labor-time in its turn finds its standard in weeks, days, and hours."[12]

Statements of the Marxian Theory of Value

Before taking up certain separate portions of this theory of value for further study, it will be helpful to note several of the most concise of its numerous summaries:

> But what is the value of a commodity? The objective form of the social labor expended in its production. And how do we measure the quantity of this value? By the quantity of the labor contained in it.[13]
>
> A commodity has a value, because it is a crystallization of social labor. The greatness of its value, or its relative value, depends upon the greater or less amount of that social substance contained in it; that is to say, on the relative mass of labor necessary for its production. The relative values of commodities are, therefore, determined by the respective quantities or amounts of labor, worked up, realized, fixed in them.[14]
>
> In this sense every commodity is a symbol, since, in so far as it is value, it is only the material envelope of the human labor spent upon it.[15]

Past and Current Labor Included

A complete understanding of this theory of value requires that several points be noted with particular care. Marx makes it clear that by the amount of labor embodied in a commodity he means not only the labor at the *final* stage of the process, or at that point where the commodity takes on those final characteristics essential to its exchangeability. He emphasizes that the value-determining labor-content of a commodity includes *all* the labor at *all* stages in its production back through the production of the necessary raw materials, power and machinery. The labor required to restore whatever portions of the machinery are worn away in the production of a commodity is part of the labor-content of that commodity. Similarly if the raw materials entering a commodity are machine-made, the labor necessary to restore that part of that machinery worn out in producing the materials for the commodity is a part of the labor-content of that commodity. Thus each commodity becomes the "material envelope" of the human labor that went into it, despite the fact that the component parts of this labor are scattered over many separate uses, producing units, and periods of time. Marx summarizes this portion of his theory of value and illustrates it as follows:

[12] Karl Marx, *Capital*, p. 45.
[13] *Ibid.*, p. 586.
[14] Karl Marx, *Value, Price and Profit*, p. 31.
[15] Karl Marx, *Capital*, p. 103.

In calculating the exchangeable value of a commodity we must add to the quantity of labor last employed the quantity of labor previously worked up in the raw material of the commodity, and the labor bestowed on the implements, tools, machinery, and buildings, with which such labor is assisted.[16]

The labor required for the production of the cotton, the raw material of the yarn, is part of the labor necessary to produce the yarn, and is therefore contained in the yarn. The same applies to the labor embodied in the spindle, without whose wear and tear the cotton could not be spun.

Hence, in determining the value of the yarn, or the labor-time required for its production, all the special processes carried on at various times and in different places, which were necessary, first to produce the cotton and the wasted portion of the spindle, and then with the cotton and spindle to spin the yarn, may together be looked on as different and successive phases of one and the same process. The whole of the labor in the yarn is past labor; and it is a matter of no importance that the operations necessary for the production of its constituent elements were carried on at times which, referred to the present, are more remote than the final operation of spinning. If a definite quantity of labor, say thirty days, is requisite to build a house, the total amount of labor incorporated in it is not altered by the fact that the work of the last day is done twenty-nine days later than that of the first. Therefore, the labor contained in the raw material and the instruments of labor can be treated just as if it were labor expended in an earlier stage of the spinning process, before the labor of actual spinning commenced.[17]

Socially Necessary Labor

This theory of value does not imply that labor in itself creates value, no matter what the end product of that labor may be and no matter how inefficient it may be. Marx never argued that the more labor there is embodied in a product the more value that product possesses. It is only "socially necessary" labor that is value-determining.

"In saying that the value of a commodity is determined by the quantity of labor worked up or crystallized in it, we mean the quantity of labor necessary for its production in a given state of society, under certain social average conditions of production, with a given social average intensity, and average skill of the labor employed."[18]

Thus, if one firm were to turn out a product with greater or lesser efficiency, in terms of the labor-time embodied in it, than characterized the preponderant run of the firms producing that product, the normal value of that firm's product would be determined, not by *its* labor-time, but by that of the *bulk* of the producers. Any unusual conditions experienced by one producer, and affecting the labor-time embodied in his product but not "socially necessary" to the production of that product, are not value-determining. Marx illustrates this point as follows:

[16] Karl Marx, *Value, Price and Profit*, p. 32.
[17] Karl Marx, *Capital*, p. 209.
[18] Karl Marx, *Value, Price and Profit*, p. 33.

"Though the capitalist have a hobby, and use a gold instead of a steel spindle, yet the only labor that counts for anything in the value of the yarn is that which would be required to produce a steel spindle, because no more is necessary under the given social conditions."[19]

Labor Required to Reproduce Commodities

It thus follows that the normal value of an existing stock of durable commodities changes in accordance with changes in the socially necessary labor-time required to produce identical commodities. Marx logically holds that the quantities of past labor which are embodied in existing commodities of a certain kind no longer determine the normal values of those commodities, if the socially necessary labor required to reproduce them has changed. In illustrating the determination of the normal value of cotton, he contends that "if the time socially necessary for the production of any commodity alters—and a given weight of cotton represents, after a bad harvest, more labor than after a good one—all previously existing commodities of the same class are affected, because they are, as it were, only individuals of the species, and their value at any given time is measured by the labor socially necessary, i.e., by the labor necessary for their production under the then existing social conditions."[20] In Marx's theory there are no limits to what may cause a change in the amount of labor socially necessary to produce a given commodity. He makes it a function of the entire environment within which production takes place; and, consequently, a change in any element in that environment may be the cause of an increase or decrease in the labor-time necessary to produce that commodity.

Time Lags in Value Changes

Marx pictures the forces which change the socially necessary labor-time to produce any given commodity as working imperfectly and with time lags. Thus, if only one firm were to acquire a machine which would shorten the total labor-time required in its plant to produce a certain product, that firm for the time being would derive a benefit from the fact that the value of its commodity on the open market (determined by the socially necessary labor-time generally required to produce it) has not changed, while its individual value in this limited sphere (determined by the labor-time necessary to produce it in this one plant) has declined.[21] However, Marx further points out that in such a case there would be a downward pull upon the commodity's normal value and that the rapidity of its fall would be determined by the degree of competition prevailing among the firms producing this product, while this in turn might be substantially affected by the ability of the originating firm to keep its invention a secret.

[19] Karl Marx, *Capital*, p. 210.
[20] *Ibid.*, pp. 233–234.
[21] See *ibid.*, pp. 443–444.

Exchange Proves the Presence of Use-Value

The injection of this "socially necessary" element into the theory that labor-time determines value serves to show that, unless a thing has use-value, labor spent upon it cannot create exchange-value. The determination of whether a given quantity of labor-time has or has not created use-value occurs within the exchange process. Marx holds that "whether that labor is useful for others and its product consequently capable of satisfying the wants of others, can be proved only by the act of exchange."[22] Thus the final determination of whether labor is socially useful or not is made by the buyers of the articles in which labor is embodied, as they encounter them and react to them in their exchange activities.

There is still another ramification of the "socially useful" idea. According to Marx, it is possible for the social usefulness of a given quantity of labor to be diminished by applying it to some line of production, when buyers of commodities would rather have it devoted to some other line of production. This, of course, is merely different in degree from the possibility just cited where it may be conceivable that labor is put into the formation of things that have *no* use-value—the labor thus used becoming "socially" unnecessary and therefore not value-creating. This subtle meaning of the term "socially necessary" is brought out by Marx in the following illustration:

"Lastly, suppose that every piece of linen in the market contains no more labor-time than is socially necessary. [That is, no more than is necessary to make it physically.] In spite of this, all these pieces taken as a whole, may have had superfluous labor-time spent upon them. If the market cannot stomach the whole quantity at the normal price [that is, at the value corresponding to the amount of labor socially necessary to produce the physical linen], . . . this proves that too great a portion of the total labor of the community has been expended in the form of weaving. The effect is the same as if each individual weaver had expended more labor-time upon his particular product than is socially necessary."[23]

The fact that society was demanding another allocation of its total labor-time to the various channels of production thus would become evident through market value or price at some one time being higher or lower than normal or "natural" value or price. In Marxian theory extra surpluses or losses resulting from these discrepancies would stimulate reallotment of labor-time to its respective uses, thus reestablishing the dominance of normal value as determined by the content of "socially necessary" labor-time.

Labor-Content in Time Units

In relation to value determination, qualities of labor have no significance—only quantities measured in time units are effective value deter-

[22] *Ibid.*, p. 98.
[23] *Ibid.*, p. 120.

minants. "It is the quantity of labor required for its production, not the realized form of that labor, by which the amount of the value of a commodity is determined."[24] "While, therefore, with reference to use-value, the labor contained in a commodity counts only qualitatively, with reference to value it counts only quantitatively, and must first be reduced to human labor pure and simple."[25] "Skilled labor counts only as simple labor intensified, or rather, as multiplied simple labor, a given quantity of skilled being considered equal to a greater quantity of simple labor."[26] Marx was vague as to just what "human labor pure and simple" meant. Professor Bober concludes that he meant "homogeneous, abstract, unskilled labor."[27]

Marx conceived of all kinds and degrees of occupational skill as being reducible to standard time units of unskilled labor. Thus, to illustrate, a skilled machinist in one clock-hour might contribute to production four of these standard time units of unskilled labor. If an average unskilled labor-hour was the standard unit, the skilled machinist would then embody in the commodity on which he was working four hours of socially necessary (assuming standard efficiency of equipment, etc.) labor-time per clock-hour worked, while the unskilled laborer would embody in the commodity only one hour of socially necessary labor-time per clock-hour worked. Since hours of socially necessary labor-time, rather than clock-hours, are held to be the determinants of value, a commodity produced by the skilled machinist (assuming, to make the case simple, that he was unassisted by other workers or machinery or materials) in one clock-hour would have a normal value equal to that of the product produced by the unskilled laborer (assuming he also was unassisted) in four clock-hours. Likewise, in such a case, the product of one skilled machinist and four unskilled laborers working together for one clock-hour would embody a total of eight hours of socially necessary labor-time, expressed in units of standard time units of unskilled labor, and would exchange at par for the product of, say, eight unskilled laborers working for one clock-hour each, or one unskilled laborer working eight clock-hours, or one skilled machinist working one-half a clock-hour plus one unskilled laborer working six clock-hours. In other words, the normal values of commodities bear to each other exchange ratios directly proportional to the number of socially necessary standard time units of unskilled labor used up in the production of each.

Marx was extremely vague in explaining what determines the number of units of unskilled labor-time to which a certain clock-time spent by a skilled laborer will be equivalent. It is obvious that the number of ratios

[24] *Ibid.*, p. 588.
[25] *Ibid.*, pp. 52–53.
[26] *Ibid.*, p. 51.
[27] M. M. Bober, *Karl Marx's Interpretation of History*, p. 203.

necessary to convert all of the socially necessary labor in a commodity into a quantity of these hours of unskilled labor-time would be not only exceedingly numerous but very complicated in a system featured by much specialization and multitudinous categories of skill. The conversion of skilled into unskilled units of labor therefore cannot be done by one who might wish to study the production of a given product and make such a calculation. According to Marx, "the different proportions in which different sorts of labor are reduced to unskilled labor as their standard, are established by a social process that goes on behind the backs of the producers, and, consequently, appear to be fixed by custom."[28] In a later reference to the problem of converting units of skilled into units of unskilled labor he contends that "whenever, by an exchange, we equate as values our different products, by that very act, we also equate, as human labor, the different kinds of labor expended upon them."[29] Marx apparently felt that the impossibility of objectively calculating these relationships, or of segregating the forces which act in the markets to determine them, does not diminish the reality of their independent existence.

Value Inherent in the Commodity

Despite certain limitations noted above, Marx finds it possible to contend that value thus becomes something inherent in the commodity. "It becomes plain, that it is not the exchange-value of commodities which regulates the magnitude of their value; but, on the contrary, that it is the magnitude of their value which controls their exchange proportions."[30] As Professor Bober points out, it was in this regard that Marx departed from Ricardo's labor theory of value. "Ricardo had constantly in mind exchange-value, relative value. To him, value is the power of one product to command others in exchange. To Marx value is exchange-value; but it is also an intrinsic entity incarnated in a commodity, and the substance of this entity is congealed labor."[31] It is in this regard that Marx may have involved his theory of value in some internal inconsistencies[32] and come nearest to making his theory of value merely a part of his philosophy, rather than an objective explanation of what happens in the exchange processes of a capitalist economy.

Relation of Man-Made and Nature-Made Instruments to Value Determination

Of course if value is always merely "congealed" socially necessary labor, neither the man-made nor the nature-made instruments used in production

[28] Karl Marx, *Capital*, p. 52.
[29] *Ibid.*, p. 85.
[30] *Ibid.*, p. 73.
[31] M. M. Bober, *Karl Marx's Interpretation of History*, p. 203.
[32] To be discussed later.

can play any *direct* part in value determination. As previously noted, Marx considered man-made tools and machinery merely the products of labor, and so they became indirectly value-determining, in that whatever socially necessary labor had gone into tools and machinery actually used up in the production of a commodity were considered a part of the socially necessary labor embodied in that commodity. So far as nature or nature-made instruments are concerned, Marx flatly denies[33] that the part they may play in production enters in any way into the value determination of the commodities produced.

"Since exchange-value is a definite social manner of expressing the amount of labor bestowed upon an object, Nature has no more to do with it, than it has in fixing the course of exchange."[34] "So far no chemist has ever discovered exchange-value either in a pearl or a diamond."[35] That is, in the purely natural state they are not commodities, because they have no exchange-value. Whatever exchange-value they may acquire comes only after the application of labor to the natural materials, or in anticipation of the possibility of adding human labor to the natural materials. If labor could not be applied, any such exchange-value would immediately vanish. Nature merely furnishes the environment. Exchange-values are in no sense a function of the environment. They exist only when labor-time has joined itself with nature, and consequently they are the exclusive product of labor-time. So runs the Marxian theory.

Labor-Content Determines Value of Money

Marx considered price to be merely the "money-name" of value. Whatever the chosen money metal might be, its value was determined by exactly the same forces that determined the values of other commodities—the socially necessary labor-time embodied in it. "The value of gold or silver, like that of all other commodities, is regulated by the quantity of labor necessary for getting them."[36] Thus each commodity tended to exchange for that number of dollars or pounds which contained that amount of gold or silver which embodied an amount of socially necessary labor equal to that embodied in the commodity. "The value, or in other words the quantity of human labor contained in a ton of iron, is expressed in imagination by such a quantity of the money-commodity as contains the same amount of labor as the iron."[37] Money thus becomes a common measure of values, while money prices merely express relationships between values, that is, between the respective labor contents of commodities on the one hand and of quantities of the monetary metal on the other.

[33] Although there are some minor contradictory statements.
[34] Karl Marx, *Capital*, p. 94.
[35] *Ibid.*, p. 95.
[36] Karl Marx, *Value, Price and Profit*, p. 35.
[37] Karl Marx, *Capital*, p. 108.

Significance of Monetary Expression of Value

Although Marx held that money prices were mere reflections of values, he attached much significance to the fact that values were so expressed. The real stuff of which values are composed—that is, labor—thus loses its human aspects and is converted into a sort of inanimate abstraction. "When they assume this money-shape, commodities strip off every trace of their natural use-value, and of the particular kind of labor to which they owe their creation, in order to transform themselves into the uniform, socially recognized incarnation of homogeneous human labor."[38] In discussing this point Lenin held that "money masks the social character of individual labor, and hides the social tie between the various producers who come together in the market."[39]

Modifications by Marx

Thus far the Marxian theory of value appears to be clear and simple. But not so from this point on. Abstruseness and apparent contradictions feature the theory or theories of value propounded in Volume III of *Capital.* In pursuing his thought, Marx apparently became involved in certain difficulties arising out of his socially-necessary-labor theory of value. This theory appeared to him to fall somewhat short of explaining actual price phenomena as they prevailed upon markets. A modified theory of value appears in the later writings of Marx. Students have disagreed heartily over whether this modified theory is, or is not, consistent with the original value theory earlier expounded.

For the purposes of this discussion, and for an understanding of the basic features of the Marxian thought, it is not necessary to trace these modifications and their ramifications in detail. The earlier value theory which has been outlined holds that *each* commodity tends to sell for a value or price determined by *its* content of socially necessary labor. In his later work Marx injected a concept of averages into this theory. Lenin has interpreted Marx on this point as follows: "Naturally, therefore, in a society made up of separate producers of commodities, linked solely through the market, conformity to law can only be an average, a general manifestation, a mass phenomenon, with individual and mutually compensating deviations to one side and the other."[40]

Value as an Average

Thus the socially necessary total labor going to produce all commodities determines their total values in terms of each other, or the average socially necessary labor content determines the average value. Professor Bober in-

[38] *Ibid.,* p. 123.
[39] V. I. Lenin, "The Teachings of Karl Marx," *Handbook of Marxism,* p. 549.
[40] *Ibid.,* p. 556.

terprets Marx as holding that "only the total volume of commodities produced in all industries can be said to sell according to the mass of socially necessary labor incorporated in it. In individual cases, commodities in one branch of production will sell at less, and in another at more, than the value according to the labor theory. But these deviations compensate each other, as we should expect, since the deviations of the items from their average will always cancel out. . . ."[41] As will appear later in the discussion of "surplus value," Marx was primarily interested in mass or aggregate phenomena. His whole system deals with the sweep of evolutionary change in social phenomena. It is evident that he considered value theory more pertinent and meaningful when stated in terms of averages or masses than when expressed in terms of individual commodities. "He does not claim that the two theories are identical, but he urges that the first is still the heart and soul of the second, and that therefore the labor theory enunciated in the first volume is not abandoned in the third."[42]

THEORY OF WAGES

Labor Power a Commodity

Marx's theory of wages is merely an extension of his general theory of value to a specific category of prices. In the Marxian sense, a wage is a price paid for labor power, not for labor. "By labor power or capacity for labor is to be understood the aggregate of those mental and physical capabilities existing in a human being, which he exercises whenever he produces a use-value of any description."[43] "Labor power" is the thing which enters the labor market, being sold by the laborer and purchased by the capitalist-employer. Thus "labor power" is a commodity having exchange-value, since the laborer can alienate it from his person as he sells to the capitalist the right to his use-value or labor. It is only this right that can be alienated, and consequently "labor is the substance, and the immanent measure of value, but *has itself no value*" (that is, no exchange-value).[44]

In other words, Marx holds that the thing which the worker sells to the employer is the right to put him as a worker to work. It is not the productivity of the worker that is sold; it is merely the right to make the worker exert himself. However, since the use-value or the productivity of the worker cannot be severed from his *power* to release this use-value or productivity, the employer *buys* the labor power but *gets* the use-value of that labor power, or the labor itself. Thus while it may appear that the use-value of the worker, or labor itself, is the subject of the wage contract and is paid for, the fact is that only the labor power is paid for, while the actual use of that labor power is a thing separate and distinct from it. In

[41] M. M. Bober, *Karl Marx's Interpretation of History*, pp. 212-213.
[42] *Ibid.*, p. 214.
[43] Karl Marx, *Capital*, p. 186.
[44] *Ibid.*, p. 588.

any event, it is the *labor power* which is paid for, and the *value* of this labor power is the wage. At this point this distinction is noted only as a part of the Marxian theory of wages. Its significance will be evident in the discussion of "surplus value" in the next chapter.

To Marx a wage can exist only in a situation (1) in which the worker is free to sell his labor power, and (2) in which he cannot by himself make use of it in producing some commodity for sale. ". . . Labor power can appear upon the market as a commodity only if, and so far as, its possessor, the individual whose labor power it is, offers it for sale, or sells it, as a commodity. In order that he may be able to do this, he must have it at his disposal, must be the untrammeled owner of his capacity for labor, i.e., of his person. . . . The second essential condition to the owner of money finding labor power in the market as a commodity is this—that the laborer, instead of being in the position to sell commodities in which his labor is incorporated, must be obliged to offer for sale as a commodity that very labor power, which exists only in his living self."[45]

The Normal Wage and the Market Wage

Paralleling his distinction between normal values and market values, Marx notes that the wage actually paid a given worker or group of workers may be temporarily above or below the normal wage. Supply and demand forces only cause oscillations above and below a "certain mean." The mean is the "natural price . . . determined independently of demand and supply."[46] The question Marx sought to answer was: What determines the height of this mean? What forces establish the "natural" or the equilibrium wage toward which actual market wages incessantly are drawn despite their temporary departures therefrom? "On the basis of the present system labor is only a commodity like others. It must, therefore, pass through the same fluctuations to fetch an average price corresponding to its value."[47] Marx makes numerous references to situations in which labor power actually sells for more or less than its "value."[48] These deviations mutually cancel each other, leaving the "normal wage" as the selling price of labor power received by workers over a period of time.

Labor-Content Determines Value of Labor Power

Like other commodity values, the value of labor power is determined by its content of socially necessary labor-time. "Therefore the labor-time requisite for the production of labor power reduces itself to that necessary for the production of those means of subsistence; in other words, the value

[45] *Ibid.*, pp. 186–187.
[46] *Ibid.*, p. 589.
[47] Karl Marx, *Value, Price and Profit*, p. 55.
[48] See, for instance, Karl Marx, *Capital*, pp. 569, 572, 573, 657, 680.

of labor power is the value of the means of subsistence necessary for the maintenance of the laborer."[49] Numerous concise statements of this theory of wages are found in Marxian literature. Many of them, as, for instance, the following, emphasize the physical side of the concept "subsistence."

. . . The value of laboring power is determined by the value of the necessaries required to produce, develop, maintain, and perpetuate the laboring power.[50]

In exchange he [the worker] receives just as much, and no more, of the necessaries of life as is required to keep up the repetition of the same bargain every day.[51]

The average price of wage labor is the minimum wage, i.e., the quantum of the means of subsistence which is absolutely requisite to keep the laborer in bare existence as a laborer.[52]

Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race.[53]

The value of labor power is determined, as in the case of every commodity, by the labor-time necessary for the production, and consequently also the reproduction, of this special article.[54]

. . . As with all other commodities, so with labor, its *market price* will, in the long run, adapt itself to its *value;* that, therefore, despite all the ups and downs, and do what he may, the working man will, on the average, only receive the value of his labor, which resolves into the value of his laboring power, which is determined by the value of the necessaries required for its maintenance and reproduction, which value of necessaries finally is regulated by the quantum of labor wanted to produce them.[55]

The Normal Price of Labor Power

Expressed in money terms, the normal price of a day's labor power therefore is that quantity of the standard money containing that amount of metal which could be produced in the same socially necessary labor-time as could those necessaries comprising one day's subsistence for the laborer. Marx illustrates this principle as follows:

"Suppose that in this mass of commodities requisite for the average day there are embodied six hours of social labor, then [assuming that a standard length of the working day is twelve hours] there is incorporated daily in labor power half a day's average social labor; in other words, half a day's labor is requisite for the daily production of labor power. This quantity of labor forms the value of a day's labor power or the value of the labor power daily reproduced. If half a day's average social labor is incorporated

[49] *Ibid.*, pp. 189–190.
[50] Karl Marx, *Value, Price and Profit*, p. 40.
[51] Friedrich Engels, "The British Labor Movement," *Handbook of Marxism*, p. 199.
[52] "Communist Manifesto," *Handbook of Marxism*, p. 39.
[53] *Ibid.*, p. 30.
[54] Karl Marx, *Capital*, p. 189.
[55] Karl Marx, *Value, Price and Profit*, pp. 56–57.

in three shillings, then three shillings is the price corresponding to the value of a day's labor power."[56]

Family, not Individual, Subsistence

In elaborating on this theory of wages, Marx placed it on a family rather than an individual basis. "The value of labor power was determined, not only by the labor-time necessary to maintain the individual adult laborer, but also by that necessary to maintain his family."[57] "Hence the sum of the means of subsistence necessary for the production of labor power must include the means necessary for the laborer's substitutes, i.e., his children, in order that this race of peculiar commodity-owners may perpetuate its appearance in the market."[58] When family wage and family subsistence are tied together in this manner, Marx goes on to contend that "machinery, by throwing every member of the family on to the labor market, spreads the value of the man's labor over his whole family. It thus depreciates his labor power."[59]

Wage Differential for Skill

Starting with this theory, wage differentials between grades of skill were also accounted for on the basis of differences in the costs of producing various categories of skill. If a period of training were prerequisite to attaining a given degree of skill, the production of that skill would use up a larger amount of socially necessary labor-time, and the labor power of such a skilled laborer would have an equivalently greater value. ". . . As different kinds of laboring power have different values, or require different quantities of labor for their production, they must fetch different prices in the labor market."[60]

This apparently modifies "subsistence" into meaning the subsistence of skill. Each particular grade of skill thus would normally receive a wage sufficient to reproduce its kind. In the following summary Marx implies that education and training are the most important additional costs in the production of skilled labor power:

"In order to modify the human organism, so that it may acquire skill and handiness in a given branch of industry, and become labor power of a special kind, a special education or training is requisite, and this, on its part, costs an equivalent in commodities of a greater or less amount. This amount varies according to the more or less complicated character of the labor power. The expenses of this education (excessively small in the case

[56] Karl Marx, *Capital*, pp. 191–192.
[57] *Ibid.*, p. 431.
[58] *Ibid.*, p. 191.
[59] *Ibid.*, p. 431.
[60] Karl Marx, *Value, Price and Profit*, p. 39.

of ordinary labor power), enter *pro tanto* into the total value spent in its production."[61]

Meaning of "Subsistence"

In applying his theory of wages to the analysis of economic phenomena, Marx found himself between two difficulties. If, on the one hand, the normal wage, or cost of producing the labor, was to be considered an amount necessary to the worker's bare *physical* subsistence, the theory not only ran counter to certain easily observable wage facts but also proved ineffectual all attempts to raise wages under the capitalist system. If, however, the cost of production of labor power were thought of as *capable of being extended* by new desires on the part of workers, it would appear possible to raise wages through the workers' own efforts under the capitalist system. Since Marx refused to accept completely either of these corollaries of his wage theory, his treatment of wages wavers between the two positions. In certain connections he appears to accept the mere physical subsistence concept of wage-determining cost of labor power. In other portions of his analysis he uses the more elastic interpretation of the concept "subsistence."

In fact, one can find in Marxian writings passages indicating that practically nothing was ruled out of inclusion in "subsistence," provided the worker wanted it badly enough to think and act as though that thing were a necessary part of his living. The scope of these items which in one connection or another Marx and Engels included in "subsistence" may be noted from the following passages:[62]

> The value of labor power is determined by the value of the necessaries of life *habitually required* by the average laborer.[63]
>
> His means of subsistence must therefore be sufficient to maintain him in his *normal state* as a laboring individual.[64]
>
> In contradistinction therefore to the case of other commodities, there enters into the determination of the value of labor power a *historical and moral* element.[65]
>
> A fair day's wage, under normal conditions, is the sum required to procure to the laborer the means of existence necessary, according to *the standard of life of his station and country,* to keep himself in working order and to propagate his race.[66]
>
> But where a particular rate of piece-wage has for a long time been fixed by *tradition,* and its lowering, therefore, presented especial difficulties, the masters, in such exceptional cases, sometimes had recourse to its compulsory transformation into time-wages.[67]

[61] Karl Marx, *Capital,* p. 191.
[62] The italics on the key words and phrases are ours.
[63] Karl Marx, *Capital,* p. 568.
[64] *Ibid.,* p. 190.
[65] *Ibid.,* p. 190.
[66] Friedrich Engels, "The British Labor Movement," *Handbook of Marxism,* p. 198.
[67] Karl Marx, *Capital,* p. 607.

Besides this mere physical element, the value of labor is in every country determined by a *traditional standard of life.* It is *not mere physical life,* but it is the satisfaction of *certain wants springing from the social conditions* in which people are placed and reared up. . . . The important part which *historical tradition* and *social habitude* play in this respect, you may learn from Mr. Thornton's work on *Overpopulation.* . . . This *historical or social element,* entering into the value of labor, may be *expanded,* or *contracted,* or altogether extinguished, so that nothing remains but the physical limit. . . . By comparing the standard wages or values of labor in different countries, and by comparing them in different historical epochs of the same country, you will find that the value of labor itself is *not a fixed but a variable magnitude.* . . .[68]

Thus, while the Marxian theory of wages in its purely abstract form is clear enough, it becomes blurred by all of the concessions Marx made when he found it necessary to define the items comprising the "subsistence" of labor power. At one time "subsistence" appears to mean only those things vital to the maintenance of physical health; at another it is enlarged to include items which have come to be wanted by workers because of their social or historic environment.

Physical Subsistence Emphasized

Nevertheless, when Marxian theory is considered as a whole, it clearly holds that wages are bound closely to a physical subsistence level. If there are any tendencies acting counter to this pull of physical subsistence, they are either temporary or so slow in their operation that they may be neglected in analyzing the basic forces at work under capitalism. In various other portions of his thought,[69] Marx pointed out what he considered to be powerful forces which under capitalism effectively resisted any tendency for wages to rise significantly above a physical subsistence level. Certain modifications that Marx made in his theory of value (by way of injecting a concept of averages into it) did not prevent him from holding to the original theory as the "heart" of value determination. Similarly in the case of his wage theory; despite the numerous concessions and modifications apparently made in the "subsistence" concept. Marx still retained physical subsistence as the "heart" of the wage-determining cost of producing labor power.

QUESTIONS FOR CLASS DISCUSSION

1. It is often suggested that Marx was either no economist at all or, at best, a very poor one. Do you agree? Why or why not?
2. What evidence is there showing that Marx set forth what he believed to be the correct theory of value and wages?
3. Define each of the following terms as it was used by Marx: Use-value; exchange-value; price; market value: normal value.

[68] Karl Marx, *Value, Price and Profit,* pp. 57–58.
[69] To be considered later in another connection.

4. When Marx set out to explain the forces determining value, which of the kinds of value mentioned in Question 3 did he have in mind?
5. By what line of reasoning did Marx support his contention that "labor" was the value-determining element in commodities?
6. When Marx refers to labor as value-determining, does he mean manual or mental labor or both?
7. What difference is there between saying that the "labor-content" of a commodity determines its value and saying that the "socially necessary labor-time" embodied in a commodity determines its value?
8. Does the Marxian theory of value exclude the cost of the machinery used in the production of a commodity from the forces determining the value of that commodity?
9. Did Marx contend that the mere use of labor to form some object gives that object value?
10. Is "labor-time" essentially a homogeneous or a heterogeneous phenomenon? How did Marx overcome the difficulty created by this fact?
11. Of what significance is it, according to Marx, that in modern societies values are expressed in terms of money?
12. Did Marx think of a wage as being paid for "labor" or "labor power"? What is the significance of this distinction?
13. In what sense could Marx's theory of wages be said to be merely a part of his theory of value?
14. How did Marx use the concept of "subsistence" in his theory of wages? As he used it, was this concept clear cut? Illustrate.

Chapter 10

THE MARXIAN THEORY OF SURPLUS VALUE AND THE ACCUMULATION OF CAPITAL

SURPLUS VALUE

The Theory Sketched

It was a simple matter for Marx to get his theory of surplus value by putting together his theory of value and his theory of wages. In skeleton form the theory of surplus value runs as follows: Since the socially necessary labor-time embodied in a commodity determines its value, the total of all values produced during a day's labor-time will be the total exchange-values of all commodities produced by that day's effort. The value of the day's labor power itself will be determined by the socially necessary labor-time embodied in the commodities necessary to maintain the worker for a day. However, there is no necessity that wage workers should work only the number of hours socially necessary to produce their own subsistence. When the worker sells a day's labor power to the capitalist-employer, the latter specifies the length of the working day. If capitalist-employers set the length of the working day at a greater number of hours than the number required to produce labor's subsistence, then the wage the employer must pay the worker, being determined by the latter number of hours, will be less than the total value of commodities produced in such a day, the total value produced depending upon the total number of hours worked. Marx held that under capitalism the working day must be longer than the number of hours of average labor required to produce the worker's subsistence (or the amount he gets as a wage). The values produced during these excess hours constitute "surplus value"—that is, values produced by the workers but which they do not get, since their wages will be equal to the value of their subsistence.

The Theory as a Formula

This theory can be simplified into the formula: $A - B = C$. If A represents the total of commodities produced in the working day, and B

represents the total of commodities necessary to subsistence, then *C* represents the total commodities whose value is "surplus value." If *A* represents the total value produced during the standard working day, and *B* represents the value of a day's subsistence for the worker, then *C* represents "surplus value." If *A* represents the length of the working day in hours, and *B* represents the number of socially necessary hours required to produce a day's subsistence, then *C* represents the hours during which the worker is producing "surplus value." If *A* represents the total value produced by a day's labor effort, and *B* represents the value paid back as a wage to the worker, then *C* represents the value also produced by labor but appropriated by the capitalist-employer. If *A* represents the standard labor day, and *B* represents the portion of this required to produce the worker's subsistence, then *C* represents the uncompensated portion of the work day. Or, depending upon the angle from which the phenomena are viewed, *C* may represent the exploited portion of the worker's labor power, or the hours during which the worker labors for the capitalist rather than for himself. From still another point of view, if *A* represents all of the values of commodities put into exchange, then *B* represents the portion of these commodities which continues to circulate among workers because this much must be paid them as wages, and *C* represents the commodities which are drawn out of the exchange process by the capitalist-employer who uses them partially for his own consumption and partially as further advances (a fund of circulating capital) wherewith he again hires workers to produce more surplus value.

Relation to Distinction Between Labor and Labor Power

Marx lays the basis for this theory of surplus value when he distinguishes between the exchange-value of labor as a commodity and its use-value (or between buying labor power and buying labor). The capitalist-employer buys labor power but gets labor; he pays out the value of the labor power (subsistence) as a wage but he gets the use-value of the labor as his own, to utilize in whatever way he can. The exchange-value of the labor power (or the wage) is determined by the cost of producing it (its subsistence), while the use-value of the labor to the employer, who after the hiring owns it, is determined by what use he can make of it.

Although there are a number of ways in which the employer can make the use-value of the labor in creating exchange-values greater than the exchange-value he paid for it, the most obvious way is to make the laborer work more hours than enough to create exchange-values equal to those laid out by the employer as a wage. This the capitalist-employers will do—they would obviously be fools if they didn't—and so arises surplus value.

ILLUSTRATION

Marx constructed the following illustration of surplus value for a workingmen's organization:

Now suppose that the average amount of the daily necessaries of a laboring man require *six hours of average labor* for their production. Suppose, moreover, six hours of average labor to be also realized in a quantity of gold equal to 3*s*. Then 3*s*. would be the *Price,* or the monetary expression of the *Daily Value* of that man's *Laboring Power.* If he worked daily six hours he would daily produce a value sufficient to buy the average amount of his daily necessaries, or to maintain himself as a laboring man.

But our man is a wages laborer. He must, therefore, sell his laboring power to a capitalist. If he sells it at 3*s*. daily, or 18*s* weekly, he sells it at its value. Suppose him to be a spinner. If he works six hours daily he will add to the cotton a value of 3*s*. daily. This value, daily added by him, would be an exact equivalent for the wages, or the price of his laboring power, received daily. But in that case no *surplus value* or *surplus produce* whatever would go to the capitalist. Here, then, we come to the rub.

In buying the laboring power of the workman, and paying its value, the capitalist, like every other purchaser, has acquired the right to consume or use the commodity bought. You consume or use the laboring power of a man by making him work, as you consume or use a machine by making it run. By paying the daily or weekly value of the laboring power of the workman, the capitalist has, therefore, acquired the right to use or make that laboring power work during the *whole day or week.* The working day or the working week has, of course, certain limits, but those we shall afterwards look more closely at.

For the present I want to turn your attention to one decisive point.

The *value* of the laboring power is determined by the quantity of labor necessary to maintain or reproduce it, but the *use* of that laboring power is only limited by the active energies and physical strength of the laborer. The daily or weekly *value* of the laboring power is quite distinct from the daily or weekly exercise of that power, the same as the food a horse wants and the time it can carry the horseman are quite distinct. The quantity of labor by which the *value* of the workman's laboring power is limited forms by no means a limit to the quantity of labor which his laboring power is apt to perform. Take the example of our spinner. We have seen that, to daily reproduce his laboring power, he must daily reproduce a value of three shillings, which he will do by working six hours daily. But this does not disable him from working ten or twelve or more hours a day. But by paying the daily or weekly *value* of the spinner's laboring power the capitalist has acquired the right of using that laboring power during *the whole day or week.* He will, therefore, make him work daily, say, *twelve* hours. *Over and above* the six hours required to replace his wages, or the value of his laboring power, he will, therefore, have to work *six other hours,* which I shall call hours of *surplus labor,* which surplus labor will realize itself in a *surplus value* and a *surplus produce.* If our spinner, for example, by his daily labor of six hours, added three shillings' value to the cotton, a value forming an exact equivalent to his wages, he will, in twelve hours, add six shillings' worth to the cotton, and produce *a proportional surplus*

of yarn. As he has sold his laboring power to the capitalist, the whole value or produce created by him belongs to the capitalist, the owner *pro tem.* of his laboring power. By advancing three shillings, the capitalist will, therefore, realize a value of six shillings, because, advancing a value in which six hours of labor are crystallized, he will receive in return a value in which twelve hours of labor are crystallized. By repeating this same process daily, the capitalist will daily advance three shillings and daily pocket six shillings, one half of which will go to pay wages anew, and the other half of which will form the *surplus value,* for which the capitalist pays no equivalent. It is this *sort of exchange between capital and labor* upon which capitalistic production, or the wages system, is founded, and which must constantly result in reproducing the working man as a working man, and the capitalist as a capitalist.[1]

Inevitable Under Capitalism

Marx thus makes surplus value the inevitable accompaniment of the capitalist economy. In a system in which commodity values and wages are determined as they are, and in which the worker is free to and must sell his labor power as a commodity to a capitalist-employer, surplus value must arise. It is no more created by the grasping of the capitalist than it can be eliminated by the opposition of the workers. Within the framework of a capitalist order surplus value would disappear only if capitalist-employers were to refrain from making the working day longer than the hours required to produce the worker's means of subsistence, or if the workers were to force their wages up enough to absorb surplus value. The former Marx held could not happen because it would be suicidal for the capitalist-employers to give up the sole source of their livelihood. Nor could the latter happen, because economic laws under the capitalist system prevent wages from rising above a subsistence level.

The Driving Force in Capitalism

Not only was surplus value inevitable under the capitalist system, but to Marx it was the heart and soul of that system. The capitalist-employer occupied a key position. During earlier historic stages of capitalism he exercised personal initiative in the organization of production and he continued, even in the mature stages of capitalism, to hire others to do the directing, while he retained the passive role of the immediate supplier of funds to pay labor. The attempt to acquire surplus value acts as a key incentive to the production of commodities in the capitalist system. "Our capitalist has two objects in view; in the first place, he wants to produce a use-value that has a value in exchange, . . . and secondly, he desires to produce a commodity whose value shall be greater than the sum of the values of the commodities used in its production. . . . His aim is to produce not a use-value, but a commodity also; not only use-value, but value; not

[1] Karl Marx, *Value, Price and Profit,* pp. 40–42.

only value, but at the same time surplus value."[2] Thus the existence of surplus values is so inextricably tied up with the forces of production in a capitalist order that if production is to take place surplus value must be realizable. Since surplus values cannot be severed from the machinery of a capitalist order, its ethical justness cannot be considered separately from that of the entire system of which it is an inherent part.

The Degree of Exploitation

The absolute amount of surplus value realized by the capitalist-employer represents his absolute exploitation or robbery of the worker. Marx examined into the most accurate way of expressing surplus value as a percentage, so that the degree of exploitation of the worker could be calculated in individual instances, as well as in society as a whole. While the details of these calculations are not essential to an understanding of the theory of surplus value, it is interesting to note that Marx felt that the customary way of expressing profits as a percentage of all the funds owned by the capitalist was very misleading and yielded an understatement of the degree of exploitation. Marx divides the capital used in production into two parts. The one consists of all funds going into the purchase of fixed equipment and raw materials, and the other consists of funds used as wages to pay for labor power. The former he calls "constant" capital, and the latter "variable" capital. He then argues that the only fair way to compute the percentage of surplus value realized is to compare it with the amount of variable capital. This relationship he holds will represent "the real degree of exploitation of labor" by the capitalist-employer because it is this "which shows you the real ratio between paid and unpaid labor."[3]

Relation to "Rent," "Interest," and "Profit"

To Marx, surplus value was a heterogeneous fund. Despite its homogeneous entrance into the coffers of the capitalist-employer, it comes to be split into a number of kinds of individual income. "Rent, interest [to the money-lending capitalist as distinguished from the more active capitalist-employer], and industrial profit [left in the hands of the capitalist-employer] are only different names for different parts of the surplus value of the commodity, or the unpaid labor realized in it, and they are equally derived from this source, and from this source alone."[4] In another connection Marx refers to "all surplus value, whatever particular form (profit, interest, or rent) it may subsequently crystallize into," as "in substance the materialization of unpaid labor."[5] Thus recipients of rent, interest,

[2] Karl Marx, *Capital*, p. 207.
[3] Karl Marx, *Value, Price and Profit*, pp. 47–48.
[4] *Ibid.*, p. 45.
[5] Karl Marx, *Capital*, p. 585.

and profits, and subsidiary classes drawing their incomes from them, are all in effect acquiring unearned surpluses; they are beneficiaries of the capitalist processes of labor exploitation. In such a society Marx and Engels, indulging in some exaggeration, hold that "those of its members who work acquire nothing, and those who acquire anything do not work."[6]

Normal Values and Normal Wages Permit Surplus Value

It is important to note that surplus value arises neither from selling commodities at prices above their real values, nor from buying labor power at less than its real value. On this point Marx was insistent. Departures of prices and wages from their norms might cause temporary additions to or subtractions from profit, but the surplus profit he was describing was permanent and normal in itself. Surplus value was created for the capitalist-employer even when he sold his commodity at its true or normal value and purchased labor at its full normal value.

"The value of a commodity is determined by the *total quantity of labor* contained in it. But part of that quantity of labor is realized in a value for which an equivalent has been paid in the form of wages; part of it is realized in a value for which *no* equivalent has been paid. Part of the labor contained in the commodity is *paid* labor; part is *unpaid* labor. By selling, therefore, the commodity at its value, that is, as the crystallization of the *total quantity of labor* bestowed upon it, the capitalist must necessarily sell it at a profit. He sells not only what has cost him an equivalent, but he sells also what has cost him nothing, although it has cost the labor of his workman. The cost of the commodity to the capitalist and its real cost are different things. I repeat, therefore, that normal and average profits are made by selling commodities not *above,* but *at their real values.*"[7]

Surplus Value Created by Capitalist Production

Thus surplus value arises out of neither the dishonesty nor the bad intent of the capitalist-employer. He cannot will it into existence. As a phenomenon it is created by the nature of the economy under which he and the worker live. Surplus value is not grasped by the capitalist-employer. It is something left in his hands by the operation of forces over which he as an individual has no control. "Suppose that the capitalist pays for a day's labor power at its value; then the right to use that power for a day belongs to him, just as much as the right to use any other commodity, such as a horse that he has hired for the day."[8] It is out of the legitimate exercise of the rights the capitalist system bestows upon the capitalist-employer that he becomes the possessor of surplus value.

[6] "Communist Manifesto," *Handbook of Marxism,* p. 41.
[7] Karl Marx, *Value, Price and Profit,* pp. 44–45.
[8] Karl Marx, *Capital,* p. 206.

RELATION TO LENGTHENING OF WORKING DAY

Although the capitalist-employer is in no sense individually responsible for the phenomenon of surplus value, he does have a great deal to do with the determination of its amount. As has been noted, every extension in the length of the standard working day past that number of hours socially necessary to produce labor's subsistence adds to the surplus value acquired by the capitalist-employer because it extends the unpaid portion of the working day; it keeps the worker at work for a longer time after he has produced enough value to repay the capitalist-employer for the wage he must pay the worker. This is the most direct, most obvious and was, in Marx's day, the most widely used device to increase the degree of the exploitation of the worker by the capitalist-employer. Marx refers to its possibilities in many portions of his writings, and reviews in minute detail the practical attempts of employers of his day to stretch out labor-hours and thus increase surplus value. Marx argued that only drastic legal limitations upon the length of the working day could set limits to this type of exploitation. The following quotation from *Capital* hints at the prevailing length of the working day in Marx's time and also discloses the vivid style in which he portrayed these conditions:

In the last week of June, 1863, all the London daily papers published a paragraph with the "sensational" heading "Death from simple overwork." It dealt with the death of the milliner, Mary Anne Walkley, 20 years of age, employed in a highly respectable dressmaking establishment, exploited by a lady with the pleasant name of Elise. The old, often-told story was once more recounted. This girl worked, on an average, 16½ hours, during the season often 30 hours, without a break, whilst her failing labor power was revived by occasional supplies of sherry, port, or coffee. It was just now the height of the season. It was necessary to conjure up in the twinkling of an eye the gorgeous dresses for the noble ladies bidden to the ball in honor of the newly imported Princess of Wales. Mary Anne Walkley had worked without intermission for 26½ hours, with 60 other girls, 30 in one room, that only afforded ⅓ of the cubic feet of air required for them. At night, they slept in pairs in one of the stifling holes into which the bedroom was divided by partitions of board. And this was one of the best millinery establishments in London. Mary Anne Walkley fell ill on one Friday, died on Sunday, without to the astonishment of Madame Elise, having previously completed the work in hand. The doctor, Mr. Keys, called too late to the deathbed, duly bore witness before the coroner's jury that "Mary Anne Walkley had died from long hours of work in an overcrowded workroom, and a too small and badly ventilated bedroom." In order to give the doctor a lesson in good manners, the coroner's jury thereupon brought in a verdict that "the deceased had died of apoplexy, but there was reason to fear that her death had been accelerated by overwork in an overcrowded workroom, etc." "Our white slaves," cried the *Morning Star*, the organ of the free-traders, Cobden and Bright, "our white slaves, who are toiled into the grave, for the most part silently pine and die."

"It is not in dressmakers' rooms that working to death is the order of the day,

but in a thousand other places; in every place I had almost said, where 'a thriving business' has to be done. . . . We will take the blacksmith as a type. If the poets were true, there is no man so hearty, so merry, as the blacksmith; he rises early and strikes his sparks before the sun; he eats and drinks and sleeps as no other man. Working in moderation, he is, in fact, in one of the best of human positions, physically speaking. But we follow him into the city or town, and we see the stress of work on that strong man, and what then is his position in the death-rate of his country. In Marylebone, blacksmiths die at the rate of 31 per thousand per annum, or 11 above the mean of the male adults of the country in its entirety. The occupation, instinctive almost as a portion of human art, unobjectionable as a branch of human industry, is made by mere excess of work, the destroyer of the man. He can strike so many blows per day, walk so many steps, breathe so many breaths, produce so much work, and live an average, say, of fifty years; he is made to strike so many more blows, to walk so many more steps, to breathe so many more breaths per day, and to increase altogether a fourth of his life. He meets the effort; the result is, that producing for a limited time a fourth more work, he dies at 37 for 50." [9]

Relation to the Use of Machinery

The use of machinery, Marx held, would merely stimulate the capitalist-employer to make the working day still longer. ". . . Machinery sweeps away every moral and natural restriction on the length of the working day. Hence, too, the economical paradox, that the most powerful instrument for shortening labor-time, becomes the most unfailing means for placing every moment of the laborer's time and that of his family, at the disposal of the capitalist for the purpose of expanding the value of his capital."[10] The attempt to get the most out of the machine would drive its owner to keep it in operation for the greatest possible portion of the potential working time. This necessarily stretches out the hours of its human tender. Moreover, since the absolute amount of surplus value realized by the capitalist-employer depends in part upon the number of workers he hires, and since the use of machinery will decrease this number, Marx argues that the employer will attempt to compensate himself for the absolute loss in surplus value due to the decreased number of employees by stretching out the day of each employee and thus making a greater portion of the day of each worker unpaid labor-time.[11]

Relation to Technological Progress

Moreover, anything which occurred or which the capitalist-employer might do to decrease the labor-content of commodities constituting labor's subsistence would thereby decrease the amount of time socially necessary to produce this subsistence. As long as the length of the working day re-

[9] *Ibid.*, pp. 280–282.
[10] *Ibid.*, p. 445.
[11] *Ibid.*, p. 445.

mained constant, such improvements in processes or machinery as brought this result would automatically increase surplus value by cutting the portion of the total produced value that the employer had to pay to the worker as a wage—in other words, increasing the unpaid-for portion of the working day. The increasing use of machinery and improvements in machinery and processes would all work toward this end.[12]

Relation to Speeding Up the Worker

The same net results in terms of increased surplus value could be achieved by intensifying and speeding up the workers' movements. The more product the worker turned out in a given time, the amount required for subsistence remaining unchanged, the greater would be the surplus value. Marx argued that as hours came to be limited by law, the employer turned to the practice of speeding up his labor. He pointed to machinery and "piece-wages" as the two chief devices the employer used to this end.

"As soon as that shortening [of the working day] becomes compulsory, machinery becomes in the hands of capital the objective means, systematically employed for squeezing out more labor in a given time. This is effected in two ways: by increasing the speed of the machinery, and by giving the workman more machinery to tend."[13]

Piece-wages were useful devices to the employer in speeding up his workers because "they furnish to the capitalist an exact measure for the intensity of labor."[14] Marx thus found that "piece-wages is the form of wages most in harmony with the capitalist mode of production,"[15] and that "in the workshops under the Factory Acts, piece-wages becomes the general rule, because capital can there only increase the efficacy of the working day by intensifying labor."[16]

Relation to the Use of Labor Cooperatively

In still another manner the capitalist-employer by his own efforts could increase surplus value. Marx pointed out that, when workers engaged in production as cooperating members of a factory unit, their cooperative endeavors were more productive than the aggregate of their efforts would have been had they applied them individually. This added labor power was unpaid for, since the capitalist-employer bought his labor by separate units. The product of this uncompensated labor power went to expand surplus value.[17] Likewise, anything the capitalist-employer does to increase the efficiency and smoothness of this cooperation among the units of labor

[12] *Ibid.*, pp. 345, 350, 352, 356-357, 405.
[13] *Ibid.*, p. 450.
[14] *Ibid.*, p. 605.
[15] *Ibid.*, p. 608.
[16] *Ibid.*, p. 609.
[17] *Ibid.*, pp. 361, 365, 366.

power he has purchased accrues to the recipients of surplus value. Moreover, "because this power costs capital nothing, and because, on the other hand, the laborer himself does not develop it before his labor belongs to capital, it appears as a power with which capital is endowed by Nature—a productive power that is immanent in capital."[18]

All Improvements in Production Increase Surplus Value

Marx concludes that, with wages tied to subsistence, all of the improvements in production, the increasing efficiency of industry, and the very increases in productivity of labor itself will go to enhance the surplus value incomes of capitalist-employers, lending capitalists, and landowners. Such is the exploitation of workers by owners under the capitalist system of economic organization.

Modern Compared with Previous Exploitation

Exploitation of labor, however, did not begin with the capitalist system. Engels found three historic forms of exploitation:

"Slavery is the first form of exploitation, the form proper to the world of antiquity; it was followed by serfdom in the Middle Ages, and wage labor in the more recent period. These are the three great forms of subjection, characteristic of the three great epochs of civilization. . . ."[19]

Similarly, Marx held that the wage worker in modern society was in reality a slave:

"The essential difference between the various economic forms of society, between, for instance, a society based on slave labor, and one based on wage labor, lies only in the mode in which this surplus labor is in each case exacted from the actual producer, the laborer."[20]

Marx, however, pictured modern "wage slavery" as more subtle and concealed than were the older forms of slavery. In the first period to which Engels referred, it was quite clear that *none* of the labor of the slave appeared to be paid for. He was kept alive by his owner who, as long as life continued, could demand all of the slave's time for his service. Under serfdom the portion of the serf's labor which was uncompensated was also clearly marked off. He owed his lord a certain portion of his time—the rest was his own. If the service to the lord was analogous to surplus value, it at least was not a hidden surplus. In contrast with this, the slavery of the modern wage worker is concealed. Ostensibly, he is a free agent contracting to sell his services to an employer. He is not required to render any services except those he agrees to sell. Thus all of the labor-time he puts in appears to be paid for. But if the amount the worker can get per day is limited by

[18] *Ibid.*, pp. 365-366.

[19] Friedrich Engels, "The Origin of the Family, Private Property and the State," *Handbook of Marxism*, p. 335.

[20] Karl Marx, *Capital*, p. 241.

the amount his family needs for its subsistence, and if the length of the working day is specified by the employer, who also may issue rules concerning how rapidly the employee must work during those hours, then, Marx contends, compensation is not proportionate to labor performed, and a concealed portion of the work day is not paid for.

"The wage form thus extinguishes every trace of the division of the working day into necessary labor and surplus labor, into paid and unpaid labor. All labor appears as paid labor. . . . In slave labor, even that part of the working day in which the slave is only replacing the value of his own means of existence, in which, therefore, in fact, he works for himself alone, appears as labor for his master. All the slave's labor appears as unpaid labor. In wage labor, on the contrary, even surplus labor, or unpaid labor, appears as paid. There the property relation conceals the labor of the slave for himself; here the money relation conceals the unrequited labor of the wage laborer."[21]

"The Roman slave was held by fetters: the wage laborer is bound to his owner by invisible threads. The appearance of independence is kept up by means of a constant change of employers, and by the *fictio juris* of a contract."[22]

THE ACCUMULATION OF CAPITAL

The Origin of Surplus Value

Marx realized that a complete explanation of the processes at work in the capitalist economy had to account for the beginning of that system. His theories of value, of wages, and of surplus value simply explained the system as a going affair and analyzed phenomena which were parts of a complex set of processes and institutions already existing. Where did the first capitalist-employers come from? Where did they get their surplus funds to hire the first workers on a contractual wage basis? How did free laborers with the power to sell their own services arise from an environment characterized by the feudal system of serfdom?

Once the processes of capitalism were set going, Marxian theory held that capitalist-employers used surplus value to enlarge the funds they used to hire labor. But where did the first surplus value come from, and of what did this original capital fund consist? ". . . It therefore seems likely that the capitalist, once upon a time, became possessed of money, by some accumulation that took place independently of the unpaid labor of others, and that this was, therefore, how he was enabled to frequent the market as a buyer of labor power."[23] "He, who before was the money owner, now strides in front as capitalist; the possessor of labor power follows as his labor."[24] Once such a fund of money existed, and concurrently there were

[21] *Ibid.*, p. 591.
[22] *Ibid.*, p. 628.
[23] *Ibid.*, p. 628.
[24] *Ibid.*, p. 196.

workers not only free but under pressure to sell their labor power for money, the two essential ingredients of the capitalist system prevailed. Its evolution from that point on could be a self-contained thing, since capital funds accumulated from surplus value.

"Primitive Accumulation"

Marx contended that the capitalist system had its origin in some historic events which, consistently with his economic interpretation of history, were caused by changes in the "mode of production." Such events he found in the England of the late fifteenth and early sixteenth centuries, and in other European countries at various times prior to the advent of capitalism. These years he refers to as a period of "primitive accumulation." "Primitive accumulation creates, at the one pole, the 'free' proletariat; at the other, the owner of money, the capitalist"—that is, the original proletarians and the original capitalist-employers.[25] "The expropriation of the agricultural producer, of the peasant, from the soil, is the basis of the whole process. The history of this expropriation, in different countries, assumes different aspects, and runs through its various phases in different orders of succession, and at different periods. In England alone . . . has it the classic form."[26]

Nature of "Primitive Accumulation"

The processes of "expropriation" during those centuries were traced in detail[27] by Marx who pointed out how, through the intermingling of economic developments and the ruthless use of force by those in power, the old feudal relationships were broken asunder and a peasant agricultural economy was uprooted. The rights of lords to receive services were transformed into money payments, while the rights of peasants to use certain lands were abolished and the land was transferred to those uses which had come to be more profitable—notably, sheep-raising. The elements in this transition are summarized by Marx as follows:

"The spoliation of the church's property, the fraudulent alienation of the state domains, the robbery of the common lands, the usurpation of feudal and clan property, and its transformation into modern private property under circumstances of reckless terrorism, were just so many idyllic methods of primitive accumulation. They conquered the field for capitalistic agriculture, made the soil part and parcel of capital, and created for the town industries the necessary supply of a 'free' and outlawed proletariat."[28]

Herein were the sources of the original capital funds in the form of

[25] V. I. Lenin, "The Teachings of Karl Marx," *Handbook of Marxism*, p. 553.
[26] Karl Marx, *Capital*, p. 787.
[27] See the early chapters of part viii, *Capital*.
[28] Karl Marx, *Capital*, p. 805.

money and of the original free proletariat who, having no rights to land on which they might produce for themselves, could live only by selling their labor power to those possessing money funds. The origins of capitalism Marx finds to reside in "the expropriation of the immediate producers, i.e., the dissolution of private property based on the labor of its owner,"[29] or in "a series of historical processes, resulting in a decomposition of the original union existing between the laboring man and his means of labor."[30] This newer form of economic relationship "has no natural basis, neither is its social basis one that is common to all historical periods. It is clearly the result of a past historical development, the product of many economical revolutions, of the extinction of a whole series of older forms of social production."[31]

Capital Accumulation from Surplus Values

Once the period of "primitive accumulation" is past, capital accumulation proceeds by accretions from surplus value. All surplus value realized becomes the property of the capitalist. Portions of this surplus are used for his personal consumption, while others are used to hire labor to engage in further production for the further acquisition of surplus value. All funds advanced to labor Marx calls capital, distinguishing funds put into tangible equipment ("constant capital") from those going to pay labor's current wages ("variable capital"). Since it is obvious that such a use of surplus value for capital purposes will not be undertaken unless the capitalist expects to get back more than he has laid out, and since the value processes of a capitalist economy work inevitably to that end, surplus value results from these outlays of capital in production. From these surpluses over and above the original outlays still more capital is put into the next productive operation, and so on under capitalism in a never-ending spiral of capital accumulation from surplus value. Marx points out emphatically that "by the side of the newly formed capital, the original capital continues to reproduce itself, and to produce surplus value, and that this is also true of all accumulated capital, and the additional capital engendered by it."[32]

After the process of capital accumulation is once set going, it is "the laborers' own labor, realized as a product, which is advanced to him by the capitalist";[33] "the produce of the labor of those who do work gets unavoidably accumulated in the hands of those who do not work and becomes in their hands the most powerful means to enslave the very men who produced it."[34] "Employing surplus value as capital, reconverting it into capital, is called accumulation of capital."[35]

[29] *Ibid.*, p. 834.
[30] Karl Marx, *Value, Price and Profit*, p. 39.
[31] Karl Marx, *Capital*, p. 188.
[32] *Ibid.*, p. 637.
[33] *Ibid.*, p. 622.
[34] Friedrich Engels, "The British Labor Movement," *Handbook of Marxism*, p. 200.
[35] Karl Marx, *Capital*, p. 634.

Abstinence not the True Source of Capital

Marx was aware of the claims of political economists that, in using funds they acquired to hire more labor in the productive process, capitalists were performing "abstinence" or were "saving." Economists contended that capital accumulation could not take place without such abstinence, which thereby became just as essential to further production as did labor power and therefore just as deserving of a reward. To this Marx issued a double reply. First, as has been noted, he contended that the original capital funds were merely taken by force from expropriated peasant workers. Second, the funds "saved" by modern capitalists were stolen no less, but merely in a different manner, since they came from surplus value. Marx proposes the question: Should anyone be compensated for saving rather than consuming funds which in any event he has stolen? In the following satirical passage Marx suggests that, since the capitalist finds it a hardship to save what he has stolen, he be freed from this burden by being kept from stealing:

"The simple dictates of humanity therefore plainly enjoin the release of the capitalist from this martyrdom and temptation, in the same way that the Georgian slave-owner was lately delivered, by the abolition of slavery, from the painful dilemma, whether to squander the surplus product lashed out of his niggers, entirely in champagne, or whether to reconvert a part of it, into more niggers and more land."[36]

Exploitation of Labor Inherent in Capitalism

To Marx the essence of the workings of the capitalist system is embodied in the value- and wage-determining processes and in the accumulation of capital. These he did not condemn. They were part and parcel of the entire capitalist order. As inseparable parts of it they could not stand alone, nor could the capitalist order exist without them. They were not immoral in themselves but only because they, as inherent parts of an entire economic system, yielded results which Marx held to be contrary to human welfare and to be internally inconsistent. We shall now turn to an examination of the consequences which Marx held to be the inevitable outcome of the economic processes at work in capitalism.

QUESTIONS FOR CLASS DISCUSSION

1. In what sense is Marx's theory of surplus value merely a logical combination of his theory of value and his theory of wages?
2. How is the contention that the capitalist-employer "buys labor power but gets labor" related to the theory of surplus value?
3. Does Marx contend that, since surplus value is ethically wrong, it ought to be eliminated from our economic system?

[36] *Ibid.*, p. 655.

4. Would it be correct to say that, although Marx objected to incomes consisting of surplus value, he had no similar objections to interest and land rent?
5. Would it be correct to say that Marx held surplus value to result from capitalist-employers overcharging for their commodities and underpaying their workers?
6. Could surplus value be done away with by reducing the length of the working day? Did Marx believe that this might take place?
7. As Marx analyzed the situation, did capitalist-employers get *all* of the benefits arising from the increasing use of machinery and improvement in technical processes?
8. Did Marx contend that modern "wage slavery" was just like the older types of human slavery?
9. What did Marx mean by a period of "primitive accumulation"? How did he relate it to the "accumulation of capital"?
10. Would Marx agree with those economists who contend that all of society's existing capital equipment has come from a process of "saving"?

Chapter 11

THE CONSEQUENCES OF CAPITALIST PRODUCTION

THE CLASS STRUGGLE

Nature of the Class Struggle

The most obvious consequence of the value processes at work under capitalism, and of their culmination in surplus value, is the division of modern society into two great classes between which there exists an irreconcilable clash of economic interests. The existence of classes with conflicting interests Marx held to be a universal historic phenomenon. He and Engels wrote into the Communist Manifesto that "the history of all hitherto existing society is the history of class struggles."[1] The Marxian dialectic of thesis, antithesis, and synthesis, and the Marxian economic interpretation of history jointly support this conclusion, which continues:

> In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In Ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guildmasters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.
>
> The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.
>
> Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other—bourgeoisie and proletariat.[2]

The Historic Source

It was the dissolution of the relationships existing in the old feudal society which created the new group alignments. The period of primitive

[1] *Handbook of Marxism*, p. 22.
[2] *Ibid.*, p. 23.

accumulation caused a marking-off of two economic groups from each other—those who had the money funds to hire others, and those who, having the personal freedom to hire out themselves, had to submit to being hired as the only possible source of a livelihood. With the accumulation of capital in the hands of the one group and their descendants, the continued tendency for workers to get nothing but their subsistence, and the embodiment of capital funds in new and better mechanical devices, these two classes were pushed further and further apart until in Marx's day their interests became so antagonistic that he felt the situation to be obviously that of a life-and-death struggle between them. It was Marx's purpose to instill into the workers a sense of this irreconcilable clash of interests. With their class consciousness developed, class struggle would ensue; and this, necessarily taking a political form, would be the first step of preparation for the overthrow of capitalism and the establishment of a new order.

Surplus Value the Economic Source

In attempting to arouse workers to a consciousness of their own exploited position, Marx wove his argument around his theory of surplus value. The surplus was the essence of the clash of interests; as long as it existed and was acquired by those who had the power to take it, there could be no basic harmony within society. As long as the property institutions of capitalism awarded this surplus to the one class, leaving the other to acquire nothing but the means of its subsistence, there was an unbridgeable gulf between the two classes. On one side, acquiring the surplus value out of which they accumulated still more capital, stood the owners; on the other, exhausting their wages in their own reproduction, were the workers. The former Marx labeled the "bourgeoisie," and the latter the "proletariat." As long as capitalism prevailed, surplus value would be generated and would go to the bourgeoisie; and as long as this took place, the proletariat never could change its economic status, it merely could continue to exist.

The Composition of the Bourgeoisie

The distinguishing feature of the bourgeoisie is the ownership of property—property in money funds, in land, and in man-made instruments of production. Since Marx makes surplus value the source of the incomes of the moneylender, the landowner, and the capitalist-employer, he implies that there are no essential differences in their interests or their positions within the bourgeoisie. Their ability to acquire income follows from their status as owners. "It is not because he is a leader of industry that a man is a capitalist; on the contrary, he is a leader of industry because he is a capitalist."[3]

[3] Karl Marx, *Capital*, p. 365.

The Position of the Lesser Bourgeoisie

Certain sections of the bourgeoisie, however, were not closely knit into the fabric of their class. They could not continue to be members of it indefinitely. "The lower strata of the middle class—the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen and peasants—all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which modern industry is carried on, and is swamped in the competition with the large capitalists, partly because their specialized skill is rendered worthless by new methods of production."[4] It is also held that as the class struggle "nears the decisive hour," defection will occur with "a portion of the bourgeois ideologists, who have raised themselves to the level of comprehending theoretically the historical movement as a whole."[5]

The Bourgeoisie Fostered Change

The bourgeoisie were far from the conservative class implied by the modern use of that term. "Historically," Marx and Engels pointed out, "the bourgeoisie has played a most revolutionary part. The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn asunder the motley feudal ties that bound man to his 'natural superiors,' and has left no other nexus between man and man than naked self-interest, than callous 'cash payment.' It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single unconscionable freedom—Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct brutal exploitation."[6] In short, the bourgeoisie has played the role of innovator in those changes which laid the basis for modern industry. Those arrangements, customs, and institutions which stood in the way of change it promptly dispensed with, oftentimes forcibly and with great human suffering.

The Contributions of the Bourgeoisie

These changes were not without benefit to human society as a whole. They brought the parts of the world into close contact. "Modern industry has established the world market, for which the discovery of America paved the way. This market has given an immense development to commerce, to navigation, to communication by land."[7] "The bourgeoisie . . . has been

[4] "Communist Manifesto," *Handbook of Marxism*, p. 31.
[5] *Ibid.*, p. 34.
[6] *Ibid.*, p. 25.
[7] *Ibid.*, p. 24.

the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades. . . . The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam-navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?"[8]

The Bourgeoisie Has Created the Proletariat

Despite all of these accomplishments, the bourgeoisie has set in operation certain forces which will cause its ultimate downfall. In a sense these forces are personified in the proletariat—"a class of laborers who live only so long as they find work, and who find work only so long as their labor increases capital. These laborers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market."[9] Since the bourgeoisie can exist only if, and to the extent that, there is a proletariat, the former may be said to have created the latter.

Moreover, in developing modern industrial processes the bourgeoisie often herded large masses of workers together under one roof and in one town. The proletariat was therefore in a much better position to "form combinations (trade unions) against the bourgeois," to "club together in order to keep up the rate of wages," to "found permanent associations in order to make provisions beforehand for these occasional revolts." The proletariat is further strengthened "by the improved means of communication that are created by modern industry, and that place the workers of different localities in contact with one another." Moreover, the bourgeoisie is constantly getting portions of the proletariat to fight its battles for it, battles with antagonistic elements within the bourgeoisie and with foreign bourgeoisie. The bourgeoisie thus "supplies the proletariat with its own elements of political and general education; in other words, it furnishes the proletariat with weapons for fighting the bourgeoisie."[10] Combining all this with the already noted defections from the bourgeoisie to the proletariat, Marx concludes that "what the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable."[11]

[8] *Ibid.*, pp. 26, 28.
[9] *Ibid.*, p. 30.
[10] *Ibid.*, pp. 32–33.
[11] *Ibid.*, p. 36.

THE STATE AS AN AGENCY OF OPPRESSION

The Nature of the State

Marx contended that in the class struggle the state was an agency or device controlled by the bourgeoisie to advance its own interests. By the "state" Marx meant nothing synonymous with organized society or with government.[12] Sidney Hook holds that in the Marxian sense "we may speak of a state only where a special public power of coercion exists which, in the form of an armed organization, stands over and above the population." In support of this he quotes Marx as saying that "the state presupposes the public power of coercion separated from the aggregate body of its members."[13] Presumably an organized society could exist in the absence of such power (as Marx held it would under full communism), while the government is merely the machinery in which this power resides.

The state in this "power of coercion" sense would have no function to perform unless there was something or somebody to be subjected to that power. "The state, therefore, has not existed from all eternity. There have been societies which managed without it, which had no conception of the state and state power. At a certain stage of economic development, which was necessarily bound up with the cleavage of society into classes, the state became a necessity owing to this cleavage."[14] Thus, "the state is the product and the manifestation of the irreconcilability of class antagonisms. The state arises when, where, and to the extent that the class antagonisms cannot be objectively reconciled. And, conversely, the existence of the state proves that the class antagonisms are irreconcilable."[15] "Political power, properly so called, is merely the organized power of one class for oppressing another."[16]

During each period in history, therefore, the state is in the possession of the class dominant at that particular time. "Former society, moving in class antagonisms, had need of the state, that is, an organization of the exploiting class at each period for the maintenance of external conditions of production; that is, therefore, for the forcible holding down of the exploited class in the conditions of oppression (slavery, villeinage or serfdom, wage labor) determined by the existing mode of production. The state was the official representative of society as a whole, its embodiment in a visible corporation; but it was this only in so far as it was the state of that class which itself, in its epoch, represented society as a whole; in

[12] Except for brief references this theory of the state was not treated by Marx. It was developed by Engels and Lenin. In our treatment their contributions are included as parts of Marxian theory.

[13] Sidney Hook, *Towards the Understanding of Karl Marx*, p. 256.

[14] Friedrich Engels, "The Origin of the Family, Private Property and the State," *Handbook of Marxism*, p. 332.

[15] V. I. Lenin, "The State and Revolution," *Handbook of Marxism*, p. 724.

[16] "Communist Manifesto," *Handbook of Marxism*, p. 46.

ancient times, the state of the slave-owning citizens; in the Middle Ages, of the feudal nobility; in our epoch, of the bourgeoisie."[17] Thus a state can be nothing else than a dictatorship—a dictatorship of one class over one or more other classes.[18]

The Bourgeois State

Such is the abstract nature of the state as an institution. Its particular evolutionary forms will be determined by the changing modes of production. Therefore, the same forces which brought into existence the original capitalist-employer and the original wage worker created what Marx, Engels, and Lenin have called the bourgeois state. As the power of the owning class has developed with the accumulation of capital, the power of the bourgeois state has increased concurrently, until it "is nothing but the organized collective power of the possessing classes, the landowners and the capitalists as against the exploited classes, the peasants and the workers. What the individual capitalists (and it is here only a question of these because in this matter the landowner who is also concerned acts primarily as a capitalist) do not want, their state also does not want."[19] The officials who "now stand as organs of society *above* society" are "but a committee for managing the common affairs of the whole bourgeoisie."[20] "Moreover, this power, which is the essence of the state and is wielded by the bourgeoisie, grows stronger in proportion as the class antagonisms within the state grow sharper. . . ."[21]

"Democracy" in the Bourgeois State

The state whose function is thus portrayed in Marxian theory is not necessarily a monarchical state, although at certain times it has been that. Engels takes particular care to point out that the "*modern representative state* is the instrument of the exploitation of wage labor by capital. . . . The highest form of state, the democratic republic, which in our modern social relations is becoming more and more an unavoidable necessity, and is the form of state in which alone the last decisive battle between proletariat and bourgeoisie can be fought out—the democratic republic no longer has any official cognizance of property differences. In it, wealth wields its power *indirectly,* but *all the more effectively.*"[22] These "indirect" controls, to Engels, exist "on the one hand in the form of direct corruption

[17] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism,* p. 295.

[18] Sidney Hook, *Towards the Understanding of Karl Marx,* p. 300.

[19] Friedrich Engels, "The Housing Question," *Handbook of Marxism,* p. 347.

[20] Friedrich Engels, "The Origin of the Family, Private Property and the State," *Handbook of Marxism,* pp. 329–330; "The Communist Manifesto," *Handbook of Marxism,* p. 25.

[21] Friedrich Engels, "The Origin of the Family, Private Property and the State," *Handbook of Marxism,* p. 329.

[22] *Ibid.,* pp. 330–331. Italics ours.

of the officials—America is the classic example of this; on the other hand in the form of an alliance between the government and the stock exchange, which comes about all the more easily the more the public debt increases and the more share companies concentrate in their hands not only transport but even production, and in turn find their own center of gravity in the stock exchange."[23]

Still more subtly "the possessing class rules directly by means of universal suffrage. So long as the oppressed class, that is, in our case, the proletariat, is not yet ripe for self-liberation, so long will it, that is, the majority, regard the existing social order as the only possible one, and be politically the tail of the capitalist class, its extreme left wing."[24]

Lenin contributes a more detailed catalogue of devices whereby the bourgeoisie controls the votes of the proletariat in a "democracy." He holds that "both in the . . . so-called petty details of the suffrage (residential qualification, exclusion of women, etc.), and in the technique of the representative institutions, in the actual obstacles to the right of assembly (public buildings are not for 'beggars'!), in the purely capitalist organization of the daily Press, etc., etc.—on all sides we see restriction after restriction upon democracy. These restrictions, exceptions, exclusions, obstacles for the poor, seem slight, especially in the eyes of one who has himself never known want and has never been in close contact with the oppressed classes in their mass life . . . but in their sum total these restrictions exclude and squeeze out the poor from politics and from an active share in democracy. Marx splendidly grasped this essence of capitalist democracy, when, in analyzing the experience of the Commune, he said that the oppressed were allowed, once every few years, to decide which particular representatives of the oppressing class should be in parliament to represent and oppress them."[25]

Lenin concludes not only that the so-called democratic state under capitalism oppresses the proletariat but also that "a democratic republic is the best possible political shell for capitalism, and therefore, once capital has gained control . . . of this very best shell, it establishes its power so securely, so firmly, that *no* change, either of persons, or institutions, or parties in the bourgeois republic can shake it."[26] Thus in all but the most exceptional cases—"periods when the warring classes so nearly attain equilibrium that the state power, ostensibly appearing as a mediator, assumes for the moment a certain independence relative to both"—state power in a modern "democratic" capitalist society remains an agency of oppression wielded by the bourgeoisie against the proletariat.[27]

[23] *Ibid.*, p. 331.
[24] *Ibid.*, p. 332.
[25] V. I. Lenin, "The State and Revolution," *Handbook of Marxism*, p. 744.
[26] *Ibid.*, p. 731.
[27] Friedrich Engels, "The Origin of the Family," *Handbook of Marxism*, p. 330.

From this it follows that "the working men have no country."[28] The machinery of state cannot be counted upon to alleviate any but the most trivial of the woes of the proletariat—by no means being an instrumentality through which effective gradual steps toward socialism can be taken. The state, rooted by its very nature in class struggle, can never be anything but an agency of oppression until class struggle disappears, and the class struggle between bourgeoisie and proletariat cannot disappear until capitalism itself is supplanted by communism.

THE INCREASING MISERY OF THE PROLETARIAT

"Contradictions" Within Capitalism

Neither the class struggle nor the use of the political state as an agency of oppression in themselves would destroy the capitalist system. Capitalism, including these two phenomena, could exist indefinitely were it not for what Marx held to be certain "contradictions" which develop automatically and inevitably within the capitalist order. Capitalism and the bourgeois state are unable to cope with these difficulties which seal the eventual doom of the system. A capitalist society "that has conjured up such gigantic means of production and of exchange is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells."[29]

While capital accumulates, workers are pressed into deeper and deeper misery. Despite this, the rate of profits realized by capitalist-employers falls. With the increasing misery of workers their purchasing power declines and they are unable to absorb their accustomed fractional part of the output of industry. Cyclical fluctuations of industrial activity are generated by the resulting overproduction. Surpluses of goods on markets and declining rates of profit increase the intensity of competition among capitalist business units. This competition, becoming cutthroat, leads to the killing off of the smaller industrial units and the concentration and centralization of the control of industry into fewer and fewer hands. The formation of monopolies engenders control by a group of financial overlords during a stage of "finance capital." Accompanying these domestic consequences of overproduction are the attempts of capitalist-employers to find foreign markets for their surplus products. Pressing the power of the state—which they control—into their service, they create "capitalist imperialism." These contradictions, which have fatally weakened the foundations of capitalism by the time the period of "finance capital" arrives, will reach the peak of their development during an imperialistic war. A "revolution" will occur and the proletariat, if properly prepared and organized under the leadership of the Communist party, will pick up the reigns of control and carry on.

[28] "Communist Manifesto," *Handbook of Marxism*, p. 43.
[29] *Ibid.*, p. 29.

Although Marxian theory is not pieced together with the precision this résumé implies, it emphasizes the automaticity with which the inherent contradictions develop within the system and carry it from stage to stage, eventuating in a complete economic collapse. We shall now review briefly the most important of these inherent contradictions within the capitalist system as they have been analyzed by Marx and his closest followers.

Surplus Value and Increasing Misery

In discussing the Marxian theory of surplus value it was noted that every increase in the productivity of labor or the efficiency of industry would accrue to the recipients of surplus value, since it would act to decrease the socially necessary labor-time required to produce labor's subsistence. Thus, the proportionate share of the total product realized by labor would constantly decline as long as the efficiency of production was increasing.

The "Reserve" of Labor

Marx viewed the forces at work in the capitalist system as operating in still other ways to press the proletariat into deeper and deeper "misery." He argued that since, as capitalism developed, the demand for labor would not develop proportionately to the accumulation of capital, a "reserve of labor" or "overpopulation" would be created, and this in turn would beat down wages through increased competition for the available jobs.

Machinery and the Reserve

This labor reserve was due primarily to the fact that, as the total amount of capital increased, a larger and larger portion of it went into instruments of production (constant capital), leaving a smaller and smaller portion available to hire labor directly (variable capital). Marx held that the "demand for labor is determined . . . by its variable constituent alone."[30] This is just another way of saying that as more machinery was used workers would be set free from their old jobs more rapidly than new jobs would develop. The reason for this was that the increased efficiency due to the expansion of machinery did not create mass purchasing power because it went into surplus value rather than into expanded wages. In modern terms, Marx was contending that accumulating technological unemployment would create a larger and larger army of unemployed workers. This would press wages downward in a number of ways. ". . . The pressure of the unemployed compels those who are employed to furnish more labor, and therefore makes the supply of labor, to a certain extent, independent of the supply of laborers."[31] This surplus labor also "floods all the more easily accessible branches of industry, swamps the labor market, and sinks

[30] Karl Marx, *Capital*, p. 690.
[31] *Ibid.*, p. 702.

the price of labor power below its value."[32] Finally, "a surplus working population, which is compelled to submit to the dictation of capital," would be less inclined to resist decreases in wages or increases in hours proposed by capitalist-employers.[33]

The Business Cycle and the Reserve

In like manner, the movements of the business cycle create temporary reserves of labor. During prosperity these surpluses may be reabsorbed into industry, cushioning demand and keeping wages from showing the strength they might otherwise display, while during depression the competition among these reserve laborers for jobs beats down the current wage rates. In Marx's words:

"The industrial reserve army, during periods of stagnation and average prosperity, weighs down the active labor army; during the periods of overproduction and paroxysm, it holds its pretensions in check."[34]

Concentration of Capital and the Reserve

Still a third set of forces assists in the creation of the reserve army of labor which characterizes the capitalist system. Marx holds that there is a continuing tendency for industry to become concentrated into fewer and fewer large units. The expanding scale of production in each industrial unit increases the pressure for the substitution of machinery for hand labor, thus further enlarging the labor reserve.[35]

THE DECLINING RATE OF PROFITS

The Cause of the Decline

Although surplus value is inherent in capitalism and increases as a portion of the total product of industry, and although the reserve army of workers and its effects upon wages under capitalism increase still further the misery of the workers, nevertheless the *rate* of profits tends to decline as capitalist production develops and capital accumulates.

Marx's line of reasoning on this point is concise. As capital accumulates in a capitalist society, proportionately more of the total will consist of machinery and tools (constant capital) and proportionately less of it will go into the payment of current wages (variable capital). However, only the latter can yield surplus value, since only labor creates value. Thus, since a smaller portion of the total outlay of capital goes into that use where surplus value is created, the surplus value realized will tend to be a smaller

[32] *Ibid.*, p. 470.
[33] *Ibid.*, p. 445.
[34] *Ibid.*, p. 701.
[35] *Ibid.*, p. 689.

and smaller percentage of the total (constant and variable) capital as that total increases.[36]

Resistance to the Decline

The only practicable way whereby the capitalist-employer can try to resist this tendency is to increase the degree of his exploitation of labor so that a given expenditure on variable capital yields in itself a sufficiently higher percentage of surplus value to cause the rate of profit on the total capital to remain constant or increase. The theory of the declining rate of profit is merely another slant on the contradictions and antagonisms Marx holds to be inherent in the capitalist system. The tendency for the misery of the workers to increase and the tendency for the rate of profits to fall bear an inverse relationship to each other. If workers can successfully resist the attempts of capitalist-employers to increase the degree of exploitation, the rate of profits must decline; if they cannot, the rate of profits may remain constant, or even increase.

THE BUSINESS CYCLE

Inherent in Capitalism

Even if it were assumed that workers could effectively resist the capitalists' attempts to exploit them more intensively, and even if the rate of profits were assumed to remain fairly constant, the adherence of wages to subsistence and the existence of surplus value would generate still another contradiction within the capitalist system. The "crisis," or in modern terms "depression," is an inevitable product of forces inherent in the capitalist economy. Crises arise, according to Marx and Engels, from "the fact that the social organization of production within the factory has developed to the point at which it has become incompatible with the anarchy of production in society which exists alongside it and above it."[37] The capitalist-employer is under constant competitive pressure to install new and better machinery and to increase the output of his industrial unit. Because he is the sole decision-maker for his unit, he can and does add new machinery, change labor about, and coordinate the entire process *within* his plant to the end that its products are turned out in greater volume. Since each capitalist-employer is subjected to the same pressure, each follows the same policy. While this, when examined from the standpoint of the single plant, appears to be an orderly and logical procedure, from the standpoint of *industry as a whole* the situation becomes "anarchy," for there is no planned coordination of the total output to the total market purchasing power.

[36] See "Excerpts from *Capital*, vol. iii," *Handbook of Marxism*, p. 495.
[37] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 290.

Capitalist Overproduction

Indeed, since the incomes of the masses of workers are limited to their subsistence, and since surplus value, which accounts for the remainder of the values produced, flows off to a limited number of owners already having relatively high incomes, there is no adequate force at work expanding mass purchasing power as industry expands its output. Only one thing can happen: After a time, capitalist-employers find unsalable stocks of commodities on their hands; "overproduction" has occurred; and industry must slow down to enable these surplus stocks to be liquidated. After an intervening period of liquidation, accompanied of course by severe human costs and the creation of a "reserve" of labor, industry again revives and the cycle is repeated.[38]

Marx carefully points out that the underlying cause of crises is overproduction in a "capitalist" sense and not in the sense of more being produced than can be consumed. "It is not a fact," he writes, "that too many necessities of life are produced in proportion to the existing population. The reverse is true. Not enough is produced to satisfy the wants of the great mass decently and humanely. . . . Too many commodities are produced to permit of a realization of the value and surplus value contained in them under the conditions of distribution and consumption *peculiar to capitalist production,* that is, too many to permit of the continuation of this process without ever-recurring explosions."[39]

Increasing Severity of Crises

Uncertainty and instability thus become quite normal in the modern capitalist society. But, more than this, industrial crises are constantly becoming more and more severe. They return periodically and "each time more threateningly."[40] The continually developing productive powers of mechanical devices are subjecting the capitalist-employers to ever greater pressure to "modernize" their equipment. The increases in surplus value, while wages cling to subsistence, make the domestic market unable to absorb current output, thus causing the accumulation of surpluses of commodities. The exploitation of foreign markets as outlets for these surpluses has a limit which, when reached, will cause overproduction to be more concentrated on domestic markets, and crises therefore to be more severe. These contradictions inherent in capitalist production, appearing as increasingly severe industrial crises, in Marxian theory constitute one of the major causes of the ultimate downfall of the capitalist system.

[38] See *ibid.,* pp. 289-291; "The Communist Manifesto," *Handbook of Marxism,* pp. 29-30: "Excerpts from *Capital,* vol. iii," *Handbook of Marxism,* pp. 524-527.

[39] *Ibid.,* pp. 525-526. Italics ours.

[40] "Communist Manifesto," *Handbook of Marxism,* p. 29.

THE CONCENTRATION AND CENTRALIZATION OF CAPITAL

Increasing Intensity of Competition

The tendency for the rate of profits to decline, the cyclical periods of overproduction, and the tendency for commodities to become cheaper as more machinery is used and labor productivity increases, all combine to create an intensely competitive situation. "... The fall in the rate of profit connected with accumulation necessarily creates a competitive struggle. ... The same thing is seen in the overproduction of commodities, the overstocking of markets. Since the aim of capital is not to minister to certain wants, but to produce profits, and since it accomplishes this purpose by methods which adapt the mass of production to the scale of production, not vice versa, conflict must continually ensue between the limited conditions of consumption on a capitalist basis and a production which for ever tends to exceed its immanent barriers."[41] "The battle of competition is fought by cheapening of commodities."[42]

Internecine Warfare Among Capitalists

As capitalist production develops, each individual capitalist-employer finds himself in a life-and-death struggle with his rivals. The development of credit facilities places an additional competitive weapon in the hands of those capitalists able to command them. In fact, "competition and credit ... develop in proportion as capitalist production and accumulation do."[43] The smaller capitalist-employer finds his position fatally weak. He drops out of the competitive struggle, or, rather, is swallowed by the larger industrial units. "This is a new form of expropriation. One capitalist expropriates, 'decapitalizes' another. 'One capitalist kills many.' Under the stress and strain of the contest capitals finally abandon their old positions and amalgamate into a few powerful hands."[44]

"Concentration" of Capital

Thus there is generated within the capitalist system of production a two-sided concentration of capital. The very nature of the productive process is conducive to this development, since "concentration of large masses of the means of production in the hands of individual capitalists is a material condition for the cooperation of wage laborers."[45] Marx distinguishes between two phases of this concentration of capital. The one he refers to as

[41] "Excerpts from *Capital*, vol. iii," *Handbook of Marxism*, p. 524.
[42] Karl Marx, *Capital*, p. 686.
[43] *Ibid.*, p. 687.
[44] M. M. Bober, *Karl Marx's Interpretation of History*, p. 219.
[45] Karl Marx, *Capital*, p. 362.

"concentration" proper. This takes the form of new accumulations of capital gravitating to the hands of relatively few capitalists, where they are transformed into large-scale industrial units.

"Centralization" of Capital

The other aspect he calls the "centralization" of capital. This may take place whether or not capital accumulation is occurring, since it "is concentration of capitals already formed, destruction of their individual independence, expropriation of capitalist by capitalist, transformation of many small into few large capitals. . . . Capital grows in one place to a huge mass in a single hand, because it has in another place been lost by many."[46] This centralization is the consequence of that competition in which "the larger capital beat the smaller. . . . The smaller capitals, therefore, crowd into spheres of production which Modern Industry has only sporadically or incompletely got hold of. Here competition rages in proportion to the number, and in inverse proportion to the magnitudes, of the antagonistic capitals. It always ends in the ruin of many small capitalists, whose capitals partly pass into the hand of their conquerors, partly vanish."[47] Meanwhile credit "becomes a new and formidable weapon in the competitive struggle, and finally transforms itself into an immense social mechanism for the centralization of capitals."[48]

Concentration and Centralization Are Self-Perpetuating

Once concentration and centralization of capital begin, they perpetuate and strengthen themselves, since "the cheapness of commodities depends on the productiveness of labor, and this again on the scale of production."[49] Also, the use of large-scale methods of production, involving as they do proportionately more machinery and less hand labor than small-scale methods, sets in motion further forces tending to decrease the rate of profits. The cheapening of commodities and the decreasing rate of profit both further intensify competition, thereby causing further centralization of capital.

FINANCE CAPITAL AND CAPITALIST IMPERIALISM

Marx implied that the spiral of ever-intensified competition among capitalist industrial units would culminate in "finance capital" and "capitalistic imperialism." In Marx's tracing of the "historical tendency of capitalist accumulation," "the monopoly of capital becomes a fetter upon the whole of production."[50] Moreover, "hand in hand with this centralization, or this expropriation of many capitalists by the few," Marx

[46] *Ibid.*, p. 686.
[47] *Ibid.*, pp. 686–687.
[48] *Ibid.*, p. 687.
[49] *Ibid.*, p. 686.
[50] *Ibid.*, p. 837.

foresaw "the entanglement of all peoples in the net of the world market" and the creation of the "international character of the capitalistic régime."[51]

Monopolistic Nature of Finance Capital

To Lenin, who expounded this portion of Marxian theory in some detail, the stage of capitalist development which he termed "finance capital" is featured by the evolution of two sets of circumstances:

"1. The concentration of production and capital, developed to such a high stage that it has created monopolies which play a decisive rôle in economic life.

"2. The merging of bank capital with industrial capital and the creation, on the basis of this 'finance capital,' of a financial oligarchy."[52]

Thus "capitalist monopolies" would replace "capitalist free competition." "Monopoly is the direct opposition of free competition; but we have seen the latter being transformed into monopoly before our very eyes, creating large-scale production and squeezing out small-scale production, replacing large-scale by larger-scale production, finally leading to such a concentration of production and capital that monopoly has been and is the result; cartels, syndicates and trusts, and, merging with them, the capital of a dozen or so banks manipulating thousands of millions."[53]

Finance Capital Is Parasitic

In such a stage of capitalist production the capitalist himself reaches the highest possible degree of parasitic existence. The control over production resides in liquid funds of money and credit. These are manipulated through monopolistic industrial units to squeeze out of the capitalist processes of production not only surplus values, but *monopolistic* surplus value. The capitalist and the control he exercises in the stage of finance capital have lost the last vestiges of any functional connection with the actual production of goods possessing use-value.

Transition to Capitalistic Imperialism

"Finance capital" reaching out beyond the boundaries of a single capitalist country becomes "capitalistic imperialism." Lenin suggests the following as steps in this transition:

"The export of capital, as distinguished from the export of commodities, becomes of particularly great importance.

"International monopoly combines of capitalists are formed which divide up the world.

[51] *Ibid.*, p. 836.

[52] V. I. Lenin, "Imperialism: The Highest State of Capitalism," *Handbook of Marxism*, p. 690.

[53] *Ibid.*, p. 689.

"The territorial division of the world by the greatest capitalist powers is completed."[54]

This stage of capitalistic imperialism cannot exist until finance capital becomes dominant domestically, that is, until capital comes to assume those money forms or credit forms in which it can easily transfer its residence from one country to another. Although capitalistic imperialism "undoubtedly represents a special stage in the development of capitalism, . . . it would be absurd to dispute . . . over the year or decade in which imperialism became 'definitely' established."[55] In fact, the stages of finance capital and capitalistic imperialism may well arrive in various nations at various times, "for under capitalism there cannot be an *equal* development of different undertakings, trusts, branches of industry or countries."[56]

The Existence of Capitalistic Imperialism

Despite the uncertainties and irregularities in the development of this stage of capitalist production, featured by an imperialistic struggle for markets and for opportunities for profitable investment of "finance capital," Lenin felt that it had arrived in some countries when he wrote in 1916:

". . . We see a few imperialist powers fighting amongst themselves for the right to share in this monopoly, and this struggle is characteristic of the whole period of the beginning of the twentieth century."[57]

A year later Lenin described the First World War in a similar but more vigorous tone when he wrote:

"The belligerent powers, the belligerent groups of capitalists, the 'masters' of the capitalist system, and the slavedrivers of a capitalist slavery, have been shackled to each other by the war with chains of iron. *One bloody lump,* that is the socio-political life of the historic period through which we are now passing."[58]

The "Highest" Stage of Capitalism

To Lenin, capitalistic imperialism is the "highest stage of capitalism" because it is the last. In "finance capital" and "capitalistic imperialism" all of the contradictions developed within the capitalist system of production arrive at their ultimate and collective climax. The mutually antagonistic interests nurtured by the capitalist system finally rise to such a pitch that they are self-destructive, the system itself being destroyed in the final clash. The monopolies which evolved from capitalist processes are essentially parasitic. Under "finance capital" "the stimulus to technical, and

[54] *Ibid.,* p. 690.
[55] *Ibid.,* pp. 690–691.
[56] *Ibid.,* p. 718.
[57] *Ibid.,* p. 709.
[58] V. I. Lenin, "Letters from Afar," *Handbook of Marxism,* p. 763.

consequently to all other progress, to advance, tends to disappear. . . ." This puts monopoly which "exists in the general capitalist environment of commodity production and competition, in permanent and insoluble contradiction to this general environment."[59] The capitalist system cannot continue without production, and yet the stage of monopoly or finance capital, which capitalist production itself breeds, is essentially destructive of productive forces. Thus, in Marx's words, capitalist production begets with the inexorability of a law of nature its own negation. It sets in operation monopolistic forces which "at last reach a point where they become incompatible with their capitalist integument. This integument is burst asunder. The knell of capitalist private property sounds."[60]

Imperialist Warfare

Capitalistic imperialism exists when the contradictions created by capitalist production play upon the world instead of a nation. Finance capital and monopoly, extending beyond national boundaries, "introduce everywhere the striving for domination, not for freedom. . . . Particularly acute also becomes national oppression and the striving for annexation, i.e., the violation of national independence."[61] Imperialistic colonization discloses the true nature of the capitalist system. "The profound hypocrisy and inherent barbarism of bourgeois civilization lies unveiled before our eyes, turning from its home, where it assumes respectable forms, to the colonies, where it goes naked."[62]

Alliances in a stage of capitalistic imperialism, "whether of one imperialist coalition against another or of a general alliance of *all* the imperialist powers, *inevitably* can be only 'breathing spells' between wars. Peaceful alliances prepare the ground for wars and in their turn grow out of wars."[63] These international antagonisms are destructive. Eventually, so holds Marxian theory, imperialist war or wars will generate sufficient destructive force to rend the capitalist system of production which is, at once, the environment within which capitalistic imperialism exists, and its creator.

The Inevitable Downfall of Capitalism

We have examined those contradictions or antagonisms which, according to Marxian theory, are rooted in the valuation processes of a capitalist

[59] V. I. Lenin, "Imperialism: The Highest Stage of Capitalism," *Handbook of Marxism*, p. 700.

[60] Karl Marx, *Capital*, p. 837.

[61] V. I. Lenin, "Imperialism: The Highest Stage of Capitalism," *Handbook of Marxism*, pp. 719–720.

[62] Karl Marx, "India," *Handbook of Marxism*, p. 193.

[63] V. I. Lenin, "Imperialism: The Highest Stage of Capitalism," *Handbook of Marxism*, p. 718.

economy, are nurtured by it, and ultimately will destroy it. The fate of capitalism is thus inevitable, since it is sealed by the very processes which the system itself inherently generates. Marxian theory includes an analysis of the institutions and processes which may succeed capitalist production. To these we now turn our attention.

QUESTIONS FOR CLASS DISCUSSION

1. What did Marx mean by a "class" in his doctrine of the "class struggle"? On what basis could the "proletariat" be distinguished from the "bourgeoisie" in modern society?
2. In what respect was the "class struggle" under capitalism distinctly different from class struggles which had preceded the advent of capitalism?
3. Would Marx have agreed that, if there is a class struggle under capitalism, every effort should be made to reconcile the interests of the struggling classes?
4. Is the Marxian theory of class struggle in any way connected with the theory of surplus value?
5. What thesis did Marx put forth concerning the "great middle class" to which present-day speakers and writers so often refer?
6. In what sense did Marx hold that the bourgeoisie "produces, above all, its own grave-diggers"?
7. Did Marx use the word "state" as synonymous with "government" or "organized society"?
8. What part did Marx contend the "state" plays in a society featured by "capitalism"? Would this be true even of a "democratic" state?
9. What forces did Marx find working in a capitalist system to increase the "misery" of the workers?
10. Was it not inconsistent for Marx to argue that, while workers were being forced into increasing misery, the "rate of profits" was declining?
11. Did Marx favor the smoothing out of the cyclical fluctuations in business activity under a capitalist economy?
12. Distinguish between the "concentration" and the "centralization" of capital. Toward what end did Marx hold both of them were working?
13. In what sense was "capitalistic imperialism" held to be the "highest" stage of capitalism?
14. Did Marx believe that the capitalist system would fall even though no revolutionary groups sought its overthrow?

Chapter 12

CAPITALISM'S SUCCESSORS—SOCIALISM AND COMMUNISM

TRANSITION BY REVOLUTION

After Capitalism

Marx held that the culmination of the internal contradictions generated by capitalist production would be the breaking up of the entire capitalist system and its adjunct, the political state. The proletariat could seize power, establish its own state, crush out all capitalist-employers and their class ideology, and subject all economic processes to the proletarian state machinery. This would be *socialism* or the *first stage of communism.* With the liquidation of capitalist property, institutions, and surplus value, there would develop a new socialized or communized psychology, permitting the gradual liquidation of the proletarian state and its agencies of oppression which had been directed against the former capitalists. Each person then would be motivated to work in accord with his full "capacity" and to consume from the common product merely in accord with his "needs." The era of *full communism* would be ushered in. This latter Marx held to be the best possible form of economic society. Since economic institutions give the tone to all institutions, society will have reached its highest possible state of perfection.

The Question of Revolution and Violence

What degree of force and violence will accompany the fall of capitalist production and the assumption of economic and political power by the proletariat? Can the change be accomplished by peaceful, evolutionary, parliamentary methods, or is a revolutionary *coup* accompanied by substantial measures of violence inherent in such a change? Students of Marxian theory have waged wordy battles over these matters, and international working-class movements have been wrecked again and again by disagreements among their adherents as to what transitional pattern is implicit in Marxian theory.

The Proletariat Must Seize Political Power

In several respects Marxian theory bearing upon this point is unmistakably clear. State power in a capitalist system is possessed by the owning class and used to support and defend that system. This means, according to Marxian theory, that the proletariat cannot acquire power over the economic system without gaining possession of the political state. As Lenin put it: "Every economic fight of necessity turns into a political fight, and social-democracy must indissolubly combine the economic with the political fight into a united class struggle of the proletariat."[1] Unquestionably, Marx held that the proletariat should seize political power when the "death knell" of capitalism sounded.

The Role of Force in History

Moreover, Marxian theory places much stress upon the role which force has played in history. Capitalist private property and the accumulation of capital are rooted in that forceful disruption of institutions and relationships which Marx called "primitive accumulation." Engels takes Dühring to task for holding that "force is the absolute evil" and "the original sin." "That force, however, plays another role in history, a revolutionary role; that, in the words of Marx, it is the midwife of every old society which is pregnant with the new, that it is the instrument by the aid of which social movement forces its way through and shatters the dead, fossilized, political forms—of this there is not a word in Herr Dühring. . . . And this in spite of the immense moral and spiritual impetus which has resulted from every victorious revolution!"[2]

Revolution Necessary

The writings of Marx and Engels give ample basis for Lenin's contention that "the replacement of the bourgeois state is impossible without a violent revolution."[3] A number of the more concise statements of this revolutionary doctrine may be noted:

> He [Marx] certainly never forgot to add that he hardly expected the English ruling classes to submit, without a "pro-slavery rebellion," to this peaceful and legal revolution.[4]
>
> With us it is not a matter of reforming private property, but of abolishing it; not of hushing up the class antagonism, but of abolishing the classes; not of ameliorating the existing society, but of establishing a new one.[5]
>
> The arming of the whole proletariat with rifles, guns, and ammunition must be

[1] V. I. Lenin, "Our Program," *Handbook of Marxism*, p. 575.
[2] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 278.
[3] V. I. Lenin, "The State and Revolution," *Handbook of Marxism*, p. 739.
[4] Friedrich Engels' preface to Karl Marx, *Capital*, p. 32.
[5] Karl Marx, "Address to the Communist League," *Handbook of Marxism*, p. 64.

carried out at once; we must prevent the revival of the old bourgeois militia, which has always been directed against the workers. Where the latter measure cannot be carried out, the workers must try to organize themselves into an independent guard, with their own chiefs and general staff, to put themselves under the order, not of the government, but of the revolutionary authorities set up by the workers. Where workers are employed in state service they must arm and organize in special corps, with chiefs chosen by themselves, or form part of the proletarian guard. Under no pretext must they give up their arms and equipment, and any attempt at disarmament must be forcibly resisted.[6]

In short, the communists everywhere support every revolutionary movement against the existing social and political order of things. . . . The communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling class tremble at the communist revolution. The proletarians have nothing to lose but their chains. They have a world to win. Working men of all countries, unite! [7]

It is to force that in due time the workers will have to appeal if the dominion of labor is at long last to be established.[8]

Revolution not Inevitable

These tenets of course do not make the revolution inevitable. As Sidney Hook points out, Marxian theory logically permits chaos to be the successor to and the result of the break-up of capitalist production—provided the proletariat is not organized and equipped to take over the reins of political and economic control.[9] Short of this, however, if organized society is to continue to exist, the change must be revolutionary, accompanied by organized force and probably violent acts.

No Standard Pattern of Revolution

This does not mean that the revolution must follow some standardized course in every country at the same time. Marx and Engels admitted that the specific revolutionary tactics and weapons of combat would have to fit the time and place of revolutionary activity.[10] Nor could the revolution be successful unless certain objective conditions prevailed. The transition to a new society "becomes realizable not through the perception that the existence of classes is in contradiction with justice, equality, etc., not through the mere will to abolish these classes, but through certain new economic conditions."[11] Sidney Hook has summarized these conditions to include: First, "the breakdown of the forces of production and dis-

[6] *Ibid.*, p. 67.

[7] "Communist Manifesto," *Handbook of Marxism*, p. 59.

[8] Karl Marx, quoted by Sidney Hook, *Towards the Understanding of Karl Marx*, p. 289.

[9] *Ibid.*, p. 110.

[10] See Harry W. Laidler, *A History of Socialist Thought*, pp. 182–184.

[11] Friedrich Engels, "Anti-Dühring," *Handbook of Marxism*, p. 296.

tribution" in the capitalist system; second, "lack of immediate political homogeneity on the part of the ruling classes," such as would be brought about by a crisis, a war, some natural calamity, or disagreement among the bourgeoisie over policy, any of which might cause a substantial loss of bourgeois prestige; third, "spontaneous manifestations of class consciousness and struggle" such as strikes, riots, or mass demonstrations.[12]

When such conditions developed they were expected to be obvious to the Marxians, although their actual discernibility becomes doubtful when one recalls that Engels, writing in 1886 of England, felt that "we can almost calculate the moment when the unemployed, losing patience, will take their own fate into their own hands";[13] and that the Communist Manifesto referred to Germany as being "on the eve of a bourgeois revolution" which "will be but the prelude to an immediately following proletarian revolution."[14]

To initiate a revolution at a time or in a place lacking these objective prerequisites to its success, rather than to await their creation, was to engage in "mad adventurism" rather than a true communist revolution.[15] Nor was the ultimate necessity for revolution to prevent the cooperation of those seeing its necessity with social reformers who did not. The Communist Manifesto called upon communists to "labor everywhere for the union and agreement of the democratic parties of all countries."[16] Such cooperation would strengthen and better organize the proletariat for its post-revolutionary tasks.

Shift of Emphasis to Non-Revolutionary Change

In contrast with the "odes to physical violence" noted above, is the following much-quoted passage from Marx:

"But we do not assert that the way to reach this goal is the same everywhere. We know that the institutions, the manners and the customs of the various countries must be considered, and we do not deny that there are countries like England and America, and, if I understood your arrangements better, I might even add Holland, where the worker may attain his object by peaceful means. But not in all countries is this the case."[17]

During the later writing years of Marx and Engels other statements, less direct but nonetheless meaningful, disclose a certain shift of emphasis from revolutionary to evolutionary processes of social change. Marx and Engels appeared to rely less upon the inevitable necessity of revolutionary trans-

[12] Sidney Hook, *Towards the Understanding of Karl Marx*, p. 276.
[13] Friedrich Engels' preface to Karl Marx, *Capital*, pp. 31–32.
[14] "Communist Manifesto," *Handbook of Marxism*, p. 59.
[15] Sidney Hook, *Towards the Understanding of Karl Marx*, pp. 273–274.
[16] *Handbook of Marxism*, p. 59.
[17] Quoted from Marx's speech at the Hague Convention of the First International in 1872. Harry W. Laidler, *A History of Socialist Thought*, p. 194.

formation and to place more hope in social reform measures as means to an ultimate control by the proletariat.

Professor Bober, while admitting that "it is hard to tell" why Marx and Engels made this shift, ventures some "suggestions";

"In the early period [prior to 1848–51] they were fiery men in their thirties, smarting in exile, fresh with the memories of abuses dealt out to them by various governments," while, later, older age brought a cooler attitude and a calmer way of looking at things. There were doctrines of evolution before and throughout the first half of the nineteenth century, but Darwin's *Origin of Species* in 1859 impressed people's minds with the idea of gradual development; and Marx and Engels were eager followers of the achievements of science. Actual experience of the uprisings of '48 and later convinced them that a few enthusiasts cannot prevail against bullets and cannon balls directed by skilled hands. Again, in the eighteen-forties, and for a while afterward, the plight of the workers appeared to be serious. There were no effective factory laws and no public opinion favoring the laborer to any considerable extent. He was helpless. It was a time when so judicious a person as John Stuart Mill was pessimistic about capitalism, doubted whether all the inventions lightened human toil, and wondered at times whether socialism held better promise. A brutal conflict seemed to Marx and Engels the inevitable means of emancipation. But later, when the worker gained dignity, power, and suffrage, they began to see hope in other expedients.[18]

Marxian Theory Basically Revolutionary

What can be concluded as to the place of revolution in Marxian theory? If one were to try to strike a balance between those portions of the theory emphasizing the inevitability of revolutionary change and those implying an evolutionary and parliamentary transition to socialism, the former appear to be the more weighty. Marxian theory is saturated with reasoning which can lead to no other conclusion than a violent death for capitalist production. To interpret Marx as really expecting or urging anything other than this would actually necessitate rewriting to the point of inanity a large portion of Marxian thought. Suggestions in Marx which imply the possibility of effective non-revolutionary change from capitalism to something better are found to be cursory, superficial, and hastily formulated when compared with the integral parts of the basic fabric of Marxism. The latter are wholly revolutionary and, to say the least, not unsuspecting of the necessity of violence as a phase of the coming revolution.

The existence of statements contradicting the revolutionary thesis must be accounted for by the piecemeal way in which Marx and Engels often wrote, the temporary and passing uses to which they thought much of

[18] M. M. Bober, *Karl Marx's Interpretation of History*, pp. 252–253.

their writing would be put,[19] and the pressure of somewhat inconsistent but surface influences which the events of the time brought to bear unduly upon them. No comprehensive non-revolutionary interpretation of Marx has stood the test of consistency which careful students of Marxian theory impose upon it; in all likelihood, none ever will.

THE DICTATORSHIP OF THE PROLETARIAT AND SOCIALISM

Nature of the Dictatorship

Portions of what has come to be called Marxian theory are the development of what were potent but much abbreviated statements by Marx and Engels. Such is the theory which outlines the nature and functions of the political and economic machinery which is to be set up immediately upon the destruction of capitalism. This machinery is known collectively as the "dictatorship of the proletariat." Marx's brief reference to the necessity for such a transitional stage along the way to full communism was made in his criticism of the Gotha Program, a program of social reforms:

"Between the capitalist and the communist systems of society lies the period of the revolutionary transformation of the one into the other. This corresponds to a political transition period, whose state can be nothing else but the revolutionary dictatorship of the proletariat."[20]

The Proletarian State

As amplified by Lenin, the state during the dictatorship of the proletariat would be, just as a state by its very nature always must be, an agency of oppression. In this particular setting it would be possessed by the proletariat (in power after the downfall of the capitalist system) and used by them to oppress the capitalist class—in fact, to destroy capitalists completely—"for there is no one else and no other way to break the resistance of the capitalist exploiters."[21] In terms of political power, the classes have merely changed places. The bourgeoisie have lost possession of the state power and the proletariat have acquired it, the ruled have become the rulers, the expropriators have been expropriated of political power.

"Democracy" in the Dictatorship of the Proletariat

But this "dictatorship" embodies more real democracy than did the preceding bourgeois state, even though that may have been called a "democracy." Democracy in the Marxian sense means the absence of restrictions upon liberty. Whereas this form of democracy formerly prevailed for the capitalists (the few) and not for the workers (the many), it now prevails for the workers (the many) and not for the lingering capital-

[19] Notably various speeches and newspaper articles.

[20] Quoted by Harry W. Laidler, *A History of Socialist Thought*, p. 195.

[21] V. I. Lenin, "The State and Revolution," *Handbook of Marxism*, p. 744.

ists (the few). The latter must be crushed "in order to free humanity from wage slavery; their resistance must be broken by force; it is clear that where there is suppression there is also violence, there is no liberty, no democracy. . . . Democracy for the vast majority of the people, and suppression by force, i.e., exclusion from democracy, of the exploiters and oppressors of the people—this is the modification of democracy during the *transition* from capitalism to communism."[22]

The Proletarian Economy: Socialism

Certain economic features of the dictatorship of the proletariat will be strikingly similar to those of capitalist production. The external appearance of industry will have been changed very little. There will have been no major changes in the industrial equipment or the technical processes of production. The one all-important change is that the capitalists' property will have been appropriated by the proletariat acting through what will then be *their* state. "The means of production are no longer the private property of individuals. The means of production belong to the whole of society."[23] "All citizens are here transformed into hired employees of the state, which is made up of the armed workers. All citizens become employees of one national state 'syndicate.' " The "scientifically educated staffs of engineers, agronomists, and so on" who have been "obeying the capitalists . . . will work even better tomorrow, obeying the armed workers."[24]

Wages Under Socialism

Laborers will work for wages, each worker receiving "for an equal quantity of labor an equal quantity of products," and "he who does not work, shall not eat."[25] Since, as will be recalled from the Marxian theory of wages, an hour of skilled labor is the equivalent of some multiple of an hour of unskilled labor, daily wages will not be equal, but "every worker, therefore, receives from society as much as he has given it."[26] "The first phase of communism, therefore, still cannot produce justice and equality; differences, and unjust differences, in wealth will still exist, but the exploitation of man by man will have become impossible, because it will be impossible to seize as private property the *means of production,* the factories, machines, land, and so on."[27] This society is "one which is just emerging from *capitalist* society, and which therefore in all respects—economic,

[22] *Ibid.,* p. 745.
[23] *Ibid.,* p. 748.
[24] *Ibid.,* p. 757.
[25] *Ibid.,* p. 751.
[26] *Ibid.,* p. 749.
[27] *Ibid.,* p. 749.

moral and intellectual—still bears the birthmarks of the old society from whose womb it sprung."[28]

Preparation for the Next Stage

When such an economy, dominated by the proletarian state, has gotten into smooth operation, nonconformity by an individual will be "a rare exception, and will probably be accompanied by such swift and severe punishment (for the armed workers are men of practical life, not sentimental individuals, and they will scarcely allow anyone to trifle with them), that very soon the *necessity* of observing the simple, fundamental rules of everyday social life in common will have become a habit. The door will then be open for the transition from the first phase of communist society to its higher phase. . . ."[29]

FULL COMMUNISM

The Ultimate Goal

The transition from capitalism to the ideal society does not end with the ownership and operation of industry by a proletarian state, that is, with socialism. Marx referred to, and Lenin developed the details of, a full communistic society which was expected to evolve out of the socialistic dictatorship of the proletariat. Apparently Marx and Engels envisioned such a society when they wrote in the Communist Manifesto that if the proletariat successfully "sweeps away by force the old conditions of production, then it will, along with those conditions, have swept away the conditions for the existence of class antagonisms and of classes generally, and will thereby have abolished its own supremacy as a class. In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association in which the free development of each is the condition for the free development of all."[30] More specifically, Marx has described this full communism as follows:

In a higher phase of communist society, when the enslaving subordination of individuals in the division of labor has disappeared, and with it also the antagonism, between mental and physical labor; when labor has become not only a means of living, but itself the first necessity of life; when, along with the all-round development of individuals, the productive forces too have grown, and all the springs of social wealth are flowing more freely—it is only at that stage that it will be possible to pass *completely* beyond the horizon of bourgeois rights, and for society to inscribe on its banners: from each according to his ability: to each according to his needs!"[31]

[28] Lenin quoting Marx in *ibid.*, p. 748.
[29] *Ibid.*, p. 759.
[30] "Communist Manifesto," *Handbook of Marxism*, p. 47.
[31] Lenin quoting Marx in "The State and Revolution," *Handbook of Marxism*, pp. 751–752. Italics ours.

Full Communism not Inevitable

However, the transition from socialism to full communism is not inevitable in the same way that the internal contradictions of the capitalist system lead to its inevitable destruction. Referring to critics who held full communism to be an unobtainable utopia, Lenin pointed out that their position was one of "ignorance—for it has never entered the head of any socialist to 'promise' that the highest phase of communism will arrive. . . ."[32] He further pointed out that full communism cannot be "introduced" and that "by what stages, by means of what practical measures humanity will proceed to this higher aim—this we do not and cannot know."[33]

Conditions Necessary to Attainment of Full Communism

Only if the proletariat is prepared to accept its responsibilities under the socialistic dictatorship of the proletariat, and to use its power to develop those objective and psychological conditions essential to full communism, will the highest stage of communism be ushered in. Marx hinted at the nature of these conditions in the statement quoted above. Lenin summarized them as being "both a productivity of labor unlike the present and a person not like the present man in the street, capable of spoiling, without reflection . . . the stores of social wealth, and of demanding the impossible."[34] He contended that, when we note how "incredibly" capitalism retards productive forces, "we have a right to say, with the fullest confidence, that the expropriation of the capitalists will inevitably result in a gigantic development of the productive forces of human society."[35]

Thus, the organized proletariat after the downfall of the capitalist system was to work for the firm establishment of state-owned and operated industry, the tremendous expansion of production by freeing it from capitalist restrictions, and the creation of a new psychology in which each would *want* to perform his social function. All capitalist ideology would be crushed out, and all antagonistic differentiation between manual and mental labor (and therefore between town and country, and between degrees of skill) would cease.

The "Withering Away" of the State

As the proletariat gradually accomplishes these goals, the state—the political weapon of the proletariat during its dictatorship—correspondingly ceases to exist; it "withers away." Since the Marxian theory of the state holds it to be merely an agency of class oppression, as class distinctions and antagonisms disappear there gradually comes to be less and less of a

[32] *Ibid.*, p. 753.
[33] *Ibid.*, pp. 754, 756.
[34] *Ibid.*, p. 753.
[35] *Ibid.*, p. 752.

function for the state to perform and it therefore atrophies.[36] The state is not "abolished," it disappears by the operation of processes entirely automatic since they are generated by changes in the "mode of production."

As these forces work to their ultimate conclusion, which "must obviously be a rather lengthy process,"[37] the state ceases to exist in any degree. Classes have entirely disappeared; there is no class to be oppressed and consequently no function for a political state. Whatever economic functions of control the state formerly performed will have been absorbed either by the operation of the individuals' communized psychologies which now direct them to do what the proletarian state has previously ordered them to do, or by voluntary cooperative agreements among citizen-workers (as, for instance, on the length of the working day). Lenin has pictured this political aspect of the highest phase of communism in several remarkable passages.

> Only in communist society, when the resistance of the capitalists has been completely broken, when the capitalists have disappeared, when there are no classes (i.e., there is no difference between the members of society in their relation to the social means of production), *only then* "the state ceases to exist," and *"it becomes possible to speak of freedom."* Only then a really full democracy, a democracy without any exceptions, will be possible and will be realized. And only then will democracy itself begin to *wither away* due to the simple fact that, freed from capitalist slavery, from the untold horrors, savagery, absurdities and infamies of capitalist exploitation, people will gradually *become accustomed* to the observation of the elementary rules of social life that have been known for centuries and repeated for thousands of years in all school books; they will become accustomed to observing them without force, without compulsion, without subordination, without the *special apparatus* for compulsion which is called the state.[38]

Finally, only communism renders the state absolutely unnecessary, for there is *no one* to be suppressed—"no one" in the sense of a *class,* in the sense of a systematic struggle with a definite section of the population. We are not Utopians, and we do not in the least deny the possibility and inevitability of excesses on the part of *individual persons,* nor the need to suppress *such* excesses. But, in the first place, no special machinery, no special apparatus or repression is needed for this; this will be done by the armed people itself, as simply and as readily as any crowd of civilized people, even in modern society, parts a pair of combatants or does not allow a woman to be outraged. And, secondly, we know that the fundamental social cause of excesses which consists in violating the rules of social life is the exploitation of the masses, their want and their poverty. With the removal of this chief cause, excesses will inevitably begin to "wither away." We do not know how quickly and in what succession, but we know that they will wither away. With their withering away, the state will also wither away.[39]

[36] See Friedrich Engels and Karl Marx, in *Handbook of Marxism,* pp. 564, 733, 734, 735.

[37] V. I. Lenin, "The State and Revolution," *Handbook of Marxism,* p. 740.

[38] *Ibid.,* p. 745.

[39] *Ibid.,* p. 747.

Economic Aspects of Full Communism

The chief economic features of full communism may be summarized briefly. Society, now composed entirely of workers, except for those who are physically or mentally incapacitated, owns in common the natural and man-made instruments of production. Although differences in personal tastes and many individual idiosyncrasies remain, society is classless because the former owning class has been partly destroyed and partly absorbed into the working class. With surplus value no longer received by anyone, the workers possess the entire product which they, assisted by nature and man-made implements, turn out. The more labor *produces,* the more labor *has.* Consequently each is motivated to perform his part in the cooperative undertakings of production in accordance with his full abilities. The increased productivity of society assures each member of getting what he needs and each, therefore, consumes currently in accord with these needs. The citizen of such a society is unable to store up private possessions in the form of capital or capital funds, and finds it unnecessary to store up private possessions of consumers' goods.

Paradoxically, economic life assumes at once both a fullness and a simplicity, on the one hand affording the material basis for higher forms of pleasure and culture and, on the other, permitting leisure and freedom from economic worries to stimulate the pursuit of higher pleasures. "As soon as this cherished system arrives, antitheses have nothing to feed on, the antagonisms allay; and the dialectic ceases in its travails."[40] Truly, this is a *new society* to its very philosophical foundations.

THE FUNCTION OF THE COMMUNIST PARTY

The Need of the Proletariat for Leadership

Whether the breakdown of the capitalist system is to be followed by an evolutionary development of full communism or by chaos depends, in Marxian theory, almost entirely upon the ability and willingness of the proletariat to grasp power at the opportune time and to choose tactics suitable to the situation and the task to be performed. Marx hints that these tactics are not to be discovered by fine theorizing. "A class in which the revolutionary interests of society are concentrated, so soon as it has risen up, finds directly in its own situation the content and the material of its revolutionary activity: foes to be laid low; measures, dictated by the needs of the struggle, to be taken; the consequences of its own deeds to drive it on. It makes no theoretical inquiries into its own task."[41]

Nevertheless, as Marx looked about him, he found the proletariat unorganized, unconscious of its common interests, politically ignorant, and

[40] M. M. Bober, *Karl Marx's Interpretation of History,* p. 44.
[41] Karl Marx, "The Class Struggles in France," *Handbook of Marxism,* p. 105.

mentally subservient to prevailing bourgeois ideology. Should it remain so, the breakdown of capitalism would merely bring chaos. Exploitation in itself would not necessarily create class consciousness; understanding and emotional arousal were needed. In short, the proletariat had to have leadership.

The Place of the Communist Party

In such terms Marx conceived of the functions of the Communist party —a new, thoroughly revolutionary party to lead the proletariat. Stalin must have precisely paraphrased Marx's thoughts when he remarked that "a working class without a revolutionary party is like an army without a general staff. The party is the military staff of the proletariat."[42] "The communists are distinguished from the other working-class parties by this only: (1) In the national struggles of the proletarians of the different countries, they point out and bring to the front the common interests of the entire proletariat, independently of all nationality. (2) In the various stages of development which the struggle of the working class against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole." The communists are to form the "most advanced and resolute section of the working-class parties of every country" since "they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement."[43]

The Aim of the Communist Party

"The immediate aim of the communists is . . . the formation of the proletariat into a class, overthrow of the bourgeois supremacy, conquest of political power by the proletariat."[44] Forming the proletariat into a "class" means, in Marxian terms, the development of class consciousness, that is, a full realization that the capitalist-employers are exploiting the workers and that this exploitation is an inherent part of the capitalist system. Educated economically and politically to the point where they understand this in all its ramifications, and with the Communist party as the center of a class solidarity, the proletariat would rise up, with the advent of the necessary objective conditions, and seize possession of the political machinery and the ownership of capital. Once this was accomplished, the Communist party would dominate the governmental machinery of the dictatorship of the proletariat, guiding the proletariat in the establishment of socialism, or the first stage of communism.

The party would direct the strategy of the dictatorship of the prole-

[42] J. V. Stalin, "Foundations of Leninism," *Handbook of Marxism*, p. 843.
[43] "Communist Manifesto," *Handbook of Marxism*, p. 37.
[44] *Ibid.*, p. 37.

tariat to the complete liquidation of capitalists and capitalist ideology, the fusion of all classes into one, the withering away of the state, and finally complete communism. When this mission has been fulfilled the Communist party presumably either would cease to exist or would experience a substantial change in nature and function, since the repressive state, whose pilot the Communist party had been, would no longer exist. No doubt certain educational, cultural, and cooperative economic activities would then be centered in the Communist party.

The Union of Inevitability and Purposive Action

The revolutionary overthrow of capitalism and the establishment of socialism and then communism was in no sense an automatic, inevitable procedure to Marx, Engels, and Lenin. Certain objective conditions causing capitalism to fall would be created by capitalist production itself, but, aside from this, there were no predestined consequences. The seizure of power by the proletariat—the only alternative to complete chaos—and the development to full communism could occur only if the proletariat was prepared to play its role effectively. To this end, Marx was intensely interested in, and gave much energy to, the creation of a revolutionary Communist party. In this sense, Marx the revolutionist was in the end dominant over Marx the theorist.

QUESTIONS FOR CLASS DISCUSSION

1. What is meant by the statement that "every economic fight of necessity turns into a political fight"? Is this consistent with the Marxian theory of the state?
2. Did Marx hold that the seizure of power by the proletariat would be sudden or gradual? Evolutionary or revolutionary? Peaceful or violent? Was Marx's position on these matters always consistent?
3. Did Marx hold that political power automatically would be vested in the proletariat after the collapse of capitalism?
4. Did Marx contend that the organized proletariat should engage in active revolutionary tactics whenever any opportunity for them arose?
5. In what sense of the word is the rule of the proletariat immediately after a successful revolution to be a "dictatorship"?
6. Would the "proletarian state" after the revolution differ in its basic nature from the "bourgeois state" which it replaced?
7. Is there any possibility that the proletarian state existing during the dictatorship of the proletariat would be more "democratic" than the bourgeois state had been?
8. What would be the chief features of the economic system during the "dictatorship of the proletariat"? In what major respect would it differ from the economy which had preceded it?
9. In what major respects would the economy under "full communism" differ from the socialist economy existing during the dictatorship of the proletariat?

10. What changes would have occurred in the nature of the state by the time full communism had been achieved?
11. Was it inevitable that full communism would develop from "socialism"?
12. What did Marx picture as the major functions of the Communist party (a) before the revolution, and (b) after the revolution?

Chapter 13

AN EVALUATION OF MARXIAN THEORY

Tests to Be Applied

There are numerous tests to which Marxian theory might be subjected. Are the purely theoretical parts of the analysis correct and sound? Are they adequately substantiated by inductive data? Are there logical fallacies within the system of Marxian thought? Has it continued as the belief of substantial groups of thinkers? Have its predictions of future events been wholly or in part correct? Has it led to any action to remedy the ills it dwells upon? Did it lay a substantial basis for later theorizing and action? Does it supplement other analyses of our society and thereby assist us to a more rounded understanding of it? Did it contribute any *original* thought to our social theories? Are its conclusions those of scientific analysis or are they the outgrowth of prejudiced hypotheses? These are all legitimate and pertinent questions, but few of them can be treated here.

Marxian theory may be evaluated in terms of its success or failure in accomplishing what it set out to do. Marx apparently had three major purposes:

1. He wished to set forth an accurate description of the basic processes at work in the capitalist economy. His attempts at this were embodied in his theories of value, wages, and surplus value.

2. He sought to find at work in the world a simple basic set of casual forces which would enable him to interpret past events and predict those of the future. His fundamental philosophy and his economic interpretation of history yielded him this basis for portraying the future of the capitalist order.

3. He hoped to establish foundations for the organization of a class-conscious proletariat which would at once constitute the intellectual center of, and generate the action necessary for, the development of full communism.

Marxian theory should be judged primarily, if not exclusively, in terms of these objectives, to which our attention now turns.

THEORIES OF VALUE, WAGES, SURPLUS VALUE

Failure to Note the Part Played by Demand

Marx was correct, although not original, in assigning the leading role in the economic drama to value. He saw clearly the crucial function values performed and how they penetrated every cranny of the capitalist economy. What he did not see was the true nature of value determination in the sort of an economy he tried to describe, that is, one featured by the private ownership and operation of competing industrial units for private profit. His theory that, assuming a commodity has use-value, the amount of socially necessary labor embodied in it determines its exchange-value is untenable despite all the efforts of his interpreters and modifiers to make it conform with present-day theories of value. The fact that Marx's value theory was in part the orthodox and accepted theory of his time may excuse him for using it, but does not justify its use or the conclusions based upon it. Marx failed to note that "normal value" is no less a resultant of demand than of supply, and that supply is affected by the commodity's embodied content of other factors of production no less than of labor-time.

While Marx had some insight into the role of demand in value determination, he ruled it out as insignificant. In admitting that use-value was a prerequisite to exchange-value he touched upon the inadequacy of labor-cost as the sole determinant of value. If *some* use-value is necessary to the existence of exchange-value, the *amount* of use-value apparently has some relation to the *amount* of exchange-value. This use-value, affecting consumer bids for commodities, constitutes the pressure to apply the scarce productive agents to the production of respective commodities. The intensity with which the agents are applied has much to do with their physical productivity, with their worth in a society in which they are privately owned, and consequently with the long-run cost of producing commodities.

This reflection of demand upon cost and thus upon normal long-run value Marx, along with others of his time, failed to comprehend. His theory of value fails to allow for the fact that, as the demand for a commodity increases, more pressure is put upon, say, land, to produce that commodity. As more pressure is put upon land, diminishing returns may increase the cost and the normal long-run value of this commodity.

It is the same in the case of capital equipment. Even if one were to grant Marx's contention that capital comes from "stolen" funds, demands for goods put pressure on income receivers to save and thus help produce capital equipment which can be used in the production of those goods. As long as it is more pleasant to spend for immediate consumption than to save, saving must be rewarded, the value of the saving thus becoming one element in cost which the long-run normal price must cover.

In short, Marx failed to realize that, just as labor is valuable in the

capitalist economy only because of demands for the products of labor, so the value of land and of capital is reflected from the demands for products they help to produce. The cost of producing these agents—even labor—has no *inherent* right to be covered by the selling prices of products. It will be met only if these agents produce commodities in quantities which demand will absorb at a price equal to the full cost of producing them. Long-run normal value is an equilibrium value determined by the opposing forces of consumers' bids for commodities, on the one hand, and, on the other, the scarcities of the productive agents. There appears to be no reason for believing that in a capitalist economy the mere *amount* of any *one* of these agents of production plays an exclusive or even dominant part in determining exchange-values. Hence, the Marxian theory of value does not account accurately for the real values at which commodities exchange for each other in a capitalist economy.

Place of Demand in Wage Determination

The same error permeated Marx's theory of wages. There is no more reason to believe that labor power has value because it is brought into existence by the expenditure of a certain amount of sustenance than there is to believe that a finely carved wooden automobile tire would have value because of the effort expended upon its construction. Nor is the *amount of value* represented by labor service or power (the wage any more determined by the *amount of sustenance* that went into it than is the value of the wooden tire determined by the *amount* of effort that went into its production. Labor power, a scarce thing, has value because of the pressure of demand for the commodities it produces. The greater the demand for the commodities and the more limited the quantity of labor suitable for use in their production, the greater the value of that labor—regardless of what that labor power cost to produce. The values of inborn talents, or the wages paid for their use, are neither greater nor smaller than the values of like talents acquired by training. The cost of producing the talents has nothing to do with the value of such talents, except as it constitutes one type of resistance to their availability. Every other type of resistance (for instance, natural scarcity) is just as much value-determining as is this cost of producing labor power.

Indeed, Marx seemed to sense this point when he dealt with the translation of units of skilled labor into standard homogeneous time units of unskilled labor. He admitted that the skilled was valued in terms of the unskilled, and vice versa, *by the market processes* through which buyers bid for the products of these various skilled categories of labor. However, except for this one implication which is not carried to its logical conclusion, Marx's theory of wages failed to recognize the demand element in the determination of wages.

The Meaning of "Subsistence"

From still another angle, the Marxian theory of wages is very unsatisfactory. Subsistence, as the cost of producing labor power and therefore the basis of the wage, became an indeterminant quantity in Marx's writings. While, on certain occasions, he had it comprise only those commodities necessary to physical health, on others he extended it to include consumption items dictated by the mere desires of workers, or by some mysteriously originating social habit or custom which placed the item within their minimum subsistence living standard. Marx never explained how a subsistence living standard could *expand* to include conventional items during the very time when, according to him, wages were tied down to subsistence living standards *without* such items.

Although his emphasis upon surplus value forced Marx generally to use a purely *physical* concept of subsistence, he did not adhere consistently to it. Only with rigorous acceptance of physical subsistence could the theory of surplus value have been valid at all. But universal adherence to the physical concept of subsistence was impossible, for, even as Marx admitted, normal wages in certain places and times rose above a physical subsistence level. Moreover, the consistent use of the physical concept would have forced Marx to admit that wages never could rise above their existing level. Thus the organization of labor for immediate wage-raising purposes would have been proved ineffectual and could not have been used as the starting point of the organization of a class-conscious proletariat.

On the other hand, as soon as Marx admitted that his subsistence level of wages (the cost of producing labor power) *could* come to include certain conventional items not included theretofore, he destroyed completely the theoretical base he had established for surplus value. If wages could rise to include items of merely *conventional* necessity, then why could wages not rise to include so many such items that all of what Marx called "surplus value" would be absorbed in a wage high enough to permit *such* "subsistence"? Thus the adoption of a conventional subsistence living standard as the determinant of the wage level permitted wages *under capitalism* to rise to indefinite heights—theoretically high enough to absorb all "surplus value." This destroys the Marxian thesis that surplus value is an inevitable accompaniment of capitalist production. Theoretical consistency of his arguments with the theses they were to support forced Marx to adopt the physical concept of subsistence. However, his numerous references to existing wage levels, and to the possibilities of workers forcing wages up under capitalism, indicate that upon occasion he sacrificed theoretical consistency to facts and to his desire to stimulate workers to organize.

Flexible versus Inflexible Wages

Indeed, if "subsistence" were to include items not necessary to physical health, wages would have such flexibility that, under the pressure of cer-

tain forces pictured by Marx himself, they would tend to rise so as to absorb all "surplus value." These forces were the competitive struggles which Marx held were intense under capitalism. Assuming wages to be flexible, it could be argued that competition among capitalist-employers for employees would force surplus value to be paid out as wages. As long as the labor of any employee yielded to *his* capitalist-employer a surplus of the type Marx described, it would pay *some other* capitalist-employer to try to hire him by offering a slightly higher wage. If this competitive situation prevailed on an extensive and intensive scale, the struggle among employers to add to their individual labor staffs in order to increase their individually realized surpluses presumably would bid wages up to that point where *no* capitalist-employer any longer found any surplus attached to the labor of any worker employed by *another* employer. This type of competition would cease only when wages had absorbed all surplus values formerly going to capitalist-employers. Marx assumed keen competition among capitalist-employers in the sale of their products, but failed to show why there was no similar competition in buying labor power to which these attractive surpluses were attached. Assuming wages to be flexible, and competition among capitalist-employers to exist, there would be forces inherent in the situation which would tend to cause surplus value to be squeezed out of owners' incomes and into wages. It appears that the Marxian theory of surplus value becomes logically untenable, unless it is based upon a physical subsistence theory of wages, while the latter is untenable because wages are known to rise above physical subsistence levels.

Not only is the physical subsistence theory of wages at variance with the commonly known facts, it raises embarrassing questions for Marxian theorists. For instance, if wages tend to be at a physical subsistence level under capitalism, what, according to their theories, would keep them from being there also under socialism or communism?

There is only one possible line of reasoning to support the physical subsistence theory of wages. This holds that, if wages show any tendency to rise above physical subsistence, the increased availability of consumption goods will cause a rise in the birth rate, thus increasing the number of mouths to be fed proportionately with the increase in the goods available. If there is such a tendency under capitalism, would there not also have to be such a tendency under every other type of organization of industry? The procreative activities of humans presumably would not be affected by a change in the economic organization. At least, Marxian theory does not hold that they would, nor does it imply that they might be changed consciously. Therefore, it seems logical to argue that, even under full communism, living standards (although now supported by free consumption rather than contractual wages) would be kept at a subsistence level just as they were under capitalism, and by precisely the same force—the tendency for birth rates to rise as the elements of subsistence become more

abundant. Thus, one might ask how or why the masses would be better off under communism than they had been under capitalism. Presumably, all of the increased productivity would go into supporting an increased population, leaving per capita living standards just where they had been. Indeed, the *physical* subsistence theory of wages when followed out in some of these ramifications is no more consistent with the other portions of Marxian theory than is the *flexible* subsistence theory of wages.

Surplus Value Without Theoretical Support

If neither the Marxian theory of value nor the Marxian theory of wages can be accepted, and if these theories are the dual support of the theory of surplus value, what happens to the latter? It is impossible to find in the capitalist system any fund of value possessing the theoretical characteristics and coming from the theoretical origins Marx pictured as those of surplus value. Under the capitalist order the values of commodities are not determined *solely* by their labor content, nor is the value of labor—its wage—determined by the *physical* necessities of existence. What Marx pictured as surplus value under the capitalist system could just as well be absorbed by wages as by the profit of the capitalist-employer, or the interest of the lender, or the rent of the landowner, or by all three. There can be no inherent surplus value, such as Marx described, unalterably directed under capitalist production into the pockets of the owners.

"Surplus Value" and "Unearned Incomes"

Thus it would appear that the Marxian theoretical system of value, wages, and surplus value is broken down by its own internal inconsistencies and that the Marxian conclusions hang in mid-air without support. However, such a conclusion is unwarranted. It is quite possible that, if Marx were writing today with the assistance of modern value theory, he would describe the value-determining processes much differently than he did and would establish quite different theoretical bases for his "surplus value" or exploitation thesis.

If Marx should write that, in a capitalist society dominated by the private ownership and inheritance of nature-made and man-made productive instruments, there will necessarily be some owning-class persons who will gain incomes which are unearned, his thesis would merit further consideration. It may be significant that he ended the first volume of *Capital* with the statement that "the capitalist mode of production and accumulation, and therefore capitalist private property, have for their fundamental conditions the annihilation of self-earned private property; in other words, the expropriation of the laborer."[1] Was this to Marx the essence of his theory of "surplus value"?

[1] Karl Marx, *Capital*, p. 848.

If one were to grant the assumption that the capitalist system could not prevail without the private ownership of *nature-made* as well as *man-made* instruments, or without the ownership of *inherited* property as well as property arising from *personal productivity,* it would be possible to find inherent in the capitalist order certain personal incomes which come substantially close to being what Marx called "surplus value." The owner of land, or natural resources, purely as an owner, collects what the economist calls "economic rent." This is his payment for the use of his land by someone else, or a surplus arising out of his own use of the land over all other expenses of production. The owner has not made the land; its productivity is created by nature; but the economic worth of those scarce productive properties which collectively are called land currently flows to the owner.

This income is used by its recipient either for consumption purposes or as the source of capital funds, much as Marx pictured surplus value funds as being used. If it is used to purchase consumption commodities, these are a portion of the total national income in whose production labor has played its part. There is a "surplus" in the sense that the owner performs no personal productive effort in return for the real income. Since whatever he uses must have some labor embodied in it, and since he, the owner, furnishes no labor to society, it might be said that he "exploits" the labor of others and that the implement of exploitation is the private ownership of land.

Moreover, the recipient of land rent appears to be in that increasingly fortunate position Marx held was occupied by the recipient of a constantly increasing "surplus value." Since land is the only agent of production whose quantity cannot be increased by man's efforts, its owners possess something which grows increasingly scarce relative to expanding population. As people increase in number and natural resources remain constant, more intense competition for the scarce natural agent creates a long-run upward trend in land rents. This trend has no counteracting influence in the form of an increased supply of land induced by the increase in rents. The upward movement of land rents, relative to other values, recalls the Marxian theory that all increased productivity of labor goes to swell surplus value.

The owner of inherited capital occupies a similar position relative to the receipt of "unearned income." Even if interest on capital funds is called compensation for willingness to save, nevertheless the heir who receives interest on inherited funds cannot be said to have incurred the irksome efforts for which they are paid. He gains title to social product without adding his personal productive effort to the economic process.

It is only in terms of "unearned incomes" of this nature, rather than in the theoretical trappings which Marx gave it, that anything similar to his "surplus value" can be inherent in the capitalist economy. Certain modern-

izers of Marx come very close to revamping his theory of surplus value in terms of what is here called "unearned income."[2]

Inaccuracy of Certain Deductions

Certain deductions which Marx drew from his theories of value, of wages, and of surplus value are, along with their theoretical bases, unsound. The proletariat has not experienced the "increasing misery" which Marx deduced to be its lot. While there might well be some question as to how workers relative to owners have shared in the increasing national incomes under capitalism, in absolute terms their "misery" has been alleviated rather than deepened. If wages are not linked rigidly to physical subsistence, the dire consequences for the proletariat which Marx drew from his theoretical reasoning cannot be *inherent* in the capitalist system. Machinery, as the creator of labor reserve pressing wages downward, may seem at times to act its Marxian role, but its force is neither so completely nor so persistently in that direction as Marx's theorizing led him to believe. Although technological unemployment recently has been a major problem, our modern economy has experienced certain recurring and long-run transformations of machine efficiency into lower unit-costs and lower prices, thus creating new demands for labor more potent and durable than Marx admitted.

The rate of profits has not followed the decline which Marx felt the value processes, coupled with the growth of machinery, would bring. Nor has the business cycle turned out to be as completely an overproduction phenomenon as Marx made it. Careful studies indicate that a number of forces, wholly outside his simple overproduction (because of surplus value) theory, are important factors in the causation of business cycles. Moreover, there is a question whether business crises and depressions have tended to become more serious, despite the severe depression of the nineteen-thirties.

The class consciousness of the proletariat and the homogeneity of the owning class under capitalism have not congealed as firmly as Marx held they would. The proletariat—at least in the United States—can still sire labor organizations which defend actively all the basic institutions of capitalism. Whole sections of the unorganized proletariat in the white-collar and service categories remain desperately sure that their interests are closely linked with those of their capitalist-employers. This they demonstrate by a refusal to be led into the dangerous paths of "radical" thinking, acting, and voting. The "bourgeoisie" today includes—again at least in the United States—such heterogeneous and sometimes opposing interests as those of the small merchant, the chain-store owner, the large industrialist, the small-scale farmer, and the powerful banker. The latter, personifying in Marxian theory "finance capital," probably has not achieved the

[2] See, for instance, G. D. H. Cole, *What Marx Really Meant*, p. 275.

domination Marx pictured as thrust upon him by inevitable forces at work under capitalism. Professional classes of lawyers, physicians, ministers, and teachers, aside from the ever-present exceptional individual and minority group, show little tendency to look for their ideals and chief source of support to other than the customary bourgeois sources. The industrial technicians—chemists, engineers, industrial managers, and the like—still react in a bourgeois fashion to political programs, strikes, and "radical" movements.

The tendency for the inherent forces of capitalism constantly to push certain portions of the bourgeoisie into the proletariat, and to induce other portions to merge their interests with it has not worked as powerfully as Marx suggested it would. If such a trend has existed in specific sections of the bourgeoisie, there have been counteracting movements in other portions, such as, for instance, the creation of a large group of owners of independent service stations and small-scale garages at the very time the chain stores and super-markets have been transforming many small-scale independent bourgeois merchants into hired employees. While competition and the advantages of large-scale production have been concentrating economic control in certain lines of production, modern corporate securities, the development of insurance, changing techniques, and new products have been spreading ownership and creating a new "petty bourgeoisie" which attaches its strength with no mean loyalty to the central bourgeois owning interests.

There is no question that the inaccuracies and inadequacies of Marx's theoretical analysis led him into certain deductions concerning the consequences of capitalist production which, once their theoretical bases are proved fallacious, seem to be left without theoretical support and unproved by empirical observation of the post-Marx capitalist world. The inevitableness of the forces inherent in capitalism which eventually would destroy it was a *theoretical* inevitableness. The inductive study of data in the social sciences was wholly undeveloped in Marx's day, and, even today, is entirely inadequate to act comprehensively as either support or refutation of a theoretical system as extensive as that which Marx constructed. Marx has cited voluminously from factual material in the realm of economic phenomena, but practically all of these citations constitute illustrative rather than inductive support for his theoretical points, and none of them meets modern tests of statistical adequacy.

Elements of Truth in Marx's Prophecies

Despite all this we cannot hastily dispose of Marxian conclusions and predictions by considering them a mere superstructure built on inadequate and inaccurate theoretical foundations. We have already noted the probability that unearned incomes are inherent in a capitalist society, and the

possibility that these, in their essence but not their theoretical source, may be equivalent to Marx's "surplus value."

Likewise, it is clear that many of the consequences of capitalism which Marx derived from his theoretical reasoning have plagued our capitalist system persistently. Technological unemployment has existed incessantly ever since the capitalist system developed substantial maturity, and it would be foolish to dispose of it on purely theoretical grounds.

The holding company and other similar devices have made the *control* of industry more important than its *ownership* in relation to sharing its benefits. It is an undisputed fact that the control of industry has become more and more concentrated, decade by decade. This control has reached monopoly proportions in some important industrial fields, and those who control the credit agencies make many of the basic decisions.

The wages of the masses of workers appear to have risen with amazing slowness when the tremendous technical advances in productive methods and instruments are considered. While excess production—that is, more output than can be sold at cost—is far from being the sole causal factor of business crises and depressions, a study by a reputable research organization contends that "there may at times be, and we have found that there is, an insufficient demand for consumer goods to absorb, at the prices prevailing, our full capacity to turn out such commodities. While the actual volume of production may be adjusted to the existing demand for such goods, there nevertheless exists a general excess of productive capacity relative to existing *demand.*"[3] Common observation discloses the ills which often have spread cumulatively throughout our economy in the wake of excess production in some industry or group of industries. Government excursions into the restriction of many agricultural crops during recent decades may not demonstrate the theoretical inevitability of general overproduction in a capitalist order, but they do mark it as a major problem at times demanding the closest attention of government.

The Dilemma of Marxian Theory

We return to the question: What of the validity of the Marxian theories of value, of wages, of surplus value, and the deductions made therefrom by Marx? This becomes a most difficult question to answer. The theoretical validity and consistency of the Marxian reasoning cannot be defended. The errors in the theoretical portion of Marxian thought are so serious and so basic that they cannot be corrected by interpreting or modernizing Marx, nor can they be considered superficial.

This, however, does not destroy the value of Marxian theory. It has been noted that through this theoretical analysis Marx somehow or other dis-

[3] Brookings Institution, *The Distribution of Income in Relation to Economic Progress,* Washington, D.C., 1936. Textbook edition. Part IV. *Income and Economic Progress,* pp. 63–64.

cerned those aspects of capitalism which cause the defenders of that system their greatest concern—the concentration of industrial control, monopoly, excess production, technological unemployment, business crises and depressions, and the low incomes of large masses of workers. The problem is perplexing: How could Marx draw correct or enlightening conclusions from unsound theoretical analyses? This has remained the dilemma of those numerous students of Marx who have found his theoretical reasoning imperfect and unsatisfactory, but who, nevertheless, feel that they have been led, at least here and there, to a more complete understanding of the processes at work within capitalism by viewing them, in part but not exclusively, through Marxian concepts.

THE MARXIAN PHILOSOPHY AND INTERPRETATION OF HISTORY

The Test of a Philosophy

In a sense a person's philosophy cannot be evaluated. It can be subjected neither to any empirical examination nor to any test of its logical consistency with external phenomena. It is a part of its possessor, his way of looking at things, his approach to an understanding of the universe, his basic assumptions, and his prejudices. It comes to him or upon him from the totality of his reactions to external stimuli—both mental and physical.

There is but one test which legitimately can be applied to a person's philosophy. This involves an examination of the breadth and depth of his contact with other philosophies and with objective phenomena in the formulation of his own philosophy. In this sense a person's philosophy is of his own making, for he can either consciously and deliberately place himself in wide and open contact with the philosophies and objective phenomena of the universe, or he can shut himself up in his own closet and in its darkness spin out his own philosophy.

The Test Applied to Marx's Philosophy

Needless to say, philosophies formulated under the latter circumstances are suspect. They lack the very stuff of which adequate philosophies must be made—contact with the thoughts of others and with the world as it is. In this respect no criticism can be leveled at Marx's philosophy. Searching study of philosophies occupied the early years of Marx's life. He struggled to the point of literal exhaustion over the conflicting philosophical systems he encountered. It was only after the most careful examination of the philosophical ideas of his day and the past that he accepted the essence of Hegelian philosophy.

Although his contacts with the outside world were limited during his early years, he was projected from his student life directly into the midst of a most active life in the world of reality. His numerous journalistic en-

deavors, his contacts with workingmen's groups, and his years of study in the British Museum gave him an extensive and intimate knowledge of the world in which he lived. Although his philosophy is in a sense chiefly the product of his philosophical studies, it nevertheless must have been conditioned and matured by these worldly contacts. By these tests, Marx's basic philosophy stands above criticism.

This, of course, does not mean that Marx necessarily found the one ultimate absolute truth in the universe. It is just as meaningless to say that the Marxian philosophy was right, and other philosophies were and are wrong, as it is to say that tall men are better than short men, or blue eyes better than brown, without specifying arbitrarily some standard whereby they are to be judged. From the standpoint of its inherent quality, Marx's philosophy was no better than others which have been formulated out of equally sincere, comprehensive, and deep contact with ideas and events. Conversely, it could be innately worse than others only in the sense of having been fabricated out of shallow and less searching thought and experience than have other philosophies. Judged in this manner, the Marxian philosophy is quite adequate to justify its becoming, unchallenged, the philosophical starting point from which anyone who wishes to accept it may launch his attempts to understand the forces at work in the universe.

The Test of an Interpretation of History

Other matters, however, are involved when one seeks to evaluate the application of this philosophy to an interpretation of history. A man's philosophy by its very nature may not be susceptible to evaluation. The same cannot be said for the manner in which he uses that philosophy or applies it to an ostensibly objective interpretation of specific events in the world in which he lives. Here certain rules of observation, logic, and consistency enter the picture as standards of evaluation. As a philosophical abstraction, one might see fit to assume that all human action was dominated by selfish motives. As an abstraction, such a philosophy, except for the tests of worth suggested above, could not be challenged. Yet the possessor of that philosophy could be challenged legitimately if he were to interpret every human act as actuated by desire for the greatest *economic* gain for himself. In this case either there are aspects of selfishness other than the economic, or the economic aspect is made so all-inclusive as to become meaningless. Failure to apply the basic philosophy so as to respect this point would merit criticism.

The Basic Defect

Indeed, it is just that sort of application of his philosophy for which Marx has been criticized. His basic philosophical assumption that all ob-

jective phenomena are syntheses resulting from theses and antitheses at work in the world cannot be challenged, for reasons already noted. However, he may well be criticized when, in applying this philosophy to the specific explanation of just what has happened and will happen in the world, he either neglects all categories of theses and antitheses except the economic, or so defines the economic as to include all others, thereby making it meaningless as a limited homogeneous category. He has a perfect right to his basic philosophy because of the comprehension and depth of the thought and experiences out of which it grew, but his *use* of this philosophy violates commonly accepted rules of logic and consistency to such a degree that the practical worth of his economic interpretation of history may legitimately be questioned.

In passing, it should be noted that some modern adherents to Marxian theory refuse to make any distinction between Marx's philosophy and his economic interpretation of history. In a narrowly orthodox sense, they accept all of Marx and insist that it be all or nothing. His basic philosophy appears to them adequate and, once this is accepted, they hold that all Marxian interpretations of historic events and prophecies of future events which *he* arrived at in the application of his philosophy must be accepted in minute detail. G. D. H. Cole has referred to this attitude as "the opium of the socialist orthodox" and to its adherents as "those who seek to save themselves the pain of mental building by inhabiting dead men's minds."[4]

The One-Sidedness of the Economic Interpretation of History

Thus, while students of Marxian thought have seldom challenged his basic philosophy, they have been most critical of his application of that philosophy to a specific interpretation of historic events. It will be recalled that Marx found only *economic* theses and antitheses as the basic forces at work in the world. All other forces were derivatives of the economic which he termed, collectively and relative to any given point in time, the "mode of production." This is held to be a one-sided interpretation of history since, it is claimed, Marx merely has assumed without demonstration that the "mode of production" sets the content of all social institutions and processes, and that changes in this "mode of production" generate and determine the course of changes in all social institutions. Marx's critics have been quite voluble in pointing out forces which they hold to be non-economic, but none the less deserving of inclusion among those independent and original forces which collectively determine the nature of existing and future social institutions and processes.

Professor Bober devotes a detailed discussion to this weakness in the economic interpretation of history. In fact, he concludes that "Marx's theory is impotent to account for historical processes, and the reason is

[4] G. D. H. Cole, *What Marx Really Meant*, p. 42.

that he failed to ascribe sufficient weight to the many non-economic agencies in history."[5] Although Marx admitted the existence of non-economic forces, "he regarded them as emanations from the economic subsoil, and granted them the subordinate function of only accelerating or retarding or slightly modifying the workings of the mode of production."[6] Professor Bober contends that the factors emphasized by Marx as all-important are, in fact, plainly secondary to other factors. "The geographical environment and man, with his intelligence and other traits, are the primary and basic factors of history. The mode of production cannot rank with them, because it is a derived phenomenon."[7]

Professor Bober's Criticisms

Professor Bober admits that Marx recognizes the geographic factor, but contends that "he does not stress sufficiently the various aspects of its economic influence, while of its non-economic effects he loses sight altogether." Numerous illustrations are cited to show that:

> . . . a definite combination of certain geographical phenomena will provide the possibility for a civilization; it will give direction to the occupations, modes of living, and interests of the people; and will offer facilities, or obstacles for economic development. . . . The non-economic effects of geographical conditions are of no smaller moment in history. . . . Lands hemmed in by mountains breed liberty-loving, hardy people; but while protecting the dwellers from hostile intruders, keep them in isolation and shut off from communication with other worlds. . . . On the other hand, countries on plateaus, or with many rivers, have facilities of communication and mutual intercourse, rendering the people homogeneous and unified. . . . The fact that England is close to France and is on the sea is a constant factor indeed; yet, like a red thread, it runs through her history. . . . Moreover, natural conditions do not remain constant. Resources are exhausted, and scientific discoveries bring heretofore neglected and non-usable wealth into prominence. Diminishing returns create enduring problems in old countries, and fears and appropriate policies concerning the future in the younger countries. . . . The contention is that they [Marx and Engels] pay surprisingly little attention to those economic effects which are produced by natural surroundings quite apart from the instrumentality of the mode of production; and that, with the exception of some casual remarks, the non-economic results flowing from geographical conditions they neglect completely.[8]

> The traits that differentiate man from the beast are powerful factors in history. . . . The mutation, or whatever else it was, that granted the human being a better mind to work with is a phenomenon of foremost significance in the history and analysis of civilization. . . . Ideas accumulate very largely by a process that only an intelligence not possessed by the beast can undertake. Many ideas grow from these previously accumulated. One aggregate of ideas will give rise to another with-

[5] M. M. Bober, *Karl Marx's Interpretation of History*, p. 290.
[6] *Ibid.*, p. 289.
[7] *Ibid.*, p. 300.
[8] *Ibid.*, pp. 292–297.

out the intervention of external facts. . . . Subtract intelligence, and nature will hold man, too, in thraldom, as it holds the animals; and the mode of production will help man make history just as little as the mode of production prevalent among the beasts helps them. . . . Many other distinctive traits and dispositions are of paramount consequence in the social processes that form the content of history and civilization. Emulation, rivalry, inventiveness, sympathy, and the whole range of emotions and feelings demand careful consideration.[9]

Among the factors that emanate from the fundamental elements, man and nature, and that are preeminent in governing the course of history, two deserve attention even in a cursory sketch—religion and science. . . . While they [Marx and Engels] acknowledge the remoteness of religion from economic soil and the independence of its origin, they treat it, in its fortunes through history, as a mere shadow of economic phenomena and as an element playing a meager part in civilization. In this they are wrong. Whatever the truth about the ultimate origins of religion, . . . religion remains a powerful factor in the private lives of most people. . . . These historical allusions [after citing many] do not prove, as Marx would have it, that religion is merely the servant carrying out the mandates of the economic master; they rather tend to demonstrate that religion is a powerful stream achieving tremendous results, alone or in conjunction with economic and other streams; that it is a force, now enhancing or attenuating, now submerging or deranging, economic as well as other forces.[10]

They [Marx and Engels] acknowledge an independent origin for religion, but deny it any basic effects upon the course of history. In the case of science, they are aware of its paramount significance, but deny it an independent existence. Science, to them, is but a reflex of the systems of production. It is at once the child and the handmaid of production, and no more. In this they are at least partly wrong. . . . The instances showing that science is due to economic needs can be countered by citations pointing to non-economic needs. . . . Probably the origins of science are attributable to a concatenation of causes, as economic needs, geographical conditions, religious incentives, inventiveness, curiosity, accident. . . . Many branches of scientific research are exclusively or largely interested in the physical well-being of man—in the prolongation of life, in the eradication of disease, in the improvement of health, and in the raising of the quality of the population. Many sciences seek to discover the means of bettering the relations of man to man, and aim to enlarge his comprehension of mind and matter, of institutions and the universe. . . . Further, whatever its origins, once a science has gained a start, it develops also, and very largely, of its own accord. It creates its own problems, interests, and stimuli. . . . Nor is the contention admissible that the sole motives animating the scientist in his labors are the immediate utilitarian prospects of economic compensation. . . . Anthropologists and paleologists, philologists and modern astronomers do not receive the impetus in their work from problems of production, but from human problems and human interests. It is not clear why we should insist that the physicists, chemists, or mathematicians do. Are these latter of a different breed? Utilitarian motives and economic interests are causes of scientific growth; but other motives and other interests also come in, and to a large extent. . . . Marx has little justification in holding that, while it is a powerful force that shapes

[9] *Ibid.*, pp. 297–300.
[10] *Ibid.*, pp. 300–303.

the destinies of social development, science is merely the concomitant of the mode of production.[11]

No discussion of progress is adequate which does not seek some of its causes in man's nature. . . . By and large, there is discernible in the human being the persistent desire to improve and to expand what is. There is a restless groping for the better, an inner urge to take a step ahead. . . . This urge does not lead to spectacular leaps, but it results in continual, slow, imperceptible, and even insignificant changes and departures. Each change is a drop, but many drops make an ocean. Such is human nature. It may be self-interest, economic and non-economic, that asserts itself here; but this is not all. Emulation, rivalry, sympathy, the desire for approval, and other traits, doubtless play a part. . . . Among the multitudes who are prone to change and to improve things there are some individuals who are capable of conceiving of serious and important advances. These are innovators. . . . Very frequently the innovator has to discern the need, devise a way of meeting it, and open people's eyes to both the need and the solution. . . . An inventor regroups experiences and ideas and views them in a different manner. Such a performance derives its source and power from particular mental capacities. . . . The environment may be replete with hints and suggestions—it always is—but not everybody will be alive to them, and very few will translate them into discoveries and inventions. Such achievements are not mere matters of automatic and mechanical responses to stimuli. . . . The intercession of a particular quality of mind is indispensable. . . . What is true of the domain of art and science holds good of any other sphere. For example, statesmen, reformers, or thinkers on social questions may gain a deeper insight into the potentialities of latent social forces; and they may perceive that there is need for a change, and that the ground is ready for it. . . . History is not a summation of mechanical and automatic reactions of dumb agents to a dictatorial environment; it is an aggregate of reactions of multitudes of intelligences, and among them are the higher reactions of the greater intelligences and more pronounced personalities. . . . History is not made by bold spectacular leaps, but by the painful accumulation of modest increments in which long successions of modest innovators collaborated.[12]

The ruling forces of civilization present a very difficult and perplexing subject; and a discussion of this or that factor offers no more than a few glimpses. . . . Geographical environment, dominant traits of human nature, spiritual and mental forces, institutions and attitudes, all are in intimate alliance and in mutual interaction in their work of molding history and compelling changes and advances. Yet even this cursory survey is sufficient to demonstrate how lightly Marx viewed the problem, and why an empirical test of his theory by an appeal to general facts in history establishes the fact that his interpretation fails to interpret. The mode of production cannot be accepted as the sole and sovereign factor and as the only key to an understanding of social manifestations. Other forces, some wholly and others partly independent of production, influence human history. These forces receive inadequate recognition and treatment at his [Marx's] hands. Some forces receive incomplete consideration, others are not emphasized sufficiently, while still others are passed over in complete silence.[13]

[11] *Ibid.*, pp. 304–308.
[12] *Ibid.*, pp. 309–318.
[13] *Ibid.*, pp. 318–319.

Contributions of the Marxian Theory of History

If the Marxian theory of history, and the predictions based upon it, are a one-sided oversimplification of the actual forces shaping the processes and institutions of society, it nevertheless has contributed substantially to human thought and understanding. It has offered a more realistic interpretation of history than certain other also unbalanced theories which preceded and followed it. In comprehension and depth of understanding it is incomparably superior, for instance, to the "great man" theory of history which holds that an institution is the lengthened shadow of one man. It emphasizes the continuity of history, and, by searching for causes of *all* historic events, it has challenged the concept of history as a collection of mere chaotic or chance happenings. It stresses the dynamic nature of human institutions, processes, and ideas. Although it is of course impossible to judge precisely how much of the modern historians' increasing interest in economic causation was inspired by Marx, without question his interpretation of history played a substantial part in creating this trend. While Marx cannot be credited with originating the idea of evolution in social institutions, in its use he reached a level of effectiveness sufficiently high to stimulate emulation on the part of many others. He showed what a comprehensive monistic theory of history would be like if one could be found. In these ways, at least, the Marxian economic interpretation of history has contributed to an understanding of the sources of the economic world in which we live, of the closeness of the relationship between the economic and the other aspects of that world, and of the nature of historical processes.

THE BASIS OF REVOLUTIONARY PROLETARIAN ORGANIZATION

Pre-Marxian and Post-Marxian Socialism

While the Marxian theories of value, wages, and surplus value can be proved basically unsound, they have remained alive in all sorts of modified and interpreted forms. Although Marx's theory of history was too unbalanced to do effectively what he intended it to do, it has been accepted by many persons as the most adequate available explanation of history. In both of these spheres Marx, despite the defects and inadequacies of his work, left behind him influences which have substantially affected the thinking of millions of people and the economic and political systems of much of the modern world. It is, however, in that realm where Marx appeared least effective while he lived that his most concrete contribution was made. He, and his collaborator Engels, unquestionably established the basis of all organized proletarian revolutionary activity which has occurred since they wrote.

There was a pre-Marxian brand of socialist thought, and even action, which played its part in the world of its day and in the establishment of

the modern movements of socialism and communism. It was, however, unfitted to cope with the realities of the modern world. It hoped to create a new order without dealing with the world that existed; men were to be transplanted from the world in which they lived into a new one without experiencing the hard sacrifices necessary to a transition from the one to the other.

With Marx, this type of utopian socialism lost its hold upon the minds of men and was replaced by what has come to be called "scientific socialism" or, perhaps better, "realistic socialism." Post-Marxian socialism thoroughly absorbed the Marxian position that if socialism, and finally full communism, were to be achieved, the proletariat had to come to grips with the realities of the world. There was no royal road to the new society. Its internal contradictions would destroy capitalism as a form of economic organization, bourgeois "democracy" falling with it. The proletariat had to face these realities, organize itself, and otherwise prepare to take over the economic and political reins upon the collapse of capitalism. Only if this were done was chaos to be avoided. Organization became the central necessity among the proletariat.

The "Internationals"

The history of the international socialistic and communistic organizations of workers during the past century is the history of action for which Marxian theory laid the foundations. Despite the disagreements among these organizations, their numerous internal factions, and their failures, they have continued to live and to act, finding their roots in Marxian theory. Despite the apparent failure of the revolutionary organizations with which he personally was connected, Marx achieved his supreme purpose in laying the basis for international proletarian organization. We now turn to a consideration of the programs of these present-day socialist and communist movements.

QUESTIONS FOR CLASS DISCUSSION

1. Before anything can be evaluated, tests of its value must be established. What do you think these tests should be in the case of Marxian theory?
2. What is the major weakness in Marx's theory of value? How does this affect his theory of surplus value?
3. Does the same weakness appear in his theory of wages?
4. Why was it essential for Marx to maintain consistently either that wages are "flexible" or that they are "inflexible"? Why did he not do so?
5. What inconsistencies can be found in Marx's handling of his "subsistence" theory of wages?
6. How do the inaccuracies in Marxian wage theory affect his theory of surplus value?
7. Does a proof that there is no sound theoretical support for Marx's theory of

surplus value also disprove his contention that under capitalism workers are exploited by capitalist employers?

8. If one rejects the theory of surplus value but accepts as a fact some exploitation in a capitalist economy, can that exploitation be removed without destroying capitalism? Compare your answer with Marx's analysis of the possibility of removing surplus value from the capitalist system.
9. Marx made specific predictions of certain developments that would occur under the capitalist system. Have these predictions proved to be correct?
10. Is it merely difficult or is it practically impossible to evaluate Marx's basic philosophical tenets? Does this mean that we must accept Marx's philosophy?
11. In what sense can the Marxian theory of history be said to be onesided? Is this equivalent to saying that it has no value?
12. Is it legitimate to evaluate Marxian doctrines, regardless of their theoretical soundness, on the basis of their influence upon world thought? What can be concluded when this test is applied?

SUBJECTS FOR STUDENT REPORTS FOR PART IV

1. The Degree to Which the Paris Commune of 1871 Carried Out Marxian Ideas.
2. The Degree to Which the Internationals Have Followed Marxian Doctrines.
3. The History of One or More of the "Internationals."
4. The Contrast Between the Marxian Philosophy and the Hegelian.
5. The Place of Non-Economic Institutions in Marxian Theory.
6. Marx's Influence on the Present-Day Writing and Teaching of History.
7. The Sources of Marx's Theories of Value and Wages.
8. Marxian Doctrines in Recent Political Platforms of the Socialist and Communist Parties in the United States.
9. The Marxian Theory of Capitalist Imperialism Compared with Historians' Analyses of the Causes of the First and Second World Wars.
10. The Story of the "Enclosures" in England.
11. Are Business Depressions Becoming More Severe?
12. The Concentration of the Control of Industry in the United States.

SUGGESTIONS FOR FURTHER READING FOR PART IV

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Part V

Modern Socialism and Communism

Chapter 14

SOCIALISM AND COMMUNISM DEFINED

DIFFICULTIES

SOCIALISM has been called many things, and many things have been called socialism. The popular mind, undisciplined as it is to the precise use of words and the making of fine but important distinctions, has been accustomed to lump under "socialism" whatever economic doctrines and practices were at the particular moment distasteful to it. A proposal as mild as that of taxing personal incomes at progressive rates, and an action as violent as the plotted assassination of government leaders, have been represented as socialistic. This confusion has resulted in part from the deliberate desire to attach a term of opprobrium to some proposed change in economic or political institutions, and in part from the many-sided nature of socialism itself. This kaleidoscopic nature has been well described by a British writer as follows:

"It is both abstract and concrete, theoretical and practical, idealist and materialist, very old and entirely modern; it ranges from a mere sentiment to a precise program of action; different advocates present it as a philosophy of life, a sort of religion, an ethical code, an economic system, a historical category, a juridical principle; it is a popular movement and a scientific analysis, an interpretation of the past and a vision of the future, a war cry and the negation of war, a violent revolution and a gentle revolution, a gospel of love and altruism, and a campaign of hate and greed, the hope of mankind and the end of civilization, the dawn of the millennium and a frightful catastrophe."[1]

Many factors have played a part in making socialism a subject "very complicated, difficult to master, and enveloped in confusion beyond all others of a similar character."[2] The changes in human living wrought by time have played no small part in changing the concept of socialism. This movement, like all others, is a product of man's mental reaction to his environment. The environment has changed from one dominated very largely

[1] A. Shadwell, in *Quarterly Review*, July, 1924, p. 2.
[2] *Ibid.*, p. 1.

by uncontrollable natural phenomena of soil fertility, distance, time, temperature, rainfall, and so on, to one in which man has to a large degree bent natural forces to his will through modern scientific and mechanical devices. Accompanying such changes have been others in his mental reactions. From a state of acceptance and mystical explanation of nature's limitations upon his ability to satisfy his desires, accompanied by a rudimentary set of moral precepts for the attainment of the good life, man has come to that state where he is loath to accept any limitation upon the production of goods as due to anything other than his own lack of knowledge. The limitations now lie in man, not in nature—at least such a belief conditions man's plans to achieve a better living.

Thus, although the term "socialism" has been in use only about two centuries, something which could be called socialism has existed for many centuries. Elements of socialism are found throughout utopian thought. Under Marxian influence it assumed a distinctly different form. Originating a century ago, Marxian socialism reflected certain reactions to an environment into which had just been introduced all the mechanical inventions comprising the Industrial Revolution. It remains for us to define and consider *modern* socialism, whose origins carry back to utopian and Marxian socialism, but whose ultimate objectives, programs, organizations, and tactics reflect the influence of a modern environment which includes our present-day mechanical and scientific means of forcing nature to yield up want-satisfying goods to man.

A Definition of Socialism

As the term will be used here, socialism refers to *that movement which aims to vest in society as a whole, rather than in individuals, the ownership and management of all nature-made and man-made producers' goods used in large-scale production, to the end that an increased national income may be more equally distributed without materially destroying the individual's economic motivation or his freedom of occupational and consumption choices.*

Although the ends sought by socialism usually are not included in definitions of it, they are so universally accepted in socialist programs that they become essential parts of a satisfactory concept. Students of socialism, as they examine its programs minutely, may be inclined to doubt whether socialists promise to preserve the freedom of the individual's occupational and consumption choices. However, almost without exception, socialists do so commit themselves either by direct statement or by strong implication.[3] The platforms of the Socialist party of the United States offer tangible evidence on this point. A recent platform defined socialism as follows: "Socialization is social ownership and democratic control of indus-

[3] For a statement which is exceptional in this respect, see Maurice Dobb, *Political Economy and Capitalism*, International Publishers, New York, 1937.

try, substituting the principle of public service or social usefulness for the principle of private profit, *preserving workers' free choice of occupation, consumers' free choice of goods,* and freedom of association for all functional groups."[4]

Implications of the Definition

Our definition contains certain implications, the full significance and practical application of which will be evident in later portions of the discussion. Calling socialism a "movement" implies that there have existed, and now exist, organizations with specific programs using tactics designed to transform the idea of socialism into concrete working socialized economies. The vesting of certain property rights in "society as a whole" implies the continued existence of some form or forms of *organized* society. These need not be the existing forms using current techniques; but somewhere and somehow authoritative agencies of society must exist to exercise that control without which orderly and efficient productive processes cannot exist. "Society as a whole," moreover, implies the existence of some form of what we call, in the broadest and most idealistic sense, a "democratic" organization of society.

Ownership of the means of production by any relatively small group of persons whose actions are known not to be the reflections of the wishes of the masses would not be ownership by "society as a whole." The vesting of "ownership and management" in society, rather than in individuals, really means that the decisions concerning the use of producers' goods would be made directly by society, rather than by individuals. "Ownership" of property is synonymous with the power to make decisions concerning its use, and it is this *power to make decisions* which socialism proposes to transfer from individuals to society. This transfer is to occur in both "nature-made and man-made producers' goods." The economist usually refers to the former as "land" or "natural resources," and to the latter as "capital" or "instrumental capital." However, only those producers' goods "used in large-scale production" are to have their ownership shifted. This definitely implies that land and tools used personally by their owners will continue to be subject to the decisions such owners make relative to their use. It is thus implied that, roughly speaking, "large-scale production" exists whenever an individual controls such a quantity of producers' goods that he finds it desirable to employ hired labor to assist him in using them.

Socialism's aim to achieve an "increased national income" implies that the *potential* output of the existing productive agents is greater than their *actual* output under current arrangements; it also suggests that "man-made producers' goods" could be created under socialism with an effectiveness at least equal to that of the existing economy. A national income

[4] *Proceedings of the National Convention of the Socialist Party,* April 6-8, 1940, Washington, D. C. (mimeographed), p. 1. Italics ours.

"more equally distributed" means, of course, that extremely high and extremely low personal incomes would disappear, and that in general personal incomes would tend to be nearer an average income than they now are. However, this does not require that there be no substantial spread in the distribution of personal incomes—in fact, "*more* equally" clearly permits some significant degree of variance among them. That all this is to be done without "destroying the individual's economic motivation" means that in a socialized economy the mainspring which generates human energy for the productive process will be the desire of the individual to acquire income with which he can buy goods for his personal use. This, however, does not forestall an attempt under socialism to *decrease* the proportionate part played by individual economic incentives, and to *increase* the proportionate part played by social non-economic incentives, in developing that drive of human energy necessary to keep our productive processes operating.

Preservation of the individual's "freedom of occupational choice" does not imply unrestrained freedom of all individual action. It does necessitate that the individual will have substantial freedom to choose the particular channel of occupational endeavor (from the many channels which will be socially useful) into which he wishes to put his personal efforts. "Freedom of consumption choices" implies the absence of rationing of consumers' goods; it also includes the freedom to choose without certain restrictions imposed by current allegedly misleading advertising and sales devices. Moreover, it is suggested that the mere increase of personal incomes will create more freedom of consumers' choices by making possible the consumption of many items formerly excluded by the smallness of the income.

The Economic Core of Socialism

The heart of socialism is economic. When the definition and its implications are examined carefully, the central issues are found to be those of property rights in producers' goods, decisions relative to these goods, and the distribution of the real income produced when labor is combined with them. Around this central core there is a periphery of political, social, religious, sex, and other issues, but these should not be confused with the central problem of how society wishes its production, distribution, and consumption of economic goods to be organized. Under our so-called capitalist system these processes are organized in a certain way, under a certain set of legal institutions; socialism proposes to organize them differently and to this end advocates changes in these institutions. Socialists do not deny that such changes would involve many accompanying changes in non-economic spheres of living and in non-economic and extra-legal institutions and customs. In fact, among themselves socialists disagree

upon just what changes socialism would automatically bring to, and should deliberately create in, non-economic institutions. But upon the basic nature of their proposed economic system they agree. From this emphasis upon the nature of economic institutions and processes, it logically follows that socialism should be referred to as an "*economic* movement."

Socialism and Social Reform

Since there has been such widespread and utter confusion of socialism with all manner of things else, it will be desirable to supplement our formal definition with a demarcation of socialism from many ideas, plans, and proposals with which it has been confused in the popular mind. After reviewing a few of these confusions the student should find it easy to distinguish between the essentials of socialism and the many other proposals for change which constantly flood our press and radio from every conceivable source. Some of these non-socialist ideas and plans propose less drastic, vital, and comprehensive changes than socialism, while others propose changes which would alter our economic institutions and processes even more completely than would socialism. Some proposals in each category will be described briefly.

Social reformers often are confused with socialists, and measures of social reform with socialism. This misunderstanding is due partly to social reformers who often refer to themselves as "socialists," despite the fact that they reject as a consciously accepted goal the essential feature of socialism—the social ownership and management of the means of production. It is also due in part to the fact that a large enough number of sufficiently basic reforms in our economy theoretically would bring us to socialism. In general, however, the dividing line between the social reformer and the socialist is clearly marked. The social reformer believes that if sufficient limitations are thrown around the decision-making powers exercised by the private owners of producers' goods, their ownership and management can satisfactorily be left to individuals for an indefinite future period.

The socialist does not accept this view. He advocates the shift of this power from individuals to society as the prerequisite to any satisfactory operation of our economy. Many social reformers insist that property is nothing but a bundle of rights, and that, as their social reform measures remove one after another of these rights from the bundle possessed by the individual "owner" and add them to powers possessed by society, a gradual shift toward a socialized economy occurs. Coupling this with an assertion that he does not hesitate to advocate reform measures merely because they create a trend toward socialism, the social reformer sometimes pleads that he is a real "socialist," or at least a "socialist-at-heart," or "sympathetic-socialist." Socialism of course admits the possibility of reform measures

creating a tendency toward socialism, but modern socialism, as we are using the term, contends that something more than such a trend is essential. In place of the rather vague *hope* or *assumption* by the social reformer that his reforms ultimately will end in full socialism, the socialists insist upon the necessity of a *program* shaped specifically toward this goal, with the idea of attaining it deliberately, consciously, and in the not too vague and distant future.

Many of the proposals of social reformers are thus persistently confused with socialism as such. For instance, nearly every legislative proposal to restrict further the rights of the employer relative to the wages, hours, and conditions under which he is permitted to hire labor, is attacked as socialistic. It is true that under a continuous barrage of such legislation the bundle of rights called private property has dwindled somewhat, and may continue to dwindle. But such legislation is not socialistic in the true sense of the term. These laws are designed to adapt certain private property rights to changes in the technical and mechanical phases of our world and to changing ideas of human needs, rather than to substitute social for individual ownership. Such laws are essentially capitalist, in that they create no basic change in the ownership of producers' goods; in fact, the advocates of such laws often are simply seeking to strengthen existing property institutions by adapting them to changing needs.

Socialism and "Government Ownership"

The confusion becomes still greater when one considers the problem of the "government ownership" of public utility industries. In some cases municipalities today own and operate electric power plants, water supply systems, street railway systems, gas works, and a variety of other business units, while state and federal governments enter other lines of production. Is this socialism? It would seem on first thought that the conditions of our definition have been met. It is significant, however, to note that the advocates of "government ownership" in nearly all cases set clearly defined limits to the extension of this movement. Only those utilities which are closely connected with the health, safety, or minimum necessities of life are included in the industries for which government ownership is urged.

Moreover, even in such cases, the industries taken over are operated by arms of government scarcely comparable to the socialists' phrase "society as a whole." To the socialist, these instances of government ownership are merely grafted upon a capitalist system, drawing their strength from it and partaking of its nature. They are in clear contrast with the socialist proposal to change the organization throughout. The socialist advocates much

ownership and management by *society* as a whole, with few small-scale exceptions; the advocate of government ownership urges much *private* ownership and management, with few large-scale exceptions. Many socialists advocate an extension of government ownership for experimental and tactical purposes, although some give these projects only half-hearted support because they are not accompanied by the more comprehensive changes which socialists believe necessary.

Socialism and Civil Liberties

Socialism is sometimes confused with the idea that certain rights guaranteed the individual by our Constitution should be protected and made meaningful. It is almost unbelievable, but is nevertheless true, that many persons cannot or will not distinguish between advocating socialism and advocating that socialists be free to speak, assemble, and carry on peaceful organizational activities. Consequently, we find that such organizations as the American Civil Liberties Union, which attempts to protect individuals and organizations in the exercise of their civil rights as set down in our Constitution, are often labeled socialist organizations. Obviously, this is a gross error in the use of the term "socialist."

Socialism and Anarchism

It is relatively easy to differentiate between socialism and those ideas, proposals, and movements which involve milder changes in our economy. It is also easy to distinguish between socialism and anarchism. Despite their close association in the popular mind, they are as far apart as the poles in their theory, organization, and tactics. Only the differences in theory can be noted here. The anarchist attributes major social ills to the use of threat or force by government agencies. He contends that "human nature" in its most elemental sense is essentially cooperative and brotherly, but that, as this original nature matures, it is conditioned by a hierarchy of repressive institutions—the chief of which are governmental—so that qualities of selfishness, acquisitiveness, and pugnacity become dominating forces in the individual's psychological make-up. Since humans have been nurtured by such an environment, all sorts of economic, social, and political difficulties arise when they come into intimate contact with one another as they must in our society.

The anarchist therefore proposes the elimination of the state, or organized government. With this supreme repressive institution gone, persons growing to maturity would experience a development rather than a repression of their natural desires. In the resultant society people would not be motivated to do those things we now find it necessary to prohibit by

law, and, what is more significant, they would be fused by dominating innate motives of cooperation and brotherhood into a natural group life in which the individual would find his supreme well-being. From our definition of socialism, it is clear that the socialist takes an entirely different position on the place of organized group life in society. Under socialism the ownership and management of producers' goods would be vested in democratically constituted agencies representing society. These, although not necessarily like existing government agencies, would be authoritative—and it is just such agencies that the anarchist condemns.

Socialism and Communism

The difficulties encountered in differentiating between socialism and communism arise not so much from a lack of important theoretical distinctions as from intricate past and present organizational interrelationships, hard feelings which have existed and still exist between the leaders of the two movements, and the fact that each movement currently uses a mixture of tactics, the component parts of which change from time to time. The ill feelings have given rise to both petty and serious charges and countercharges which, through the years, have changed in their focal points but not in their number or intensity. It is exceedingly difficult to cut through these and arrive at the actual points of difference. Socialist tactics may veer now toward and then away from communist tactics, while communist tactics shift with equal agility.

Nor is one assisted very much when he questions socialists and communists on these matters. Practically every socialist insists that there are deep-rooted and significant differences between socialism and communism, but in describing them he is vague and unconvincing. The communist easily matches this performance. Each seems to doubt the other's intellectual integrity, so that when the layman quotes one to the other he may get such an answer as this: "I believe that he said it; but he didn't mean it." All this confusion requires that, in defining these terms, we proceed with much boldness, generalizing broadly, but meanwhile realizing that the differentiation may be severely criticized by the adherents of either or both movements.

The first outstanding theoretical difference to be noted relates to the kinds of goods which are to be socially owned and managed. The socialist contends that producers' goods used in large-scale production should be owned and operated by society rather than by individuals; the communist adds to this the social ownership of consumers' goods. He apparently means that the basic title to *all* consumers' goods (and therefore power to make decisions relative thereto) is to be vested in society; while (1) actual

ownership of consumers' goods whose use is intimately connected with the person of the consumer will be transferred to individuals or families, the amounts and kinds of goods awarded to each being in accordance with individual "needs"; and (2) actual ownership of consumers' goods whose use is not intimately connected with the person of the consumer will remain in the possession of society, but the *current services* of these (presumably the most durable) goods will be made available to individuals and families in accordance with their "needs." Food and clothing are illustrations of the first category of consumers' goods; houses, theaters, concert halls, and possibly books illustrate the second.

From this distinction there follows a second: If the ownership of some, and the use of all, consumers' goods were distributed throughout society on the basis of "need," then one's personal consumption would no longer depend upon how hard or efficiently he worked. Under socialism the economic motivation of the individual is not to be materially modified. Personal income would largely determine the kinds and quantities of consumers' goods one would have to use, and one's income, in turn, would depend upon differentials in wages and salaries designed to evoke the total human effort desired by society. Communism relies much less upon an individual economic motivation, and much more upon some non-economic social motivation, to induce persons already supplied with goods in accordance with their needs to put their efforts into the productive processes in accordance with their abilities. This might be summarized by contrasting the socialist formula, "effort from each according to his desire for compensation; goods to each according to his productivity," with the communist formula, "effort from each according to his ability; goods to each according to his needs."

Certain differences between socialism and communism in matters of organization and tactics may be mentioned in the broadest of generalizations. Socialist organizations are largely self-governing, with little centralized machinery or disciplinary or policy-shaping purposes. On the other hand, communist organizations both nationally and internationally are featured by centralized machinery and concentration of authority.

Thus, while the autonomous Socialist party of the United States has maintained only loose and informal ties with European socialist parties, the Communist party of the United States was for many years a part of, and controlled by, the Communist International which was also known as the "Third International" or "Comintern." This international communist organization was centered in Moscow and dominated by high officials of the Soviet Union. It set the policies and programs of its constituent organizations in the various countries. In November, 1940, the Communist party of the United States officially withdrew from the Comintern

in order to avoid registering with the Department of Justice, as groups having foreign connections were required to do by the Voorhis Act. The party's constitution was then changed to provide that "the supreme authority in the Communist Party of the U. S. A. is the National Convention. . . . Only National Conventions are authorized to make political and organizational decisions binding upon the entire Party and its membership," except that "the National Committee is the highest authority of the Party between National Conventions."[5] Despite this technical modification and the dissolution of the Communist International in 1943, there is little doubt that the party leadership continues to receive the closest guidance from Moscow.

Socialist tactics are more largely determined locally, and are thus not so likely to be uniform throughout the nation and particularly throughout the world; whereas communist tactics, both national and international, are shaped more definitely by the central machinery of the movement, and therefore are more likely to display uniform characteristics everywhere at a given time. It might be added that socialists in general seem to possess more hope than communists that the transition from capitalism can and will be achieved by peaceful legislative means, although the division on this point may be less marked today than it was some years ago.

Post-War International Socialism and Communism

After the close of the War there were new signs of international action among the socialist and communist groups formerly affiliated respectively with the Second (Socialist) International and the Third (Communist) International. Representatives of socialist parties from nineteen countries met in Zurich, Switzerland, in June, 1947, to formulate plans for reestablishing the Second International. The parties represented were those advocating a gradual and peaceful transition to democratic socialism through parliamentary measures promoted by the respective socialist parties based upon mass labor support. While most of the socialist parties represented maintain strict independence of the communists, as is true of the British Labor party and the French Socialist party, for instance, some of the represented socialist parties from nations of eastern Europe, such as Rumania and Hungary, either collaborate with or are dominated by the Communist parties of their nations. This basic difference over relations with the Communist parties of the world, coupled with a split over a proposal to admit the Social Democratic party which has been revived in non-Russian-occupied Germany, prevented final action on the reestablishment of the Second International. However, the conference did serve to clarify the post-war status and problems of socialist parties throughout the world.

[5] The Constitution of the Communist Party of the United States of America, Art. 8, Secs. 1, 6.

It created a committee to prepare the ideological basis and the organizational form for reconstituting the Second International.

At a later conference in Antwerp, Belgium, November 29 to December 1, 1947, the same conflict between Communist-inclined socialist parties and the more moderate parties was evident. Some one hundred delegates from eighteen countries attended. The European Recovery Plan was recognized as useful, providing it did not mean political domination of Europe. The German Social Democrats were admitted to full membership in the conference. While no official revival of the Second International occurred, the matter was left open, and it was resolved to establish a permanent committee that would meet monthly to maintain contact between, and coordinate the actions of, the Socialist parties of the various nations. The Socialist party of the United States had a non-delegate observer at the conference.

In March, 1947, representatives of all the important Communist parties of Europe, except those of the Soviet Union, Italy, and Rumania, assembled in London for the first important international communist conference since the dissolution of the Third International in 1943. "Fraternal delegates" were present from some parts of the British Empire, Cuba, and the United States. At least openly, the conference had no tie to the Communist party of the Soviet Union and the top-ranking communists of the world who have such ties were not present. The keynote speech was delivered by the British communist R. Palme Dutt, who is rated as a leading theoretician in the international communist movement. It indicated that the following are the main points in the post-war international communist program:[6] (1) To align nations tending toward socialism, such as Great Britain, more closely with the Soviet Union; (2) to assist the nationalist liberation movements in countries such as India toward full independence; (3) to weaken the "imperialism of the United States"; (4) to prevent nations such as Great Britain, Canada, and Australia from forming closer ties with the United States; (5) to destroy the British Empire by obtaining the full independence of such appendages as Malta, Cyprus, Palestine, India, Burma, the African colonies, and even Northern Ireland; (6) to break up the French Empire; (7) to form cooperative relationships among the working classes of the various nations without forming "organizational links" among the Communist parties. The United States was pictured as an imperialist nation seeking to form a Western bloc, to absorb the British Empire, and to gain bases in India, Canada, Ceylon, and Australia, to enable it to encircle the Soviet Union.

At the London conference the following data were revealed showing the distribution of the approximately 18 million Communist party members throughout the world:[7]

[6] As summarized by C. L. Sulzberger, New York *Times*, March 3, 1947.
[7] *United States News*, March 28, 1947.

Europe		*Western Hemisphere*	
Austria	150,000	Argentina	30,000
Belgium	100,000	Brazil	130,000
Bulgaria	450,000	Canada	23,000
Czechoslovakia	1,000,000	Chile	50,000
Denmark	60,000	Colombia	10,000
Finland	28,000	Cuba	152,000
France	1,300,000	Ecuador	2,500
Germany		Mexico	25,000
Soviet zone	1,576,300	Paraguay	8,000
3 Western zones	350,000	Peru	35,000
Great Britain	43,000	United States	74,000
Greece	400,000	Uruguay	15,000
Hungary	650,000	Venezuela	10,000
Italy	2,200,000	*Asia*	
Netherlands	50,000	China	2,000,000
Norway	33,000	India	53,700
Poland	600,000	Japan	6,000
Rumania	500,000	Korea	50,000
Sweden	46,000	*Australasia*	
Switzerland	21,000	Australia	25,000
U. S. S. R.	6,000,000	New Zealand	2,000

Communist voting strength exceeds party membership. Hence, the following table shows the party's voting strength in twenty-four European elections held during 1945 to 1947:[8]

Country	*Percentage of Total Vote*	*Date of Election*	*Country*	*Percentage of Total Vote*	*Date of Election*
Soviet Union	99	Feb. 10, 1947	Belgium	14	Nov. 26, 1946
Albania	95	Dec. 2, 1945	Sweden	11	Sept. 15, 1946
Bulgaria	90	Nov. 18, 1945	Brit. Zone, Ger.	10	April 20, 1947
Yugoslavia	90	Nov. 11, 1945	Luxembourg	10	Oct. 21, 1945
Poland	80	Jan. 21, 1947	Netherlands	10	May 17, 1946
Rumania	67	Nov. 25, 1946	Greece	9	Mar. 31, 1946
Sov. Zone, Ger.	54	Sept. 1, 1946	U. S. Zone, Ger.	8	Dec. 1, 1946
Czechoslovakia	39	June 19, 1946	Fr. Zone, Ger.	8	May 18, 1947
France	28	June 2, 1946	Norway	8	Oct. 8, 1945
Finland	23	Mar. 17, 1945	Austria	6	Nov. 26, 1945
Italy	19	June 9, 1946	United Kingdom	0.3	July 5, 1945
Hungary	17	Nov 4, 1945			
Denmark	16	Oct. 31, 1945			

[8] Dispatch from Special Correspondent of *The London Economist*, New York *Times*, June 15, 1947.

The table clearly indicates the center of communist strength existing in eastern Europe. Yugoslavia and Albania have one-party communist regimes without any pretense of united-front or coalition governments. Poland, Rumania, Bulgaria, and Hungary have "bogus coalition" governments in which "socialist" or "people's party" elements may have some apparent but no real place in governing. In Czechoslovakia alone among the eastern European nations is there a degree of real cooperation between Communist and other parties in a coalition government which could be rated as "free" according to western standards. Even here, the Communist party in 1946 polled the highest proportion of votes it ever had achieved in a free election in that country. Moreover, Czechoslovakia now is faced with a choice between the path offered by the "Truman Doctrine" or the "Marshall Plan," on the one hand, and the counteroffensive of the Soviet Union, on the other.[9] In twenty Latin-American countries communist voting strength is estimated to be 5 to 8 per cent of the total vote. Communists hold the balance of power in Cuba and Chile and are reported to constitute an electoral majority in some Brazilian industrial districts.[10]

In September, 1947, a conference of the Communist parties of nine European countries, including the Soviet Union, was held in Poland. "Information reports" on the party in various countries were received by the conference and "viewpoints" were exchanged. A permanent body, the Communist Information Bureau (the "Cominform"), was created with headquarters in Belgrade, Yugoslavia. Its task is "to organize and exchange experience and, in case of necessity, coordinate the activity of Communist parties on foundations of mutual agreement."[11] Although the Bureau was declared by *Pravda* to be "the next step in the development of the international working class movement,"[12] it allegedly "does not signify at all the restoration of a single world communist organization with centralized leadership such as the Communist International (Comintern) used." The conference issued a *Manifesto* declaring that "two opposite political lines have crystallized: on the one extreme the U.S.S.R. and the democratic countries aim at whittling down imperialism and the strengthening of democracy. On the other side the United States of America and England aim at the strengthening of imperialism and choking democracy." The "Truman-Marshall plan" was declared "only a farce, a European branch of the general world plan of political expansion being realized by the United States in all parts of the world." The "Rightist Socialists," such as the French Socialists, the British Labor party, and the revived German Democratic Socialists, were condemned for "hiding the true face of im-

[9] This summary of communist strength in eastern Europe is based upon an analysis by a special correspondent of *The London Economist*, New York *Times*, June 15, 1947.

[10] *United States News*, February 7, 1947.

[11] Text of Resolution adopted by the conference, New York *Times*, October 6, 1947.

[12] As paraphrased in the New York *Times*, October 11, 1947.

perialism behind the mask of democracy and Socialist phraseology. . . ."[13] Late in 1947, it was reported that a far Eastern "Cominform" had been established with representatives from the Soviet Union; Outer Mongolia, Korea, and China participating.[14]

Long-Run Objectives and Ultimate Goals

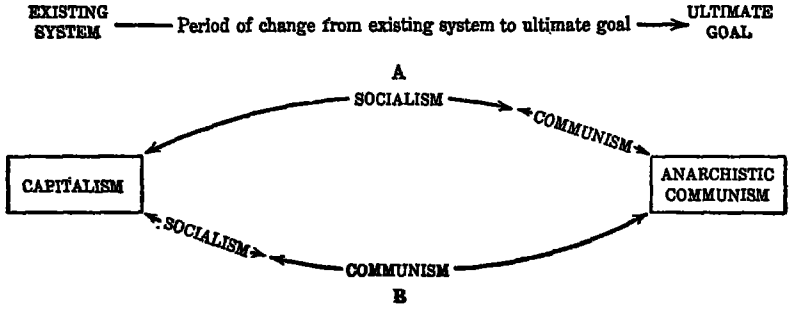
Many socialists accept communism as a desirable long-run goal, while, on the other hand, most communists accept socialism as a necessary interim stage between capitalism and the establishment of communism. Since the rank and file of socialists and communists probably have given no thought to ultimate goals, these views are chiefly those of the theoreticians of each movement. Moreover, these socialists and communists agree that the ultimate form of human society must be anarchistic. Thus anarchistic communism, or communistic anarchism, becomes the ultimate objective of socialists, communists, and anarchists. In such a society each person would contribute effort in accordance with his abilities, and acquire and consume in accordance with his needs; no authoritative agency would be needed to keep individual actions within this formula, for the simple reason that every individual would have become so socialized in his motivations that he would feel no pressure to violate the common good for his own personal advantage. Is it to be wondered at that anarchistic communists are often called the most idealistic of all idealists?

Despite certain real unity of long-run goals, socialism and communism must be considered as distinctly separate programs. Whereas the socialist accepts communism as a long-run goal, he emphasizes the "long-run" feature of it. He believes that for any future period of time with which we need concern ourselves directly, socialism offers the most workable and satisfactory formula of economic organization. He believes and hopes that during a socialist régime there would be definite tendencies toward the social ownership of certain consumers' goods, but that such tendencies would develop slowly and would not modify substantially the fundamental features of the socialized economy he wishes to construct.

The socialist therefore accepts the institution of socialism as the object of his organized efforts, relegating into the more or less subconscious portions of his theory the rather vague hope and belief that a communistic system sometime will replace socialism. In contrast to this, the communist, feeling that full communism can be reached within a relatively short period of time, and admitting that socialism probably is a necessary but short-lived step to that end, establishes his program for the rather immediate achievement of communism. The similarity of long-run objectives and the contrast of more immediate goals are illustrated in the accompanying diagram.

[13] Text of *Manifesto*, New York *Times*, October 6, 1947.
[14] New York *Times*, November 30, 1947.

The relationship between socialism and communism makes it advisable from this point on to focus our discussion upon modern socialism, without



Graphic Presentation of the Contrasting Socialist (A) and Communist (B) Views of the Part Each Is to Play in the Movement of Our Economic Organization Toward an Ultimate Goal.

noting in each instance how communist theories and programs differ from those of the socialists.

QUESTIONS FOR CLASS DISCUSSION

1. Why is the popular mind so often confused over the correct meaning of the term socialism? Is this because socialism is a difficult term to define?
2. What are the ideas which must be worked into a definition of socialism in order to make it accurate and complete?
3. Socialism has many non-economic aspects. Would it be wise to define socialism in terms of these?
4. Why are socialism and social reform so often confused? Are they quite similar?
5. Is the basic idea back of socialism the same as that back of the government-ownership movement?
6. Do the similarities between anarchism and socialism justify thinking of them as quite alike?
7. Would you say that socialism and communism have much or little in common? Illustrate.
8. In what sense is socialism the more immediate and communism the more remote ideal?
9. Define anarchistic communism and show its relation to socialism and communism.

Chapter 15

PROGRAMS OF SOCIALISM—THE TRANSITION

Attack upon Capitalism

Its attack upon capitalism always has been one of the most prominent features of the socialist movement. The nature of the assault has changed from time to time, but its severity has never declined. Certain criticisms of capitalism which constitute an inherent part of Marxian theory have been reviewed. The Marxian emphasis was upon the inevitability of the fall of a system which, by putting "surplus value" into the pockets of capitalists, created irreconcilable conflicts of interest between masses of workers and a relatively small group of capitalist-employers. Among those modern socialists who strictly follow the Marxian approach this line of criticism continues largely unchanged and with unabated force.

Within modern socialism, however, there has developed another line of attack. This emphasizes the current deficiencies which were discussed in an earlier chapter as the "failings" or "weaknesses" of capitalism.[1] The socialist contends that these are sufficiently numerous and basic to make the capitalist system no longer useful. He points out that they arise from the operation of the fundamental institutions of capitalism and hence are to be considered quite logical and inescapable consequences of that system no matter how its detailed features may be modified. The socialist considers these criticisms to be entirely consistent with the original Marxian attack upon capitalism, merely constituting specific evidence of the soundness of the Marxian thesis.

The Absence of Detailed Programs

Socialism has been criticized as an attempt to destroy capitalism without offering something to replace it—as an ideal without a practical program. Only a minute part of existing socialist literature concerns itself with a careful analysis of what the future socialist economy would be like,

[1] It would be well at this point for the student to review these "weaknesses" for it is upon them that modern socialist programs are based. See chap. 5.

and with specific plans for its attainment. The critic of socialism snatches upon this as incontrovertible proof of the visionary and impractical nature of socialism. In this vein, a European economist has written that socialists "invariably explain how, in the cloud-cuckoo lands of their fancy, roast pigeons will in some way fly into the mouths of their comrades, but they omit to show how this miracle is to take place."[2]

This is not only a humorous exaggeration; its implication is quite unwarranted. In numerous ways socialists are realists—in fact, they often are more realistic than the defenders of the existing system. Basically, this problem is a highly philosophical one. It is impossible to say just how much of an advance program a movement such as socialism must have before it becomes "worthy of consideration" by the practical person of affairs. The advantages of giving considerable thought to the details of any proposed change are obvious. Nevertheless, it is evident that desirable changes in society are not always thwarted by an absence of minute plans for the future. To realize how true this is, we need only recall the almost complete lack of formulated political programs which characterized the leadership of the period of the American Revolution. However, this analogy must not be pressed too far, for the relatively simple nature of life at that time almost certainly prevented disruptions which might follow a planless revolution today.

Reasons for Lack of Specific Plans

There are two major reasons for socialism's lack of emphasis upon specific plans. The first is an explanation but not a justification, while the second is in a measure both. Modern socialism stems directly from Marxian socialism of a century ago. The emphasis there was upon the inevitability of the downfall of capitalism. This inevitability crept into the establishment of the new society as well as the destruction of the old. If the workers knew the change was coming and prepared themselves ideologically and psychologically for it, they could best work out its forms and processes when it came. All of this instilled a note of automaticity into the establishment of the new order, and materially decreased the incentives of Marxian theorists to speculate about or plan for the organization of economic processes in their new setting.

The explanation offered by *modern* socialists for this lack of specific plans savors less of inevitability and automaticity, but emphasizes the bearing which the immediate circumstances surrounding the change to socialism must have upon the specific methods and procedures which would be effective. Thus, if socialism were to arrive as a slow, evolutionary legislative process, the very gradualness of the change would influence substantially the way in which full socialism would be established. If

[2] F. A. von Hayek (ed.), *Collectivist Economic Planning*, Routledge, London, 1935, chapter by Ludwig von Mises, p. 88.

capitalism were to stage a complete breakdown as a result of war or depression or both, the socialists' plans would be quite different from those to be accepted if the transition were to occur while the economy was functioning with normal smoothness. If titles to producers' goods were in the hands of a few people only, the pattern of action to be followed in their socialization might be quite different from the plan adopted if they were widely scattered throughout the population.

Other illustrations could be cited. It must suffice to point out that the socialist argues that the potential variety of such circumstances makes it impossible to map out the steps to socialism, the order in which they should be taken, or the specific organizational plan socialism would assume. However, the modern socialist has devoted considerably more thought than his predecessor to what would or could be done under various assumed sets of conditions.

It would be unwise for the American socialist to adopt a carbon copy of the economic organization of the Soviet Union as his detailed plan for a socialist economy for the United States. Conditions under which the Soviet economy was born and developed differ materially from conditions prevailing in this country. In general, socialism came to Russia when it was an agricultural nation using the most primitive technical processes, with an illiterate population wholly devoid of democratic traditions. If socialism were to come to the United States in the near future, it would be projected into an entirely different setting so far as the technique of production and the literacy and ideology of the population are concerned. Socialist programs for the United States should reflect this difference, although the general pattern of economic organization of the Soviet Union is typically socialist.

Programs of modern socialism must be discussed as "if" and "or" programs, rather than as specific, inflexible, detailed plans for a new economic order. Our discussion is further limited by the fact that it applies to modern socialism *in the United States*. While most of it would apply also to British socialism, little of it would be pertinent to European socialism in general.

Sudden versus Gradual Socialization

The transfer of the titles to producers' goods from individuals to society is the heart of the whole socialist program. Certain basic questions appear immediately, when one inquires into the way this transfer is to be accomplished. Should the shift be sudden and comprehensive or should it be slow and fragmentary? If the latter, in what order should the various kinds of property be taken over? Should the former owners of this property be fully compensated for it, partially compensated, or not compensated at all? Is it possible to achieve such a shift in ownership without using confiscatory measures? In what portion or portions of society's govern-

mental machinery should these ownership titles reside? It is evident that these are not superficial questions. Realizing their significance, modern socialists are devoting considerable attention to them, without, it is true, arriving at unanimously acceptable answers.

On the first question, whether the socialization of producers' goods should be sudden or gradual, the socialist movement of the world has for many years been split into two schools of thought. The "revolutionary" socialists hold that it must be sudden, while the "evolutionary" socialists favor the gradual transfer of ownership. Of course, it follows logically that the revolutionists would take these property rights by a more or less violent use or show of force (unless they were given up voluntarily), while the evolutionists advocate a gradual acquisition of these titles through legislative acts. The revolutionist therefore encounters no question of compensation, for if the titles are taken at once on a comprehensive basis, the very method used implies outright confiscation. On the other hand, the piecemeal, gradual legislative method does not necessarily imply that the former owners would be compensated, but at least it raises the question of compensation.

Following closely the Marxian approach, the modern socialist who urges the revolutionary comprehensive acquisition of producers' goods by society bases his case on the theory that there is no other way in which the seat of these titles *can* be shifted. To Marx the revolutionary method was inevitable, since the owners will not give up these titles voluntarily without compensation, and since awarding compensation would defeat the very purposes of socialism. The revolutionary nature of the shift is the choice of the owners—not of the socialists. The latter maintain that no one would be happier than they if owners of producers' goods were to offer their property titles to society at no cost. It is pointed out that this has never happened anywhere and never will happen. Owners may transfer certain titles to governments for compensation, or even peacefully tolerate the modification of their property rights by regulatory laws which are really confiscatory in their operation; but once a threat of wholesale abrogation of privately owned titles to producers' goods is threatened, the owners will choose to defend their property by forceful means rather than surrender it. This will be a revolution not *of the socialists,* but *of the owners* who will be revolting against the exercise by society of its basic right to repossess what the owners no longer have a functional right to claim.

On the other hand there are the non-revolutionists. Admitting that a peaceful transition to full socialism never has occurred in a modern society, they still feel that the immediate plans of socialism should be laid in the direction of gradual rather than revolutionary acquisition of titles to producers' goods. Their objection to the revolutionary method is twofold. They point out, first, that if a socialist revolution were to occur today in the United States the military strength of the owning class would be out

of all proportion to their numbers or their *apparent* ability to marshal means of combat. The owners would, it is claimed, be in such strategic positions, and probably would be able to gain the support of persons possessing such important technical knowledge, as to give the owners power out of all proportion to their numbers. Thus, a revolution in the United States would be a much more violent affair than it was in Russia, for instance, where the owners were in an extremely weak position.[3]

Moreover, it is urged that if the transition were revolutionary, the amount of destruction necessarily transpiring before the socialized order could be firmly established would give socialism the poorest possible start. It might well result in a counterrevolution and failure. In an economy which uses highly intricate specialized machinery and processes, a relatively small amount of physical destruction might so disorganize economic activities that a new régime just beginning its operations would be seriously handicapped by the sheer decline in the physical output of goods. Socialism, it is held, will have the greatest probability of success if it starts under conditions of uninterrupted productive operations, and these can be preserved best by an evolutionary rather than a revolutionary transition.

Compensation for Socialized Property

Those socialists who choose the evolutionary rather than the revolutionary program face the issue of whether the property socialized should or should not be paid for, and, if the former, what manner of payment should occur. Socialist proposals on this matter vary all the way from outright confiscation to compensatory plans leaving present owners in an economic position little if any worse than their present status. These suggestions cannot be reviewed in detail, but certain broad principles representing the essence of socialist programs may be cited. Within these there is considerable room for differences in detail, only several of which can be illustrated here. These principles have not been approved by socialist organizations. They constitute an attempt to express the central line of socialist thought.

1. *Compensating present owners at the full value of their producers' goods would be a violation of the fundamental aims of socialism.* The term "present owners" refers, of course, to those who own producers' goods taken over by a socialist régime. Full compensation would clearly make former owners (and presumably their heirs) pensioners in perpetuity, drawing their incomes from the productive operations of the

[3] The Socialist party of the United States in 1940 declared that "advocacy of a policy of armed insurrection by a minority against stable state machinery is a type of futile and reactionary romanticism which is inconsistent with membership in the Socialist Party." *Proceedings of the National Convention of the Socialist Party*, April 6-8, 1940, Washington, D. C. (mimeographed), p. 8.

socialist economy. This would mean living without working for all those who had owned sufficiently valuable producers' goods prior to the transition, and would mean living *very well* for those who had owned the *most valuable* producers' goods. To provide full compensation, the amount paid would have to be in some form of income-yielding securities which could be bought and sold, thereby increasing further the previous distributive inequalities of capitalism. Such possibilities, together with the unearned nature of this income (at least after one generation had passed), lead to the conclusion that socialists cannot consistently advocate full compensation for producers' goods.

2. *Outright confiscation without compensation to individual owners is equally unsatisfactory.* Even though the transitional period were extended by the gradual acquisition of titles to producers' goods beginning in scattered lines of industry, outright confiscation would probably create one or more crises endangering the success of the full transition. There are many reasons for this. In the first place, outright confiscation of property by society is not in accordance with existing ethical standards. In the existing system it is considered right and fair to compensate the individual for property taken by society, regardless of how intolerable the private ownership has been or how vital is society's need for the property. Moreover, many injustices, even in a socialist sense, would be worked upon individuals by outright confiscation. An unknown but doubtless substantial portion of the existing capital of society has been created by its owners' saving. This saving has been productive in a social sense, and to confiscate title to properties created from these saved funds would be to lop off an earned income. To the consistent socialist, the arbitrary abrogation of earned incomes should be no less distasteful than the continuance of unearned incomes, and presumably his plans for the transitional period would avoid both.

Finally, if in the process of gradually socializing the ownership of producers' goods it became evident that outright confiscation of all such goods was to take place, several forms of havoc might be created immediately. Such a realization surely would stop at once all further industrial investment of savings by individuals. All capital development probably would have to be taken over by society coincidentally with its decision to confiscate gradually the titles to all producers' goods. Moreover, owners no doubt would lose interest in the management of their producers' goods because of the imminent prospect of loss without compensation. It is difficult to envision just what this would mean in terms of a more or less sudden dropping of those reins of control held by private owners who give rational direction to the administration of producers' goods in a capitalist economy. The probable attempt to get all one could out of his producers' goods before he lost title to them might well lead to abuses of physical capital, to say nothing of the disruption of economic processes, which

would react with great severity upon the maturing socialist economy. If one adds to this the uncertainty as to what property titles were to be confiscated next—and such uncertainty is inherent in a program of gradual socialization—it becomes quite evident that, while outright confiscation might occur satisfactorily as part of a revolutionary transition to socialism, it cannot be accepted as a part of a gradual socialization program.

3. *The amounts of whatever compensatory payments are to be made to present owners will have to be determined in a highly arbitrary manner.* The existing values attached to individual items of producers' goods or securities representing their ownership have meaning only under a continuance of existing economic institutions. There is no way of ascertaining the *real* value of certain producers' goods, the ownership of which is about to be taken over by society. Since the individual is no longer to be permitted to use them for his own gain, and since society presumably has the right and power to confiscate the titles to them if it cares to do so, no individual would offer any price for them in the face of such prospects. The very decision to socialize producers' goods even gradually would cause their current market values to approach zero. If, under these circumstances, society did decide to award compensation, the amount actually paid would have to be quite arbitrarily decided upon, because their *actual* value at this time would be at some indeterminable point between a lower limit of zero and an upper limit of their market worth before the decision to socialize had been made or had appeared probable.

4. *Even though individual owners were compensated for their property, from society's standpoint the process would be confiscatory in nature.* This follows from the fact that society, as an entity, has no income from which it can compensate those individuals from whom producers' goods are purchased. Whatever income the agencies of society use for this purpose necessarily will have to be taken directly or indirectly from individuals. If tax revenues are to be used to purchase producers' goods from individual owners, these owners experience no confiscation, because the burden of the confiscation has merely been shifted from them to the taxpayers—who may constitute the masses of the citizenry or merely some selected portion of it upon which the particular taxes used are focused. Obviously, it is just as logical to contend that from the point of view of society as a whole it is impossible to confiscate property in producers' goods. Since society is not an entity which can possess property apart and separate from the individuals of which it is composed, society cannot confiscate it from those individuals. It can merely confiscate the titles from *some* individuals and vest these titles in *all* individuals—"society" being synonymous with "all." Thus, instead of the issue being one of compensation versus confiscation, it becomes one of *individual compensation* by funds confiscated *from the group,* versus *individual confiscation* with the proceeds of the confiscatory action vested *in the group.*

All this is no mere play upon words, for it demonstrates that if individuals are to be compensated for property which is socialized, the other members of the group must give up the amount of the compensation, while if the property of individuals is confiscated, the group as a whole is no better or worse off in property ownership than it was before. Although the choice of compensation or confiscation remains an extremely important one from the point of view of transitional methods and their repercussions, there is no gainsaying the fact that when society assumes property rights they are being confiscated from some individuals within the social group, regardless of whether the full burden of this loss is borne by a small group of property owners under a so-called "confiscatory" plan or by a small or large group of taxpayers under a so-called "compensatory" plan.

5. *There is no reason to believe that the same plan of either compensation or confiscation should be used for all kinds of producers' goods and for all owners of producers' goods.* Indeed, from the socialist point of view it would be most logical to discriminate among the various categories of producers' goods, as well as among the various categories of owners of these goods. Thus it might be argued that, whereas compensation is the best and fairest plan for acquiring the ownership of capital goods which have been created by man's saving, confiscation may be considered the better and not unfair plan for acquiring the titles to natural resources, in the creation of which neither the present owners nor their ancestors played any part. A similar line of reasoning might indicate that, whereas compensation should be awarded when society acquires capital owned by persons whose savings have created it, confiscation is the better and not unfair policy for those goods society takes from persons who have inherited titles to them. It is conceivable that it might be desirable to compensate for property taken from those individuals who have little of it, or who have no or little means of acquiring current income through selling labor service in the new socialized economy, and yet exercise confiscation upon those individuals who possess large amounts of property or who could look forward to the acquisition of labor incomes under socialism. The possible gradations and combinations in the practical applications of these policies are obviously almost without limit.

6. *No compensation, regardless of its nature, shall carry with it any power (except that possessed by persons as members of society) to make decisions relative to the use of the producers' goods previously owned.* Under socialism, all decision-making power over the use of producers' goods is to be vested in society rather than in individuals. This requires that, whatever compensation may be awarded former owners when such property is socialized, no vestige of their previously possessed power to make decisions shall be retained by them as individuals.

7. *Outright confiscation is not inherently on a low ethical plane.* It is

true that confiscation is in violation of existing property laws and of the prevailing ethical standards which in part shape, and in part are shaped by, those laws. If one starts with another set of ethical concepts, he may conceivably arrive at other conclusions concerning the ethical soundness of social confiscation of individuals' property. For instance, if one were to trace back the institution of private ownership of land and find it rooted in the exercise of a physical power to assert a claim to and possession of land, he might wish to challenge the ethical soundness of existing property laws which have grown from such roots.[4] Or if one were to accept *a priori* the proposition that no one has an ethically sound right to possess producers' goods unless that property in his possession is fulfilling its highest possible function for society as a whole, he might question the soundness of certain portions of our property laws. Or, to give one more illustration, if one were to question the ethical right of a person to exercise ownership claims over any producers' goods in whose creation his own personal effort has played no part, that is, to define "confiscation" in other terms than those currently accepted in existing law, the moral justification of portions of our property law might become questionable.[5] It is considerations such as these that lead socialists to refuse to accept as "naturally" or "ultimately" right those laws and ethical norms now prevailing in the field of property relationships. Confiscation thus loses, for the socialists, some of the dire connotations it holds for many defenders of the legal and ethical *status quo*.

Alternative Forms of Compensation

It should be clear that when many modern socialists advocate compensation for socialized property, they do not mean that former owners should be given interminable, unqualified, and transferable interest-bearing claims equal in amount to the old values of their properties under the previous capitalist régime. Although some socialist proposals approach this, most of them offer the former owners far less than this. Possibly the form of compensation which would most nearly meet the ideas of most socialists could be described best as non-transferable, dateless, governmental income bonds, bearing interest at a rate somewhat lower than industrial bonds yielded under capitalism, and issued in amounts approximately equal to the previous capitalist market values of the physical producers' goods taken over by society. Although it will be impossible to discuss the potential problems arising out of the use of such forms of

[4] See J. Ramsay MacDonald, *Socialism: Critical and Constructive*, Cassell, London, 1929, p. 166.

[5] For instance, Karl Kautsky refers to even such things as colonial expansion, the issuance of paper money, and devaluation of money as ways in which some present owners have acquired through confiscation. *New Leader*, August 22, 1936.

compensation, certain important features of this form of compensation may be noted.

The "non-transferable" provision would prevent the inheritance of these claims by descendants, thus limiting the compensatory benefits to the lifetime of the former owner. It would also forestall the transfer of such claims among the living recipients, thus preventing the development of a greater degree of concentration in the ownership of these bonds than had existed in the ownership of the property now socialized. Since these bonds could not be inherited, confiscation actually would occur gradually, as the previous owners died. The fact that the bonds were "dateless" would indicate that society did not agree to convert their principal sums into any other form of compensation (money, for instance) at any future time. Since these would be "governmental" bonds, their interest claims would stand against all of the current resources of the government. "Government" as used here would, of course, mean whatever central agency might be established to represent society in these transactions, and would not necessarily correspond to any existing government agency. In fact, it is probable that, since all producers' goods would not be owned by a single government agency, a variety of agencies would issue such bonds in payment for property which they acquired.

An "income bond," as the term is used here, is a claim merely to current income with no pledge of tangible wealth as security back of it. The owner of such a bond would have no mortgagee powers to acquire physical property of value equal to the bond's principal sum in case of defaulted interest payments. The interest payments called for by the bonds are the only real benefits their owners would receive from them. Since there would be no opportunity in the socialized economy for the bondholder to invest such receipts in claims to producers' goods used in large-scale production, they could be spent only either for consumers' goods or for tools and equipment to be used by the owner himself without hired assistance. The question of just what interest rate such bonds should carry is a matter open to much debate. Since the owner of the bond would no longer bear the risks attendant upon ownership in a capitalist order, socialists hold that the interest rate on these bonds should be lower than that which had prevailed on similar claims to specific property under capitalism. There would be logical bases for differentiating in the rate as between certain types of producers' goods and possibly as between certain categories of previous owners.

The principal sum in which such bonds would be issued to the former owner, as was pointed out earlier, would necessarily be fixed arbitrarily. However, there are many advantages to be realized in making this sum as nearly as possible the equivalent of the previous capitalist market values of the physical producers' goods taken over. Such a rule would

probably create a feeling that some measure of relatively full compensation was being received, while, on the other hand, it would not obligate society to compensate former owners for such intangible property as good will, other monopolistic perquisites, franchise rights, and so on. It is when one looks ahead to the problems encountered in separating the values of the physical producers' goods from the values of intangibles, that he realizes how highly arbitrary the determination of these principal sums would have to be.

Many variations of this theme are included in socialist literature dealing with the problem of compensation. These include proposals for practically full and unrestricted compensation in money, with the cost to be met by high inheritance taxes and strongly progressive income taxes; for payment of an annuity for a specified term of years; for an annuity continuing throughout the lifetime of the previous owner; for an annuity continuing throughout the lifetime of the previous owner, but with provision for a lump-sum settlement if the recipient dies before a certain specified number of years has elapsed; for an annuity determined by the former income of the owner rather than the value of his property, scaling down the annuities paid to those formerly receiving high incomes and scaling up those paid to the former low-income receivers; for relatively full compensation in money, the cost to be met by a capital levy; and so on.[6]

The British socialist, G. D. H. Cole, has proposed that former owners of socialized property be given as compensation "capital bonds secured, cumulatively or not, solely against the net earnings of the undertaking—i.e., a sort of income debenture without power of foreclosure, analogous in some respects to existing types of debentures and in others to preference shares, but without even nominal rights of ownership." These would bear "a limited, but not a fixed, rate of dividend, rather than a fixed rate of interest," and the "price-fixing authority would be instructed to include the return on such bonds as a charge in doing business." He adds that, to encourage new investment, the state could guarantee a fixed or minimum return for a limited period of years.[7] Apparently this plan is designed to operate in an economy where the intention is not complete socialization, and in which individual savers would be looked to as an important source of investment funds.

Rignano's Proposed Inheritance Tax

One of the most specific plans for transferring property titles from individuals to society through an inheritance tax has been worked out by

[6] For a discussion of these and other plans, see Harry W. Laidler, *Socializing Our Democracy*, Harper, New York, 1935, pp. 116-123.

[7] *Political Quarterly*, July, 1931, pp. 399-401.

Professor Eugenio Rignano.[8] Briefly summarized, the plan would work as follows:

> On the first portion of the estate left by the decedent, that which resulted from his own labor and thrift, measured by the difference between the estate left by the decedent and the total value of the various properties which had accrued to him during his lifetime by way of succession, gift, or dowry, the nation would levy the same inheritance taxes it does today. Of the second portion of this same estate, that which had come into the possession of the decedent through a single transfer from the original owner (the accumulator of this portion), the nation would claim, for example, 50 per cent. The remainder of the estate, which had undergone two transfers between the original owner (or the first accumulator) and the decedent, would be claimed by the nation in its entirety. It is self-evident . . . that such a system of levies would whet the appetite for labor and for the continuous accumulation of new individual capital better than could any unconditional testamentary or hereditary privileges. The new accumulated wealth in its turn would gradually and automatically become the property of the nation. . . .[9]

Aside from the administrative difficulties such a plan would involve, this suggestion presupposes that complete socialization will never take place. Thus, at any one time there would be a considerable amount of privately owned producers' goods representing chiefly the accumulations of the living generation, and in part the accumulations of the first preceding generation, whereas all socialized property existing at that time would be made up in part of the accumulations of the first preceding generation, but chiefly of the accumulations of the second preceding generation and all generations prior thereto. Although this scheme holds many advantages in the attainment of partial socialism, it would scarcely meet the requirements of those socialists who look forward to a practically complete socialization of producers' goods with relatively few opportunities remaining for the industrial investment of privately accumulated funds.

It may be noted, in conclusion, that any satisfactory plan for the social acquisition of an individual's titles to producers' goods would have to provide for some compensation in such form and manner that its net effect over some period of time would be confiscatory. Under no other conditions can a truly socialized economy be created. The lengthening or shortening of the period within which the confiscatory effects are being realized cumulatively, and the distribution of the incidence of the cost of the compensation within this period, may be subjected to endless theoretical deliberation. In any event, the decisions on these details would be dictated by the particular combination of circumstances prevailing when the transition took place.

[8] Eugenio Rignano, *The Social Significance of the Inheritance Tax*, Knopf, New York, 1924.

[9] *Ibid.*, pp. 34–35.

The Chronological Order of Socialization

Evolutionary socialism has another important problem to solve in setting up plans for the socialization of the economy: In what order would the various industries be socialized? If complete socialization were to come about smoothly, care would have to be exercised in establishing this order of priority, for it is clear that success at each stage in the socialization process would be a prerequisite to public support of the next step. Socialist programs adhere to fairly definite principles in establishing this chronological order of socialization.

Undoubtedly standing first on the socialization list would be banking. The investment banker's function of underwriting capitalist security issues would be automatically abrogated and transferred to the owning and planning bodies under socialism. Commercial banking, from the socialist point of view, occupies a unique position in modern economic processes and must be socialized concurrently with or prior to the socialization of any other important sector of the economy. Since the technical nature of modern industry makes production in anticipation of demand unavoidable, and since the commercial banking system is the agency supplying the funds which make this possible, the continuance of modern productive processes depends upon the functioning of the commercial banking system. These agencies, having the power to grant or withhold credit, control the very lifeblood of every large-scale productive activity. It would be unthinkable to the socialist that society should take over and attempt to operate any industry, without an adequate and assured source of commercial credit for its use. Particularly if an industry were taken over as a step in a well-known plan aiming at complete socialization, a privately owned and privately operated commercial banking system might crush the life out of it, or at least cause its operations to appear most inefficient, by restricting its supplies of commercial credit. Consequently, socialists advocate the social ownership and operation of commercial banking facilities as the first essential step in a program of socialization. Many American socialists point with regret to the failure of our federal government to take this step when our commercial banking system collapsed in the spring of 1933. They contend that no proof of the nonsocialist aims of the Roosevelt administration is needed other than its refusal to socialize credit and its diligent efforts to restore a sound commercial banking system to its private owners.

The socialist advocates the early taking over of the "public utility industries" of the nation. He gives numerous reasons for this. Utilities are usually vitally connected with public health or well-being. This means to the socialist that these industries are not to be intrusted any longer than absolutely necessary to private profit-seekers. Moreover, these industries in most cases are already organized on a monopolistic basis

under exclusive franchises granted by government authorities. In many cases they have been granted other special privileges by society—such as the right of eminent domain. Their operations and rates have been regulated by government commissions with the object of keeping their activities in line with public interest and their rates at about a cost-of-production level. In fact, certain of these industries, and notably our interstate railroads, have been controlled so strictly by the federal government as to both operations and rates that large portions of management responsibility appear to have been already shifted to the government. All of these trends in the public utility industries are considered to have ripened them for early socialization. Just where within this general group the first step would be taken would be dictated by immediate circumstances. The imminent breakdown of a utility's operations, such as that which the railroads faced during the First World War; the development of cutthroat competition, such as has occurred in the field of motor bus and truck transportation; a series of financial manipulations, such as the electric power industry experienced some years ago; or dissatisfaction with the service rendered by private operators, such as that in evidence in radio broadcasting—any circumstances of these kinds, individually or in combination with other factors, might well force a specific utility industry into socialization at some specific time.

Possibly the next chronological group would be the natural resource industries (excluding agriculture). This would include the coal, lumber, petroleum, and similar industries. Many socialists would place these on a par with, or would not differentiate them from, public utility industries. Within this group, first place would probably be given to those industries which were most wasteful in their use of the scarcest resources. The extraction of petroleum from the earth, for instance, might be placed high on the list for this reason.

Next probably would follow the large-scale manufacturing industries. Roughly speaking, those which used the largest amounts of capital per unit of product, whose processes were most completely routinized and offered the least chance for revolutionary technical discoveries and inventions, and whose products were most highly standardized and most widely and uniformly demanded, would occupy the earlier places on the socialization program. Included in this category would be the large-scale merchandising organizations—the chain and department stores, possibly preceded by wholesale houses. Many socialists, however, feel that the merchandising of goods under socialism would be done mainly through various forms of buyers' cooperatives working under government plans, but not as socialized business units in the strict sense of the word.

In assigning socialization priorities to large-scale manufacturing and merchandising industries, those characterized by a high degree of monopolistic control likely would be among the first to be socialized. There are

several weighty reasons for this. Public opinion undoubtedly could be led more readily to support socialization there than in competitive industries. Moreover, in at least one sense, these are the industries that most need socialization, for monopolies generally restrict production to keep prices high, thus helping to reduce the nation's per capita production below its potential level. Also, it is in such industries that socialization probably could be most easily achieved, so far as the mechanics of the transition are concerned. Studies of the tendency toward concentration of control in industry indicate that there are numerous instances in which a few million dollars' worth of stocks control the policies and operations of companies possessing billions of dollars' worth of producers' equipment.[10] In such cases, a shift of this controlling interest into the hands of an agency representing society would seem relatively easy to accomplish.

Those industries which socialism would change last and least are the handicraft industries and agriculture. It is assumed that many unsocialized units continue to operate in these fields, either as individually owned units or as cooperative enterprises, in harmony with a socialized order, but not so directly a part of it as the public utility and large-scale manufacturing industries would be.

Thus, without attempting to list exhaustively the various industries in the probable order of their attempted socialization, it is apparent that most programs for gradual socialism proceed from the banking and utility industries, through the non-agricultural natural resource industries, to the large-scale manufacturing and merchandising industries, leaving small-scale merchandising, handicraft, and agriculture to be dominated largely by individual and cooperative units of various kinds.

QUESTIONS FOR CLASS DISCUSSION

1. How much of a detailed advance program should socialists present before their proposals can be considered worthy of consideration?
2. Does the socialist merely have excuses or does he also have legitimate reasons for his lack of specific detailed plans?
3. What is meant by saying that socialist programs are "if" and "or" programs?
4. What are the arguments for and the arguments against attempting to achieve socialism by gradual legislative steps?
5. Why do socialists object to compensating the former owners fully for industrial properties which are to be socialized?
6. What is meant by outright confiscation when property is socialized? Do any socialists advocate such a policy?
7. What practical difficulties would accompany attempts to compensate fully for socialized properties?
8. Why is at least some confiscation of property necessarily included in the proposals of socialists?

[10] See, for instance, Harry W. Laidler, *Concentration of Control in American Industry*, Crowell, New York, 1931.

9. Does the socialist think of confiscation as merely expedient and never justified by any ethical standards?
10. What features are included in most of the socialists' proposals to compensate former owners for their properties?
11. What is Rignano's plan for acquiring properties in the socialization process? Would all socialists agree to it?
12. According to what principles does the socialist who advocates gradual socialization plan the order in which the various portions of the economy are to be socialized?
13. Why does the socialist place so much emphasis upon gaining control of the banking system of the country?

Chapter 16

PROGRAMS OF SOCIALISM—THE OWNERSHIP AND OPERATION OF INDUSTRY

OWNERSHIP

PROBABLY no portions of socialist programs are more generally misunderstood than those dealing with the seat of ownership under a socialized economy. It is widely believed that, in the United States for instance, titles to all producers' goods would be vested in the Federal government, and probably in some arm of that government created for the purpose of owning and operating all socialized industries. The actual plans of socialism do not warrant this interpretation.

By vesting ownership of producers' goods in "society as a whole," the socialist does not imply a single agency of society. In fact, all socialist programs emphasize the necessity of vesting titles to various kinds of producers' goods in various kinds of social agencies—the purpose being to place decision-making powers in the agencies that can function most efficiently. Only the broad outlines of this plan can be laid down here, and even this will be difficult, since the various government agencies under socialism may differ significantly from similar agencies of today.

VARIETY OF OWNING AGENCIES

If we may assume that units of government under socialism would be on national, district, and local bases, the plan for allotting property titles to various units becomes clear. The national government would hold title to those industrial properties whose operations are so widespread that decisions concerning their use can be made satisfactorily only by an agency of similar extent. Thus, for instance, socialists would vest the titles to all trunk-line railways in a national government, or some department of it. Ocean shipping and banking are further illustrations of industries to be organized on a national basis. Under a socialist reorganization of the structure of our governments, the geographic extent of our present states would probably be modified to coincide more closely with natural or acquired

economic characteristics. It would then be possible to vest in such agencies ownership titles to producers' goods of local usefulness. To illustrate, flour mills might well be owned and operated by district government authorities in those localities where wheat-raising is an important industry. Other industries which similarly might be owned and operated by district governments are mining, cotton ginning and processing, fruit sorting and packing, canning, ore smelting, and meat packing.

The socialist proposes leaving many industries to ownership and operation by local governments. These would include local public utility industries such as waterworks, street car lines, and gas and electric power plants. Also, municipal governments would be expected to assume the ownership and operation of many industries supplying other local services. These would include such activities as the marketing of fresh fruit and vegetables, the operation of hospitals and other health facilities, the operation of theaters and music halls, the distribution of milk, housing construction, and so on. In such cases, production is so closely connected with the everyday life of the citizen that the socialist believes that satisfactory operation of the facilities can occur only if those responsible for decisions are very close to the consumers. In fact, many socialists would hold that the burden of proof rests upon those advocating for any specific industry and ownership an operational agency more extensive than the local government. This, of course, would not apply to certain industries noted above, which obviously cannot be operated on anything smaller than a national basis.

Ownership by Individuals and Cooperative Associations

The emphasis which the socialist places upon the ownership and operation of industries by local governments is still further extended to proposals for various forms of individual and cooperative ownership and use of producers' goods. The socialist advocates leaving to the individual the ownership and use of equipment which he can use efficiently without hired assistance. Thus, particularly in agricultural and handicraft production, socialist plans would permit extensive private ownership of tools, workshops, draft animals, livestock, agricultural equipment, and even possibly something approaching private ownership of land in cases where it is used directly by the owner himself without hired labor. Somewhere between this individual ownership and the various forms of government ownership would fall the ownership and use of producers' goods by cooperative organizations. These could be consumers organized into cooperatives that own and operate marketing facilities—such as retail shops or produce markets—or producers who collectively own and use certain tools and equipment too costly, massive, or specialized to be useful to single individual owners. The essential feature of such cooperative organi-

zations is that the proceeds of their operations are shared by the cooperators, not under employer-employee contracts but on the basis of group participation in both ownership and active conduct of the establishment.

The ownership and operation of producers' goods, according to the socialists' plan, are to be scattered over a great variety of representative social agencies which run the gamut from a highly centralized national government, through district and local governments, to cooperative organizations, and even to the individual in certain cases where individual action is sure to be in the social interest. The allotment of ownership titles and corresponding decision-making powers to these various agencies is planned to conform to the principle that each will possess title to those properties in the use of which it will best perform the function of management and use for society's well-being.

ECONOMIC PLANNING

The Managerial Task of Socialism

As we proceed from one portion of the socialists' program to another, it becomes more and more obvious that, although socialism often appears to the popular mind as a perfectly simple thing, it becomes extremely complex upon careful examination. The socialist plan for managing socialized producers' goods is no exception to this generalization. The layman often appears to believe that under socialism there would be appointed or elected some sort of General Manager of American Industries, who would proceed to manage our economy much as the present owner manages his industrial properties. Even though the socialist desired to make his plan so simple, it could not be done, for the very existence of a socialized order creates certain managerial problems of greater complexity than any that exist under the capitalist régime.

When the present owner makes decisions relative to the operations of his plants, he makes them within a system of prices and production, the main lines of which are established by automatic competitive processes. Relatively free markets tell him what he will have to pay for materials, for labor, for under-executives, and all those other things necessary to day-by-day operations. Moreover, these relatively free markets inform him of the limits within which he must price his product. It is these facts which the manager of a business under capitalism applies to the particular and specific problem of determining, from time to time, just what he should produce, and what materials and processes should be used. In the completely socialized economy, these automatic processes are no longer at work. It therefore becomes necessary to create some comprehensive managerial machinery to function in the establishment of those

general directives which under capitalism are determined by the operation of automatic competitive forces. Thus socialism at once assumes a managerial task of a magnitude unlike any existing under capitalism.

The Nature of Socialist Economic Planning

For this purpose socialism proposes "economic planning." This term has been so grossly misused of late years that we must specify very definitely how it is used in this connection. Economic planning means a shaping of all economic activities into "group-defined spheres of action which are rationally mapped out and fitted, as parts of a mosaic, into a coordinated whole, for the purpose of achieving certain rationally conceived and socially comprehensive goals."[1] The socialist is not alone in advocating economic planning. Scarcely anyone can be found who would object to economic planning—provided he is permitted to define the term. The unique contribution of the socialist to recent discussions of economic planning is his contention that only under a socialized economy can real economic planning exist. He argues that the power to make decisions concerning the use of producers' goods inheres in the ownership of those goods. As long as ownership titles and their accompanying powers reside in individuals, producers' goods will be used as their owners wish them used. It is only when decision-making powers, represented by ownership titles, are transferred to it that society has the power to decide directly how such property is to be used.

Despite the obvious nature of this, many persons fail to see the true relationship between socialism and economic planning. They proceed to draw up countless plans, failing to note that, unless these plans coincide with what individual owners already wish to do (in which case no plan would be necessary), the planners must possess decision-making powers over producers' goods—that is, they must own or control them. Professor Tugwell has described this incompatibility of economic planning with private ownership of the means of production as follows: "It is, in other words, a logical impossibility to have a planned economy and to have business operating its industries, just as it is also impossible to have one within our present constitutional and statutory structure."[2] Other students of economic planning have arrived at similar conclusions. George Soule contends that "every step in the direction of planning for social ends must be a step away from capitalism, no matter how that word is defined. The more advanced stages of a planned society must be something closely akin to the broad ambitions of socialism."[3]

[1] W. N. Loucks, in *The Annals of the American Academy of Political and Social Science*, July, 1932, p. 114.

[2] *American Economic Review*, March, 1932, Supplement, p. 92.

[3] Quoted in Harry W. Laidler, *Socializing Our Democracy*, p. 31.

The Planning Agencies

Since most socialists approve the economic planning techniques used in the Soviet Union, and since these are to be discussed in some detail later, little more need be said here about economic planning as an essential part of every socialist program. Indeed, the socialist is forced to advocate comprehensive economic planning, whether he likes it or not. The ownership of producers' goods under socialism would be widely scattered over a variety of government agencies. There is no reason to believe that the economic activities of these numerous bodies would be led by any invisible hand into dovetailed relationships with one another. It would require conscious effort at coordination to fit the activities of all decision-making agencies into some super-decision wherein is contained a pattern for the entire economic process. This coordinating effort is economic planning.

We may be sure that the socialist machinery for economic planning will display a complexity coordinate with the complexity of the task it has to perform. There will almost necessarily be a hierarchy of planning agencies organized along both geographic and functional lines. Moreover, it is only reasonable to suppose that some central planning body will necessarily have considerable final power to mold the plans of the lesser bodies into an economic "mosaic" for the whole nation. Centralization of planning power, however, may not be inconsistent with politically democratic control by the citizenry over the central planning body; nor is it inconsistent with granting to lesser planning bodies powers to make their own original tentative plans and to criticize, from their points of view, all aspects of comprehensive plans for which the central body must be responsible. The socialist emphasizes his claim that, while effective economic planning is quite inconsistent with the private ownership of producers' goods, it is not at all inconsistent with the existence of a truly democratic organization of society.

Planning and Freedom of Individual Choice

To be consistent with our definition of socialism, economic planning will have to accomplish its coordinating task without taking from consumers their freedom to choose the manner in which they will spend their incomes, and without depriving workers of their freedom to choose their occupations. To do this, socialistic economic planning must have ways and means of ascertaining what consumers want (since price movements in free markets will no longer exist to reflect consumer choices). It will have to lead the needed quantities of labor into the various occupations by establishing some system of rewards which will influence workers' choices of occupations. Some of the difficulties a socialistic planning system would encounter in attempting to achieve these ends will be discussed in the last portion of our analysis of modern socialism.

It may be appropriate at this point to note that socialists do not contend that their planning machinery will solve all problems perfectly. They claim merely that it will do a great deal better than the capitalist system. Mr. Strachey has put this in the following terms: "However serious were the mistakes of the planning authority, it could not achieve such grandiose misdirections of production as does capitalism. It could not do anything so insane or so horrible as to produce a plethora of yachts and beauty parlors while men and women lack for food and shelter; it could not succeed, as does our present system, in simultaneously torturing the town workers with a lack of bread and ruining the farmers by a glut of wheat."[4]

THE MANAGEMENT OF PRODUCTIVE UNITS

Individual and Cooperative Units

The broad policies of all industrial activities would thus be shaped through economic planning. There remains the problem of managing or directing the day-by-day operations of the individual producing units of the socialized economy. So far as business units owned and operated by individuals are concerned, their management would be quite similar to that prevailing in like units in the capitalist system. Such units would be limited almost entirely to agricultural and handicraft production, for these are about the only spheres within which the individual can advantageously use his own labor without hired assistance. In these fields decisions of the owner-worker would be left largely to his own making. The comprehensive planning machinery presumably would send down to such units no direct orders to do this or to refrain from doing that. However, the decisions of these individual operators would be conditioned by the prevailing economic circumstances. In our economy, an individual farmer's decision as to the number of acres he will plant in wheat is determined in large part by the selling price of wheat and by the costs of materials he must buy for use in wheat-raising. Similarly, an individual farmer would make his decisions in a socialized economy within a network of existing economic phenomena established in large part by the planning agencies.

Thus, from one point of view the socialist planning agencies would have to accept the results of these decisions of individual enterprisers and adapt their general plans to them; but from another point of view the planning agencies could create such conditions, external to the individual enterpriser, as would induce him to make the decisions the planners wished him to make. Two exceedingly effective devices could be used to accomplish this end. By raising and lowering the planned price schedules at which privately produced goods are to be bought and sold on socialized markets, the producers of such goods could be stimulated or retarded in

[4] John Strachey, *The Theory and Practice of Socialism*, Random House, New York, 1936, p. 42.

their individually constructed production schedules. Moreover, the extremely flexible device of taxation could be used effectively to similar ends. By increasing or decreasing particular taxes levied on certain types of production, or on incomes derived therefrom, individuals' activities could be stimulated along some lines and retarded in others. The activities of cooperative producing units left to make their own decisions also could be molded to fit comprehensive economic plans by the use of these devices. Thus the socialist may plan to bring the activities of numerous individually and cooperatively operated economic units into conformity with the comprehensive managerial decisions of economic planning agencies without linking such units to a central authority by authoritative managerial ties.

Large-Scale Units

For the bulk of large-scale manufacturing, mining, transportation, communication, and service industries, more definite lines of managerial control must be laid down. Since the ownership of such producing units would be scattered over numerous governmental or semi-governmental agencies, these managerial ties presumably would not be centered in one central agency, except for the qualification that the general policies and programs of the comprehensive plan must be adhered to. The important distinction to be made here, as was pointed out by Mr. Cole, is "that between laying down a policy, and taking the expert measures needed to give effect to it."[5] So far as the former is concerned, central control through economic planning must prevail; for the latter, local management must be permitted that degree of freedom in decision-making which will be consistent with the responsibilities placed upon it.

In organizing the management of these specific large-scale producing units for the day-by-day application of these "expert measures" of administration, a socialized economy would be able to choose from an almost infinite variety of forms. There is no presumption that any one standard pattern would be universally applied to all industries or even to all units in a single industry. The socialist insists upon the efficacy of flexibility and experimentation in working out the organizational forms most suitable for various situations. These variations in the form of managerial control under socialism probably would be as numerous and different as under our existing system. A detailed discussion of the intricacies of various forms of management under socialism would easily fill a volume. Only certain of the broad principles emphasized by socialists can be mentioned here.

Use of Corporate Forms of Organization

The detailed organization of most large-scale producing units under socialism could resemble corporate organizations as they exist in our

[5] G. D. H. Cole, in *Political Quarterly*, July, 1931, p. 409.

present economy. This would mean the establishment of specific and clearly defined units of operation, each of which for managerial purposes would be considered an economic entity. These could be linked together as "trusts" into such various horizontal and vertical combinations as the performance of function might require. Each of these corporations would serve as an accounting unit, although of course consolidated balance sheets and income statements would accompany the combination and integration of operations. Within each corporation some sort of board would exercise specific managerial control over day-by-day operations. Presumably this board would delegate authority to a general manager and a subordinate staff, such as are found in the corporations with which we are familiar. The composition of such a board would be a matter of the utmost concern to the socialist. Much difference of opinion prevails as to the best method of electing or appointing its members, and as to the interests which should be represented directly and indirectly in its membership.

Management Boards

The general socialist principle to be followed in the composition of these managerial boards is clear. "Industry will not be truly socialized until it gives to every group which performs a legitimate function therein an adequate chance to express itself."[6] Who or what are these groups? It is customary to mention three:

1. *The Staff of Managerial Experts.* These would be the general plant managers, and their assistants, down to shop foremen or squad bosses. The upper ranks of this group would bear the chief responsibilities for keeping current plant operations in conformity with the policies and programs laid down by the comprehensive economic plan. Representatives of this group presumably would bring to the managerial board this point of view, and would urge board decisions which would accomplish this end. There might be included in this group the technical experts, such as scientific research workers, mechanical engineers, and so on. However, it is possible to conceive of this latter group being represented on the board jointly with the workers or by their own representatives.

2. *The Workers.* This group would be defined broadly to include both skilled and unskilled, as well as manual and mental workers. Their representatives would, of course, be expected to urge broad decisions favorable to better working conditions, shorter hours, and higher direct or indirect wages. Presumably their attitude would serve to counterbalance those proposals of the managerial group which the workers might feel imposed unjustifiable and needless burdens upon them. Such representatives would be expected to afford a connecting link between the specific operating unit and labor unions, just as the representatives of the man-

[6] Harry W. Laidler, *Socializing Our Democracy*, p. 178.

agerial staff supply a connection with the planning bodies and governmental authorities involved.

3. *The Consumers.* Representatives who might give effective voice to the interests of this group would be difficult to find. In many cases the products of heavy industries are not used directly by final consumers; and even where some products, such as building materials, are so used, the nature of their use is such that the consumer is at a loss to know or express his interests relative thereto. In some cases there would be possibilities of having representatives of consumers' organizations, such as consumer cooperatives, occupy places on the boards. In many cases it would be necessary to have this basic interest represented on the board through an advisory council which would have "power to object to the policy of the governing body" but could not participate in making its current detailed decisions.[7] In any event, some direct or advisory representation from this quarter would serve to link board decisions to consumer interests.

Many detailed problems of management organization have not been touched upon in this discussion. However, the broad lines of managerial control in a socialized economy, as traced here, afford some clue as to how the socialist proposes to exercise those decision-making powers which under socialism become vested in society. This he proposes to do without sacrificing that authoritative management of production, in both detailed and comprehensive matters, which is essential to the orderly operation of an economy featuring a modern mechanical technique of production.

LABOR INCENTIVES UNDER SOCIALISM

No question is put to the socialist oftener than this: "How would you get people to work hard under socialism?" The questioner is certain of the impracticability of socialism when he gets this reply: "Much as you do under capitalism." A brief examination of the socialists' plans for evoking the human energy necessary to keep the wheels turning proves that this answer is sincerely given and exceedingly meaningful. The modifications in existing incentives proposed by modern socialists probably would affect directly a very small part of the gainfully employed portion of the population, and would affect even this small group less than often is supposed.

Limited Scope of the Profit Motive Under Capitalism

The socialist prefaces his program on incentives by pointing out several fallacies which he feels the popular mind has accepted as truths. In the first place, he contends that an overwhelming portion of the total physical and mental human effort put into production under capitalism is not, as the popular mind supposes, induced by profit-seeking. He points out that the opportunity to make a "profit," that is, a differential between a buying

[7] For numerous suggestions on this and other aspects of the composition of these boards, see G. D. H. Cole, in *Political Quarterly,* July, 1931.

price (or prices) and a selling price (or prices), by the very nature of the present economy can exist only for a relatively small group of persons. The masses of wage workers in both manual and mental occupations have no opportunity to seek "profit" and therefore can scarcely be said to be influenced by the "profit motive." It should be noted that this wage-worker group includes not only the "lower" but also the "higher" categories of workers, such as foremen, shop managers, superintendents, general managers, vice-presidents in charge of this-and-that, and, of still more importance, that numerically small but functionally important group of scientific and research workers and engineers which holds the keys to the smooth current operation of our industries and to their future technical development. This leaves only the "enterprisers" of our economy in such a position that they are motivated by profit-seeking. Moreover, even among this group there probably are many persons who, to a great degree, take their orders from those higher up, and whose incomes therefore resemble a wage much more than they do a profit.

Thus in our economy the profit motive acts as a primary stimulus on only a relatively small group of enterprisers who make policy decisions for various industrial units. This implies neither that this group is unimportant nor that the profit motive is uninfluential in our economy. The socialist is the first to emphasize the importance of the decisions these enterprisers make on a profit-seeking basis. He merely contends that in the totality of the day-by-day efforts put forth by wage workers the profit motive plays little, if any, part.

Confusion of the Profit Motive with Wage Differentials

Some confusion arises out of a failure to differentiate between the profit motive and wage differentials. It is undoubtedly true that the desire to obtain a higher wage or salary plays a dominating role in the motivation of most wage workers. But this is something entirely different from striving to make a profit, or from attempting to put oneself into the entrepreneur category where profit-making possibilities exist. Many critics of socialism, while admitting that wage workers at present are not in positions where profit-making is a practical incentive, contend that the profit motive nevertheless affects workers in that they strive to get into the enterprising class where there are opportunities to make profit. Thus the profit motive, it is contended, operates indirectly upon the masses of workers. Although the early industrial history of our country was featured by such a situation, the socialists argue that this is no longer true. The increasing dominance of the large (usually corporate) business unit creates a strong tendency for the enterprising function to be centered in a small group controlling policies. Apparently workers are experiencing less and less chance to move from the wage-worker status to that of enterpriser. A realization that this

is true will remove from wage workers the last vestige of a profit incentive.

Socialists contend that the basic stimulus with which capitalism drives laborers to put forth their physical and mental energy is the fear of starvation for themselves and their families. The primitive rule of "no work, no food" operates severely upon the mass of workers who accept and perform their daily tasks as the lesser of the two evils. Differentials in wages offer additional incentives to workers to do their best, rather than just enough to keep from being fired. Higher hourly or daily rates, offered to those who meet certain general standards of skill and performance, create inducements to acquire such skill and to demonstrate its possession by performance. Piece-work wages and a great variety of incentive bonus plans based upon specific performance are used to induce workers to utilize their skill and strength to the utmost.

Potential Non-Economic and Non-Pecuniary Incentives

The socialist also labels as a fallacy the popular idea that neither wage-workers nor enterprisers will perform their economic functions in response to any other inducements than those of an economic, and primarily a pecuniary, nature. Some prospect of gain of this sort is held by some people to be the only objective which workers and enterprisers can be expected to seek. This is declared to arise from the innate nature of man, and socialism in proposing to rely somewhat upon other motives is judged to be "contrary to human nature."

Socialists concede without argument that, by and large, mature persons who have grown up in our society are dominated by a desire to acquire things of economic importance—usually represented by money. But they make two further observations. It is pointed out, first, that the mere fact that most mature persons living in our society have this highly "acquisitive" nature does not prove that acquisitiveness is a part of "human nature" in the sense of being an innate human characteristic deposited in the human embryo during its development and therefore present at the time of birth. The characters of mature persons are the products of two sets of forces—one inborn, the other environmental. Just how much of the acquisitiveness possessed by mature persons comes from the former and how much from the latter could of course be debated endlessly. The socialist points out that the institutions of capitalism favor the development of acquisitive traits. All defenders of capitalism admit this, when arguing that the emphasis upon these characteristics constitutes the chief stimulus to production in a capitalist economy. The socialist concludes that another set of legal and economic institutions could conceivably bring forth persons possessing fewer and milder acquisitive traits than mature humans possess today.

It is further observed that the existence of potential human character-

istics of a non-acquisitive sort need not be a matter for speculation. It is argued that social groups largely dominated by non-acquisitive motives have existed at other times, and in fact now exist in the world. Mr. Strachey contends that "the conception that men will work only in so far as they are encouraged to work by increased rewards is a product of the developing economic system of the last five hundred years."[8] He further comments that "the more we read history the less we shall doubt men's idealism and the more we shall doubt their perspicacity."[9] It would be interesting to cite detailed evidence of the eloquent testimony many of the most prominent enterprisers in our economy have borne as to the insignificance of the economic motive and the dominance of non-economic motives in the totality of their own urges to exert economic effort. This has been done so comprehensively elsewhere that we merely note the existence of this evidence.[10]

Wage Differentials as Incentives Under Socialism

Having disposed of the prevailing fallacies that the "profit motive" operates widely in our capitalistic economy and that noneconomic motives are foreign to "human nature," the socialist sets forth his program for evoking the human effort needed to operate the machinery of a socialized economy. The general nature of this program can be foreseen from the preceding discussion. Its first broad principle is that for the bulk of the necessary routine of physical and mental labor, the motivation will remain primarily just what it now is—a rule that he who will not work shall not eat—supplemented by differential payments for greater quantities and for better qualities of effort, these variations being measured objectively by performance. Wage and salary differentials would exist for those "higher" ranks of labor in the executive and technical categories, as well as for the general run of unskilled, semi-skilled and skilled labor. The details of these incentive wage and salary scales need not concern us at this point.

In general, the socialist proposes that wage scales be so arranged as to protect the workers against what are considered abuses of these wage plans under capitalism. For instance, the socialist probably would require that a minimum hourly or daily wage be established, and paid to every worker actually employed on the particular job concerned. It is upon such a minimum that incentive differentials would be superimposed. Moreover, one of the tricks of some present-day employers presumably would not be used in the socialized economy. That is, after workers had been induced by the incentive differentials to step up their output, the piece rates would not be cut. From the standpoint of the individual employer in a competitive industry, cutting piece-rates is a perfectly sound way to cut labor

[8] John Strachey, *The Theory and Practice of Socialism*, p. 116.
[9] *Ibid.*, p. 141.
[10] See Harry W. Laidler, *Socializing Our Democracy*, chap. 10.

costs. However, it defeats the very purpose of the incentive wage scales for the group as a whole. Workers who have experienced these cuts in piece-rates are led to establish self-imposed production limits falling just short of that output which they believe would lead their employers to cut the piece-rates further.

To these direct pecuniary incentives the socialist would add many non-pecuniary economic incentives, by offering for increased output such rewards as shorter hours, vacations, and prizes. Also non-economic incentives, many of which exist in our economy, would be used. These might include contests with honorary non-economic rewards, conspicuous listing of names of efficient workers, favorable mention in company papers, clubs and dinners for employees of long service, and other "honors." Despite a wide use of non-pecuniary and non-economic incentives in the socialized order, the desire for a higher wage or salary convertible into consumption goods would remain the chief incentive for contributing physical and mental effort to the productive processes.

Socialist Incentives for Higher Executive Functions

The chief problem of incentives has to do with the performance of the higher executive and organizing functions. Despite the removal of certain risks and uncertainties which plague enterprisers in a competitive economy, the occupants of these positions under socialism would bear heavy responsibilities. Would men competent to perform these functions be willing to do so and to accept responsibility for their decisions for anything less than, or different from, those profit-making opportunities which exist under capitalism? The socialist admits frankly that men will be willing to accept these burdens only if they are compensated proportionately. He plans two forms of compensation, both of which he contends have proved their practicability under the capitalist system. The first of these would consist of larger salaries for those who satisfactorily perform the higher executive and organizational tasks. Without entering into a detailed discussion of how these salaries would be determined or how large they would be, as compared with the lowest wages paid, we may say that they probably would not depart widely from the salaries of the present-day higher executives who are not in some peculiarly strategic position enabling them to keep their salaries above the competitive worth of their services.

Our higher government officials today are paid a great deal more than laborers in the lower ranks receive. The fact that these differentials exist without serious opposition indicates roughly the differentials which might be practicable under socialism. Incentive differentials in wages would not be inconsistent with the socialists' aim to create greater economic equality than now prevails, since the highest incomes today are generally derived from the ownership of, or speculation in, property and not from the sale

of labor service. The socialist, of course, plans to make the awarding of the better-paid jobs a competitive affair, so that persons having exceptional abilities would be induced to demonstrate them in some socially useful fashion.

Non-Economic Incentives Under Socialism

It is probable that these pecuniary rewards, even though high, would not induce the extreme sacrifices of personal pleasure, health, time, and energy required of those occupying the most responsible executive posts in a socialized system. Indeed, pecuniary rewards do not act as the sole inducement to accept such posts in our existing economic and governmental system. Very few persons would argue that the $75,000 annual salary of the President of the United States constitutes the single or even major incentive leading men to seek that position with the determination that is evident every four years. In fact, most men capable of occupying this high office surely would not consider the salary, less certain unavoidable personal expenditures incumbent upon the President, adequate compensation for the attendant health hazard alone. It is impossible to explain on a pecuniary basis Mr. Charles E. Hughes' decision some years ago to give up a private law practice, reputedly netting him a million dollars annually, to accept the office of Chief Justice of the United States Supreme Court at a meager $20,500 per year.

Nor is this willingness to work hard and bear responsibility for a disproportionately low salary confined to men now in government service. A list of high executives and enterprisers who have specifically stated that their chief motivation is not the search for pecuniary income reads almost like a "Who's Who" of American business personnel. These men insist that their chief incentive is a desire to possess power, to "play the game" of business, to acquire honor or prestige, to serve the public, or to do something creative. Interestingly enough, many men from this group are among those who demand to know why individuals would still want to perform hard executive and organizational labor under socialism, where only a salary and no profit-making opportunities would constitute the reward. They profess to believe the socialist impractical when he plans to extend the range and the intensity of those very motivations which they confess keep their noses on the *capitalist* grindstone!

All this does not mean that the socialist believes that a simple twist of the wrist or a proclamation in the morning newspapers would magically convert all profit-seeking enterprisers of the present order into a group of fairly high-salaried executives in a socialized order and keep them going about their daily tasks just as they had been under capitalism. It is quite conceivable that many enterprisers under capitalism would find themselves unadaptable to the institutions of socialism, and would play prac-

tically no part in the administration of a socialized economy. The point socialist programs almost universally emphasize is that under socialism there would be developed more *opportunities* for non-economic rewards to serve as compensation for the efficient execution of administrative tasks. The socialist contends that, regardless of the form of organization, society has always had to rely upon non-economic rewards to induce the performance of those tasks which are most necessary and important to society's well-being. He proposes an organization of our economic system which he believes will offer more numerous and more effective rewards of this sort, thus evoking a higher type of service than prevails in the existing economy.

Incentives and Unearned Income

In conclusion, it should be noted that socialist programs rely heavily upon the elimination of unearned incomes as a source of additional human energy for productive processes. When it is possible for the individual to derive income *only* from the performance of *productive personal* effort, and not from mere *ownership*, or non-productive *speculation* in ownership claims, many people who now are not contributing human energy to productive processes presumably will see fit to do so rather than accept the alternative, which is no income. It is further pointed out that some persons who thus will be led (or driven) to contribute productive personal effort to society's task of producing goods are those who have the highest and scarcest types of personal ability. It follows, then, that the additional productive energy accruing to society from this institutional change might be much more than proportionate to the number of persons who, finding it impossible to continue to live without "working," would seek opportunities in the socialized economy to make the most effective possible use of their best abilities.

Supply of Managerial Ability

Critics of socialism often imply, although they never state directly, that a transition from capitalism to socialism would either destroy or substantially reduce the existing body of technical knowledge used in the management of industrial processes. Socialists contend that there is no reason to believe this to be true. For instance, it could be pointed out that there now are many bank executives throughout the United States who possess the detailed technical knowledge of how to operate commercial banks. The mere socialization of our banking system would in no manner destroy this knowledge, assuming that the transition occurred without a violent revolution causing heavy mortality among bank executives.

This point takes on added importance when one notes that many, and possibly most, of the technical operations of commercial banks would be expected to go on under socialism just as they did before. Realizing this,

socialists would have every reason to preserve and protect banking technicians during a transition to socialism. Socialism might encounter serious difficulties in attempting to motivate those who formerly were private bankers to operate a socialized banking system, but at least the actual knowledge of day-by-day operations would not be destroyed by the transition to socialism.

Considerable deposits of managerial knowledge and skill are to be found in government agencies which under capitalism have administered controls over various industries. This point is of great significance, for it means that much valuable knowledge and experience of a practical sort relative to a variety of industries are now possessed by groups of men who, under socialism, could be expected to use it for direct management rather than mere control purposes without necessarily experiencing any change in their personal motivation. The amount of this knowledge possessed by government personnel is both extensive and intensive.

Probably outstanding illustrations of this point are the Interstate Commerce Commission and the Board of Governors of the Federal Reserve System. The members of the former, together with their extensive subordinate staff, possess a wealth of most detailed information, knowledge, and experience relative to the operation of railway and other transportation facilities. The latter, including its large staff, has a mass of similar knowledge of the country's banking system. If one were to add to the Interstate Commerce Commission the state public utility commissions, and were to add to the Board of Governors of the Federal Reserve System the state banking departments, it would seem apparent that a sizable body of technical knowledge of operations in these two important fields of industry is already possessed by government personnel. Something similar to these situations appears in the case of the Post Office Department, which now actually operates a gigantic communication and transportation industry; in the Government Printing Office, which operates one of the largest printing establishments in the world; in the Civil Aeronautics Board, which regulates the operations of air lines; in the Federal Communications Commission, which keeps in close touch with radio broadcasting and various other communication industries; in the Federal Trade Commission and the Department of Commerce, which, with their various specialized bureaus, have extensive knowledge of processes and practices in domestic manufacturing, marketing, and merchandising industries; in the Securities and Exchange Commission, which is accumulating experience in the field of corporate finance; in the Department of Labor and the National Labor Relations Board, whose information on labor conditions, hours, and wages is supplemented by rapidly accumulating familiarity with the negotiation and application of union contracts; and in the Department of Agriculture, where much knowledge of agricultural processes is organized, deposited, and made available to individual farmers, and where consider-

able experience has accumulated relative to the distribution of agricultural products and to "economic planning" for agriculture.[11]

This list could be extended with numerous additional illustrations, including agencies of state and local governments, which are the present depositories of much technical knowledge relative to a wide range of economic activities now in the hands of privately owned and operated business units. The socialist does not contend that by a mere snap of the finger the Interstate Commerce Commission can take over without a hitch the efficient operation of all railway and steamship lines, or that the Board of Governors of the Federal Reserve System could immediately fill the chairs of all private banking executives in the United States. Obviously, the transition would not be such a simple matter. The socialist does contend that, in assessing the practical possibilities of running our industries with high technical efficiency under socialism, the critic often underestimates the resources of technical ability which will be available to, and which in many cases already are in the possession of, government agencies. Moreover, the existence of socialism would automatically terminate the regulatory functions of many government agencies, thus freeing their personnel and facilities for direct administrative duties. It would be illogical to contend that the knowledge and experience now residing in these government bureaus are not of a practical nature, for it is well known that private industry often outbids government agencies in its effort to induce government employees in these fields to shift to its employment.

QUESTIONS FOR CLASS DISCUSSION

1. What various agencies would own industrial equipment in a socialized economy?
2. What advantages does the socialist claim for having titles to land and machinery vested in a variety of agencies? Illustrate.
3. Would you agree that the basic managerial task of a socialized economy is quite different from that of a capitalist economy?
4. Why is the socialist forced to advocate economic planning whether he likes it or not?
5. How does economic planning as proposed by the socialist differ from the various brands of economic planning often proposed for a capitalist economy?
6. If, under socialism, certain economic activities are to be left in the hands of individuals and in cooperative organizations, how can these activities be subjected to the economic planning procedure?
7. In what way do socialists propose to make use of the corporate form of business organization? What advantages do they see in it?

[11] The extensive staffs used by some of these agencies are evident from the following statistics of employees as of February, 1934: Federal Reserve Board (now the Board of Governors of the Federal Reserve System), 287; Interstate Commerce Commission, 1851; Federal Trade Commission, 513. Since war activities caused some expansion of personnel, the 1934 figures may be a better indication of what is normal than later figures would be.

8. Under socialism, who would make the day-by-day decisions relative to the detailed operation of each industrial unit?
9. The socialist contends that the profit motive is not as widespread an incentive under capitalism as we often assume it to be. What proof of this does he offer?
10. Is the socialist consistent when he advocates abolishing the profit motive but proposes to use wage differentials to stimulate workers to put forth their best efforts?
11. What is the difference between non-economic and non-pecuniary incentives? Illustrate the way in which the socialist proposes to use each of these.
12. Where, under socialism, does the chief problem of incentives lie? How does the socialist propose to solve this problem?
13. In what way would the elimination of unearned incomes create incentives to economic activity?
14. It is often charged that a newly instituted socialist system would immediately face a shortage of trained personnel capable of handling detailed management problems. Discuss this contention.

Chapter 17

PROGRAMS OF SOCIALISM—GOVERNMENT AND OTHER FEATURES

GOVERNMENT

SOCIALISM assumes the existence of organized government in society. Certain broad features of this governmental structure have been either pointed out or implied in connection with other portions of the socialists' program. It remains here to note more specifically certain principles of government which would prevail in a socialized order.

THE EMPHASIS UPON DEMOCRACY

First in order of importance is the emphatic declaration of the socialist that he believes in "democracy." No word does he use with more apparent relish than this. Mr. MacDonald has stated briefly the necessity of this emphasis: "The socialist must be a democrat for he can discover no other foundation for his state but public support. He cannot trust to dictatorships either of force or fraud, because his society is kept working and in harmony by attitudes of mind which are spontaneous and are beyond the power of edicts and utterances of authority; nor can he work with those demagogic appeals to a careless people living thoughtlessly and superficially from day to day."[1] To the socialist democracy is something deep and fundamental; it permeates all socialist programs.

THE NATURE OF CAPITALIST DEMOCRACY

In announcing this democratic creed the socialist explains that he does not mean by "democracy" any superficial structure of governmental forms; nor does he refer to those so-called democratic governmental organizations prevailing today in the United States. The mere opportunity offered the citizen to cast a ballot at regular or irregular intervals, and the enactment of legislation by an elected legislature or parliament, mean little to the

[1] J. Ramsay MacDonald, *Socialism: Critical and Constructive*, pp. 234–235.

socialist. By democracy he means response by government bodies or agencies to the popular will of an enlightened citizenry which includes all mature persons residing within the area under consideration.

Probably the most important word in this definition is "enlightened," for it is just in this respect that the socialist feels that our existing democratic political agencies are found wanting. An enlightened popular will is one which speaks its voice after the masses of citizens have had (1) sufficient education of a kind enabling them to understand comprehensive issues and the relation of the individual to them, and (2) opportunity to be influenced by all shades of opinion relative to issues, with no particular bias caused by one set of opinions having had better facilities than another for its promulgation. It is these two fundamental requisites of true democracy that the socialist feels are lacking in our society. These deficiencies he attributes to the existence of private property in producers' goods. He believes that real political democracy is never found where the private ownership of producers' goods exists.

The basic theoretical analysis from which this conclusion springs has been reviewed in connection with the Marxian theory of the state. Modern versions of this theory stress several points. The mere existence of private property in producers' goods creates an intense interest in maintaining private property institutions. Since they are primarily legal, and since their modification either directly, or indirectly through taxation, is by legislative act, owners find it highly desirable, if not imperative, to control these acts. Directly controlling legislators and dictating their votes is usually out of the question in our society. More subtle and more effective methods are derived from the ownership of producers' goods themselves. The socialist points out that printing presses, radio stations, movie studios, and theaters are in large part aggregations of capital owned by individuals who usually are organized corporatively. University endowments and budgets of religious bodies receive (despite the story of the widow's mite) their really important contributions from property owners. Newspapers, periodicals, and radio stations derive their major income items from the advertising campaigns of privately owned and operated business concerns. It is argued that, while newspapers and radio chains are operated primarily and directly for profit, university boards of trustees and official church boards shape the policies of such organizations with an eye to continuing or increasing their receipts.

Thus, the policies of the agencies at the heart of the formation of public opinion are designed to protect and foster those institutions from which they draw their sustenance. Once built up, this popular will is conveyed to legislatures through channels which, so far as the mechanism is concerned, savor strongly of democracy. Should such a "popular will" and the processes of translating it into specific laws be called "enlightened" or "democratic"? The most subtle forms of control exist within the edu-

cational institutions and processes, while the more open and direct forms are in evidence during comprehensive political campaigns or in connection with specific attempts to create public pressure to force the enactment or defeat of specific legislation. The socialist does not waste his efforts fighting this sort of control; he considers it the perfectly logical concomitant of a capitalist system, and emphasizes the impossibility of having true political democracy without what he calls "economic democracy"—the social ownership of producers' goods.

Socialist programs contend that the chief difficulties with our so-called democratic governments today arise not so much from defective governmental machinery as from the environment within which this machinery functions. The socialization of this environment would immediately and automatically create more real democracy than existed before, even though the governmental machinery itself might remain virtually unchanged.

The Nature of Socialist Democracy

Socialist programs do not end here. A basic change in government structure follows from the socialists' feeling that the chief functions of government under socialism will be economic. They propose that the divergent economic interests which will exist under socialism should all be focused into some deliberative legislative body representative of these interests. Socialists make no pretense that socialism will wipe out all conflicting group interests within the larger social group. Workers in specialized industries will find their interests different from those of the consumers who use their products; agriculture will have many interests that conflict with manufacturing industries; professional categories of workers may clash with other groups of workers; the interests of those drawing a livelihood from the mining of coal may differ decidedly from the interests of workers in the electric power industry; and so on. Under socialism governmental legislative bodies would become the centers of these conflicts, and the machinery for reconciling conflicting claims into some plan of operation for the economy as a whole. As such, governmental legislative bodies should be composed of representatives of economic interest groups.

The details of this economic representation need not be discussed, for programs differ widely in their proposals. While some socialists think of legislative functions as almost purely economic and propose a single legislative body made up solely of representatives of economic interest groups, those at the other extreme propose that legislative bodies remain geographically representative of the citizenry, with advisory bodies made up of representatives of economic interest groups.[2] Midway between these are socialists who propose a two-house parliament, with one chamber representative of geographic groups, and the other of economic groups.

[2] See *ibid.*, p. 266.

Similar types of governmental machinery would prevail for local, district, and national governments. Socialists generally propose to do away with those institutions so familiar (at least in name) to Americans—the independent executive and the independent judiciary. The socialist would make both subject to the legislative arm of government, because he feels that true democracy must include not only the democratic enactment of laws, but also democratic control over how they are interpreted and carried out.

The Problem of Bureaucracy

The central problem that socialists face in all of their plans for governmental machinery is how to create central governmental organs possessing decision-making power and yet not destructive of true democracy. This is the problem of bureaucracy about which the critic of socialism talks much and the sincere socialist worries. The socialist insists upon several fundamental points. First, he holds that the possession of considerable power by centralized government agencies is not necessarily inconsistent with the existence of truly democratic political institutions. The popular mind often associates the existence of powerful government with an absence of democratic processes. Actually there is no technical reason why society cannot delegate to an agency much authority over day-by-day operations of a governmental or economic sort and yet retain democratic control over that agency.

Specifically, this would probably mean that the powerful government bodies (particularly the economic planning agencies) established in a socialized order would be creatures of the representative assemblies. The detailed relationships between such bodies need not concern us here. The point of importance is that it matters little what powers are allotted to such administrative agencies so long as the power of ratification of their acts, the power to appoint and recall their personnel, and possibly the power to initiate certain of their acts lie with a parliamentary body which is truly democratic in nature. The term "bureaucracy" really means little so far as the technical structure of government is concerned. Its anti-social potentialities become significant when powerful government agencies fail to reflect in their policies and acts enlightened popular will.

Moreover, the problem of bureaucracy in this latter sense is not by any means confined to socialism. Bureaucratic potentialities and trends are faced by a capitalist economy. It has been proved beyond all doubt that modern processes of production, and the intricate, specialized relationships among individuals and groups which have accompanied them, have created scores upon scores of problems the solutions to which must be arrived at through political institutions, and the policies concerning which must be executed by powerful government agencies. Some years ago the Presi-

dent in a message to Congress stated that in our Federal government "there are over 100 separate departments, boards, commissions, corporations, authorities, agencies, and activities through which the work of the government is being carried on."[3] This extensive governmental machinery has been created, in large part, for the exercise of control over affairs primarily economic in nature.

It is surely no mean task to keep our existing governmental machinery responsive to popular will. In performing this task under socialism, it is claimed that the very absence of private ownership of producers' goods and the profit motive would help to make real democracy possible. There no longer would be private profit-seekers backed by tremendous corporate resources standing by, awaiting or creating the opportunity to bend the policies and actions of government agencies to their own interests and away from the interests of society as a whole. Thus the socialist contends that only under socialism will it be possible to possess what modern economic processes make essential—powerful government bodies which are responsive to an enlightened popular will.

The Probability of Avoiding "Bureaucracy" Under Socialism

Of course, even if it were admitted that socialism would create an environment more conducive to "democratic bureaucracy" than has capitalism, this would not prove that government agencies would necessarily and inevitably be responsive to the popular will. There is nothing inherent in socialism which would prevent a bureaucratic group of agencies or officials in a socialized economy from directing their policies and acts toward their own personal advantage, toward a maintenance of their own power and position, or toward the special benefit of some other group within society. Keeping the channels of democratic control open is the best protection, but the powerful agencies of government may see fit to close them. This brings us to a matter of personal motivation and personal idealism. If persons in positions of political authority use their authority for their own personal gain, they wreak havoc in a capitalist order. They might damage a socialized order more than a capitalist order, because of the increased responsibilities and powers such agencies would have under socialism.

With certain temptations removed by the elimination of private property in producers' goods and the profit motive, socialist programs offer no additional solution for this problem except the development of a strong social motivation in individuals who hold positions of trust. An enlightened popular mind would, of course, make the possession of such social motivation a prerequisite for the attainment of high office in a socialized economy. However, socialism is no magic formula whereby all human

[3] New York *Times*, January 13, 1937.

failings are to be eradicated. It might therefore be somewhat unreasonable to expect it to establish in advance some plan or device which automatically would bring the motivation of the individual high official into conformity with social needs. Socialists claim nothing superhuman for their proposed system. It will still be planned and operated by human beings, who by their acts well may interfere with society's realization of its complete potential benefits.

MISCELLANEOUS PROPOSALS

In the preceding paragraphs, the major aspects of modern socialist programs have been presented. Some additional proposals of socialists will be noted briefly. Some of these are closely connected with, or are implied in, portions of their programs already described.

Capital Goods Accumulation

The needs for, and the basic sources of, man-made producers' goods would remain under socialism just what they are under capitalism. If the material living standards of the social group are to continue to rise—and the socialist contends that they will rise even faster under socialism than they have during recent decades—man's physical and mental energy will have to be supplemented by an ever-increasing stock of machinery, tools, and equipment of all kinds. The group as a whole will have to consume currently fewer goods than could be produced for current consumption, the differential consisting of produced instruments of varying degrees of durability designed to assist man's efforts in production. Thus, "abstinence" for the purpose of capital accumulation presumably would occur under socialism as it must in a capitalist society whose man-made capital is increasing.

Socialist programs contain few specific suggestions as to the precise methods of capital accumulation which a socialized economy would utilize. However, the marked way in which these processes would differ from those employed by a capitalist economy are clearly implied in all programs of socialism. Whereas under capitalism saving or capital accumulation occurs as the response of individuals and corporate business units to attractive opportunities for the investment of funds, saving under socialism would be primarily a directed and planned activity of socialized industry, no longer linked to pecuniarily profitable opportunities for individual and corporate use of such savings, but manipulated to serve the interests of the socialized economy as a whole. Whereas under capitalism a competitively determined interest rate on long-term investment funds acts as a control now stimulating and now retarding the intensity of the saving activities of individuals and corporations, socialism would destroy the automaticity of this process and make saving or capital accumulation a direct function of the planned economic organization.

Socialism proposes to get the totality of society's saving or capital accumulation by dipping into the flow of society's productive activities at whatever point is considered desirable, thus diverting portions of productive effort from the production of consumers' goods into the production of producers' goods. The particular spots at which this would be done and the specific devices used to accomplish it would be chosen in the light of immediate circumstances. The point emphasized by the socialist is that such methods of capital accumulation are flexible, whereas existing methods are not. Under socialism the specific groups of persons who are to feel the cost of capital accumulation in the form of reduced standards of current consumption can be pre-selected by the planning and controlling agencies. Price control and taxation would be the implements generally used by a socialized economy to focus these costs. By setting the price of some product at a high level, the socialized industry producing this product could be made to yield a surplus of receipts over outlays, which could be devoted to the building of capital goods for use in the same or another industry. The consumers of that industry's product really would be bearing the costs of that specific capital accumulation. Or, to consider another illustrative possibility, an income tax could be focused upon particular income groups so as to realize at their expense surpluses which could be devoted to capital construction. Presumably, the aim of the controlling agencies would be to extricate these capital funds from the flow of the total national product in the manner least costly to the group as a whole, in terms of the "consumer satisfaction" which must be reduced at some point in order to accumulate capital.

Social Insurance

Every socialist program advocates a comprehensive scheme of social insurance, in the interest of economic security for the individual. It is felt that some of the most thoroughgoing anti-social attitudes and activities that characterize individuals living under a capitalist régime are logical human reactions to economic insecurity which results from the emphasis a capitalist system places upon the individual's responsibility for his own income, largely regardless of the circumstances which surround him.

Without denying that systems of social insurance might be established and operated successfully under an economy essentially capitalist in nature, the socialist argues that the *efficient* operation of a *comprehensive* scheme of social insurance is possible only under socialism. Only under the centralized and planned control exercised by such a system could the necessary coordination be developed among wages, contributions, and benefits, between the payment of benefits and the offering of opportunities to work, and among the various forms of benefits. Moreover, the socialist contends that the cost of protecting the individual against uncertainties of income

which lie outside his control should be borne by society as a whole, in the manner least costly to the group as a whole. To distribute the costs in this manner requires a fusing of incomes and accounts held to be impossible under a capitalist economic system. For these reasons, all modern socialist programs advocate schemes of social insurance, including compensation to the insured or his dependents for unemployment, accidents, sickness, old age, and death. These portions of socialist programs, however, are always supplementary to (1) their proposal that actual labor by an able-bodied person is the first requirement for any acquisition, and (2) their proposed incentive wage and salary systems designed to induce each worker to put forth his best efforts voluntarily.

Stability of Industry and Employment

Socialist programs hold that the major instabilities of business operations and employment arise from the very nature of the capitalist system, and thus will be eliminated by socialism. Cyclical depressions and accompanying cyclical unemployment are attributed to the existence of extreme inequalities in the distribution of purchasing power under capitalism. By (1) reducing this inequality and creating less resistant channels through which increases in efficiency and decreases in costs may result in lower market prices, and by (2) planning prices and wages so as to create certain conformities between them, the socialist proposes to create a much more even tempo of business activity than prevails under capitalism, and thus to eliminate major waves of unemployment. He admits that the troughs of business depressions cannot be leveled up without leveling down the peaks of capitalist prosperity, although for obvious reasons socialist programs emphasize the former rather than the latter. The resultant stabilization of industrial activity, the socialist feels, will be accompanied by a more rapidly rising secular trend of industrial production than is now the case.

With cyclical unemployment eliminated, the only serious unemployment problem remaining might conceivably be that of the technological unemployment of workers whom machinery has displaced. To the socialist, such unemployment arises under the capitalist economy as a result of the uncoordinated adoption of new processes and new machines by competing business units, each of which is seeking the greatest possible net profit from its operations. Reduction in costs to the individual concern becomes the all-dominating determinant of the time, place, method, and rapidity of the adoption of new labor-saving devices. For this the socialist proposes to substitute the planned, coordinated, and continuous adoption of new processes and machines throughout the economy. The socialization of industry would, of course, automatically eliminate the sometimes intense pressure upon each individual concern in an industry to adopt immediately

all available improvements in processes. With this pressure removed, the planning agencies of a socialized economy presumably would work out plans for the adoption of new processes as an integral part of an industrial plan for the entire economy. The rate at which these potential improvements in processes would be adopted in various industries would then be tempered by considerations of the potential immediate absorption elsewhere of the displaced labor, the cost to society of compensating such displaced labor until it was absorbed, the urgency of the improvement in terms of eliminating some tasks very dangerous or otherwise undesirable for human workers, the potential reductions in cost the improvement would bring, the urgency of the improvement in terms of the possible current scarcity or abundance of the luxury or necessity for whose production the new process is designed, and, in fact, any pecuniary, economic, or noneconomic consequence to society arising from the change.

Scientific Discovery and Mechanical Invention

Among some critics of socialism, the impression prevails that socialists would like to return us all to the simple life; that they assume that greater human happiness would result from restraining human desires for goods from multiplying in their accustomed manner. An examination of socialist programs shows the incorrectness of this view. Socialists not only urge the accumulation of more and more machinery and equipment, so that we may produce more and more consumers' goods per capita, but they also contend that under socialism the actual invention of new processes and machines will be stimulated more intensively and extensively than under capitalism.

The socialist contends that the profit motive in private business often leads to "burying" newly invented processes and machines, and that under socialism this incentive would not exist. Furthermore, socialism, it is claimed, will be able to create positive opportunities for and incentives to scientific discovery and mechanical invention exceeding those which exist today. Socialism contemplates no reduction, but rather an increase, in the efforts going into "pure science." The pure scientist under the capitalist system must look for support largely to either some institution of higher learning which generously permits him to pursue his researches after he has performed his routine teaching duties, or a research laboratory financed by an industrial concern which often insists that he focus his efforts on an immediate practical problem, thus restricting the probability of gaining original knowledge in the field of pure science. Socialism presumably would have much greater flexibility in the allotment of effort and facilities to various lines of activity so that it could expand the facilities devoted to the development of pure science, which is of inestimable value

to society as a whole but has less direct connections with specific profit-seeking industries under a capitalist régime.

The application of an expanding base of pure science to specific production problems could, it is claimed, be carried on more effectively under socialism than under capitalism. Under socialism, this could be done in a unified manner for an entire industry, or in relation to a single problem cutting across a number of industries. It would no longer be split up among a number of research units, each connected with a business entity and probably duplicating much work done by other similar units since it is unable to benefit from their discoveries. This point need not be expanded, because it is simply another instance of socialism's claim that planned unified activity is much superior to the uncoordinated activities of competing agencies.

To stimulate individual achievement in the field of science and invention, the socialist would offer rewards similar to those in other occupations, but resembling particularly the rewards used for the highest type of management service. In general, the scientist or inventor would be offered a high degree of economic security, thus freeing his mind for creative efforts. Wages and salaries dependent upon objective attainment would be an added inducement to put forth his best efforts. Various special rewards of an economic nature (such as money prizes), or of a non-economic nature (as, for instance, membership in an "academy of science" or decorations) would be particularly useful in this field. In conclusion, it should be noted that there is nothing in socialism which inherently prohibits the award to an inventor of a claim resembling a patent granted by our governments. Patents might well serve as an inducement to special effort, by offering the possibility of royalty payments for the use of new inventions by socialized industry. Such claims, in order to conform to the principles of socialism, would have to be terminable at the time of the holder's death, and probably in any event after some stated period of years; also, they could in no way grant the inventor the legal right to withhold the new process or machine from use by the socialized economy, or to dictate the extent or manner of its use. Through this device, a socialized economy apparently could offer much the same sort of inducements to the labor of invention and discovery as those which exist today.

Labor Organizations

Socialist programs almost universally emphasize the need for strong organizations of labor, both under the existing economy and after socialization. Under the existing economy, they are needed primarily as organized forces working toward socialism, while in a socialized society they would be functional groups whose representatives would play an important part in the administration of the new system. Since socialists conceive of their

movement as a "working-class" movement, it is perfectly logical to expect that labor unions would constitute its active centers. European brands of socialism have been built almost entirely upon a labor union base, and in some cases the fusion of unions with the socialist movement has been complete. In the United States, however, socialists have never been very successful in their efforts either to capture the leadership of existing unions or to build up socialist unions. Nevertheless, their programs still point to the necessity of establishing close relationships with organized labor, since it is the one mass movement which socialists feel will be driven eventually to adopt an outright socialist program.

The functions of labor unions in a socialized economy usually are not clearly outlined in socialist programs. There is an obvious implication in socialism itself that the routine functions of unions in a socialized order would differ substantially from their normal day-by-day functions in a capitalist order. Under the existing system, unions act primarily as bargaining and fighting units in the continuous struggle between employer-owners, who try to keep direct and indirect payments to labor as low as possible, and workers, who try to get as much as they can for their efforts. Unions play no direct part in formulating those decisions which enterprisers make with regard to the policies of individual business units. The function of the union, then, is to bring to the attention of the enterprisers, in as forceful a manner as possible, the group interests of its members, so that these interests will *indirectly* affect the decisions of the enterprisers. The fundamental change which socialism would bring in the position and functions of unions arises from the fact that, under it, unions would participate *directly* in the policy-shaping activities of both the local specialized economic units and the more general centralized agencies of planning and administration. This direct participation, socialists contend, would (1) make union points of view and union activities more intelligent than they now are, since it would put union representatives in positions where, as parts of administrative agencies, they would face the opportunity and necessity of viewing the problems of industry from all sides rather than from just one; and (2) make union tactics less combative and less violent than they are today, because unions would no longer have to use force to bring their claims to the attention of the decision-makers.

To say that socialists urge the desirability and necessity of union organization in both our economy and the one they hope will succeed it, is not to say that socialists are satisfied with organized labor as it exists in the United States today. They criticize existing labor organizations severely on aims, leadership, and the structure of their organization. While socialists believe that as long as capitalism exists unions should act with all their strength to bargain for better wages, shorter hours, and better conditions of labor, they also point to what they consider a tragic absence of long-run socialist aims. They point out that it would be consistent for unions,

at one and the same time, to act as bargaining agents and to work directly and energetically to bring about a displacement of capitalism by socialism. Socialist programs are constantly urging such claims upon organized labor. The leadership of American organized labor is criticized as having too little vision of the full potentialities of labor organization. In some cases, there has arisen a bureaucratic officialdom whose interest centers in collecting dues, manipulating votes, holding official jobs, and drawing substantial salaries, meanwhile demonstrating a highly questionable responsiveness to the real wishes and interests of the constituent membership. In general, socialists are critical of the "trade union" or "craft" type of organization, which so long dominated organized labor in the United States. They urge that organization should generally follow the "industrial" type, as that best adapted to the realities of labor's position in modern industry. In short, socialist programs propose a shift to the "left" for American organized labor in ideals, leadership, and organizational structure.

War

Socialist programs relative to the issue of war present something of a dilemma. On the one hand, revolutionary socialists, taking their cue in part from Marxian theory and in part from the circumstances of the Russian Revolution of 1917, hold that if conditions are ever to become suitable for a sudden and drastic shift to a socialized order, those conditions are most likely to be created by a war which has weakened both the internal economy of the nation and the control exercised by the owners of producers' goods. On the other hand, evolutionary socialists feel that war creates conditions unfavorable to the gradual, steady legislative achievement of full socialism. Whereas the revolutionary socialists point to the fact that the socialized economy of the Soviet Union was born of war, the evolutionary socialists point out that the same war brought forth, somewhat more slowly but none the less directly, in Germany and Italy those (to the socialist) undemocratic, essentially capitalist, and anti-socialist "dictatorships" usually labeled "fascist."

Thus it appears that revolutionary socialists ought not to be against war in the abstract at all times, although they might very consistently oppose the advent of any specific war as abortive in the sense that they do not expect it to weaken the existing economic system sufficiently to make possible a sudden transition to socialism. It would also seem from the foregoing that the evolutionary socialist should be against all war at all times, and should oppose any specific war which might threaten or be initiated. In constructing their stated programs, neither revolutionary nor evolutionary socialists appear to be very consistent in relating programs to basic doctrine. Modern socialist programs generally contain strong and un-

equivocal denunciation of all war in the abstract, and of every specific war as it appears on or above the world horizon.

A resolution adopted by American socialists in their 1936 convention reflects the general attitude of modern socialists toward war: "The twin danger of war and fascism must be fought simultaneously as the products of capitalist nationalism. Uncompromising struggle against all capitalist states, both before and after war is declared, is the only method of fighting imperialism and the threat of fascism in our country and throughout the world. The Socialist party, therefore, repudiates support of an imperialist power against a present fascist power as a means of overthrowing fascism."[4]

In 1940, after war had broken out in Europe, the Socialist party took the position that while the "defeat of Hitler will be welcomed by all anti-fascists" and "the roots of fascism and the war system" should be destroyed, ". . . the United States cannot contribute toward that end nor vindicate real democracy if it loses itself in the processes of war." It urged that the American people "resolutely determine to avoid all roads to war and pursue only the paths of peace."[5] The Socialist party had some difficulty in formulating its official position on the War and American participation therein in 1942. In May of that year, it adopted a lengthy resolution representing a compromise among various points of view presented by delegates to its national convention. This resolution declared that a "world-wide economic revolution" was occurring and that this "rather than the war itself is the central fact and issue of our times." It held that "the issue which stands first on the agenda of history today is not 'Capitalist Democracy vs. Fascism,' but 'Collectivism—What Kind?'" It recognized that "within the framework of the present capitalist-imperialist set-up and the circumstances it creates, capitalist governments have no alternative other than the pursuit of war." The most direct reference to the War was as follows: "The Socialist Party does not give its blessing to this war—or any war—as the proper method for attaining social objectives, national or international. Nor does it give its support to the economic system or political administration that is responsible for the war and its conduct."[6]

On two matters relative to war all shades of socialist opinion agree. First, socialists are unanimous in declaring that war is caused by the existence of capitalist economies. Inevitable trends toward increasing inequality in income distribution occurring within a capitalist economy make it impossible for the domestic market to absorb at profitable prices the increasing output of consumers' goods which results from the improved techniques of production that are possible under capitalism and which

[4] *American Socialist Quarterly*, July, 1936, p. 15.

[5] From a summary of a resolution adopted by the Socialist party national convention, April 7, 1940.

[6] From a resolution adopted by the national convention of the Socialist party, meeting May 30 to June 1, 1942, published in *The Call*, June 12, 1942. The resolution was adopted by a vote of 72 to 11, with some delegates abstaining from voting.

capitalism in some cases fosters. Moreover, an increasing volume of production necessitates larger quantities of raw materials, and nations often find that these are not available within their own borders. Thus, inevitable attempts to capture foreign markets to dispose of surplus goods, and probable attempts to gain access to raw materials not available at home, cause war to be an innate feature of a world in which capitalist economies prevail.

Secondly, all socialists agree that war will disappear from the earth when the economies of the world are socialistic. Under this situation, surpluses would not appear on domestic markets, for either planned production, coordinated with planned distribution, would turn out only what domestic markets will absorb, or distribution would be so planned that domestic markets would absorb all produced goods. It is assumed, of course, that individual socialized economies would trade with one another, but that the attention of a socialized export-import business of one nation would be focused on securing from foreign socialized economies all the imported goods possible for as few exports as possible, and not on getting the foreign economy to buy as many of its exports as possible. Socialist programs look to the creation of some sort of international organization of socialist economies, or to some sort of a world socialist state. It is therefore to be presumed that titles to basic resources, possibly even including all land, would be vested in such an organization, which would then plan the world utilization of scarce natural resources. Socialists contend that the inevitable potential domestic consumption of all goods produced, and the planned availability of the world's resources to a world society, would create the only world situation in which war would be practically impossible because of the absence of provocative causes.

QUESTIONS FOR CLASS DISCUSSION

1. What are the socialists' chief criticisms of our present-day democratic governments?
2. What fundamental change does the socialist propose for the structure of our representative government bodies? Why does he propose this?
3. Does the socialist admit that under socialism governments have bureaucratic tendencies? If so, what does he propose to do about them?
4. Is the problem of bureaucracy confined to socialism? Illustrate.
5. Would the basic nature of the process whereby capital goods are created be different under socialism than it is under capitalism? Would the process of capital accumulation differ in any important respect?
6. Why does the socialist contend that a comprehensive and adequate system of social insurance can be established only under socialism?
7. What plans does the socialist have for combating the two major types of unemployment existing in a capitalist economy—cyclical and technological?

8. What does the socialist rely upon to stimulate scientific progress and invention in a socialized order?
9. Would you agree that labor organizations would no longer be needed in a socialized economy?
10. Are the socialists consistent and in unanimous agreement in their attitude toward war?
11. Why does the socialist find it necessary to plan for a world socialist state?

Chapter 18

A CRITIQUE OF SOCIALISM

THERE are many angles from which criticism might be directed at modern socialism. Its organization, tactics, and personnel are all vital matters which should be studied and critically evaluated. Since our discussion has centered almost exclusively on the theoretical socialist programs, this critical analysis will also be focused upon them. Numerous criticisms of socialist programs have been noted incidentally in conjunction with the above exposition. In the following discussion certain popular superficial criticisms will be treated first, a consideration of some basic points being left to conclude the chapter.

SUPERFICIAL CRITICISMS

Many criticisms of socialism are too superficial to merit extended attention. Some are sincerely made by persons who fail to understand socialism, while others are known, or easily could be found, to be superficial by those who repeat them. As is true of so many economic issues, the most superficial criticisms are those most often urged upon the popular mind, while the more weighty and basic considerations are left with little or no discussion. Summarized and partially answered, some of these superficial criticisms follow.

"SOCIALISM IS TOO THEORETICAL"

This criticism usually points out that American socialism exists only on paper; it is purely a plan or theory, whereas capitalism which it seeks to displace exists and functions. Why should we give up a practical working system which we know functions, even though imperfectly, for a theoretical system which we cannot be sure actually would function even if it were set up? "Socialism is a bundle of theories, capitalism is a fact."[1] This hypothetical nature of socialism makes socialists' proposals "indefinite and

[1] D. Eccles, in *Bankers' and Insurance Managers' Association Magazine,* October, 1930, p. 512.

various, and in fact it may be said that their whole case is so fluid that criticizing it is as difficult as handling an underdone poached egg."[2]

There are many variations of this theme. In general, of course, they are not so much arguments against socialism as they are arguments against all planned innovations in society. People who argue thus imply that they favor either no change in social institutions or such change as has not been consciously planned and mapped out. Some inconsistent critics of socialism, after leveling the "too theoretical" charge, criticize socialists for not outlining in greater detail the institutions and processes of the society they propose to create. This poses for the socialist the unanswerable problem of how to draw up detailed plans for a socialized order without being so impractical and theoretical as to describe things which do not now exist.

Much criticism of this sort is superficial and illegitimate. The fact is that, even when modifications of a capitalist order are proposed, the intelligent way to proceed is to sketch out the proposals in the abstract and then discuss their desirability. This is just what the socialist tries to do, although the comprehensive nature of his schemes makes them seem more "theoretical" than do specific proposed changes in the institutions of capitalism. No one would call the architect "theoretical" because he sketches in minutest detail the plan of a house to be built. This is admitted by everyone to be an essential part of the project. The modern socialist insists that some degree of advance blueprinting of the economy he wants to construct is no less legitimate and just as necessary. Particularly the evolutionary socialist, who plans to proceed experimentally toward a socialized economy, should be spared this charge. His plans and proposals permit constant modification of emphasis and method in an exceedingly practical manner.

"Socialists Are Insincere"

It is sometimes claimed that the socialist's contention that his program is in society's interest is merely a pretense; that actually he is interested only in his personal well-being and sees in socialism a way of bettering himself at the expense of others. Thus to one critic who writes in this vein, socialism is a "steady, persistent drive to obtain control of government and to use this control to take property away from those who have accumulated it to give it to those who have not. To put it bluntly, it is the method of acquiring by cunning and strategy backed up by force."[3] It is a little disconcerting to have this same critic refer in an adjoining sentence to the "honesty of purpose and integrity of character of socialists."[4]

Another critic, Mr. Hartley Withers, feels that those socialists who have

[2] Hartley Withers, in *Commercial and Financial Chronicle*, January 22, 1927, p. 442.
[3] Alva Lee, in *The Annalist*, August 24, 1934, p. 261.
[4] *Ibid.*, p. 261.

more funds than are needed for the necessities of life should prove their sincerity "by devoting their wealth to public purposes, of which there are always plenty which need funds, instead of enjoying it by spending it on comforts and luxuries for themselves."[5] A psychologist even goes so far as to explain the "radical" mind as the product of personal defeat in the existing institutional environment. They "are merely protesting in an indirect, impersonal, and not very intelligent manner against a fundamental personal inability to solve their own problems; and in this roundabout and dramatic way they announce the fact that the balance between their self, herd, or sex instincts needs to be readjusted in order to establish some kind of rational control of thought, word or action."[6]

Accusations of insincerity are commonly leveled at innovators in our society. The very fact that there is no objective way in which the individual or collective sincerity of socialists can be tested prior to the advent of socialism makes this charge a peculiarly effective weapon in combating socialism in the popular mind. The test suggested by Mr. Withers would be a particularly unjustifiable one, since it is not proposed for adherents of other movements. One does not test the sincerity of the ardent Republican or Democrat by ascertaining his willingness to contribute his personal fortune to the party campaign chest. The advocate of higher salaries for government officials would not be expected to prove his sincerity by contributing supplementary compensation to them from his own personal income. The advocate of legislation prohibiting child labor need not defend his sincerity by using his personal income to pay children to stay away from their accustomed places of work.

George Bernard Shaw has suggested that the only objective proof of the sincerity of the wealthy advocate of socialism is his willingness to accept a reduction in his personal living standards after the *entire system* has been socialized.[7] Mr. Shaw, being one of the few socialists who advocates almost precise equality of personal incomes, candidly points out that such a system would certainly cause a substantial decrease in his own income. He insists that he is willing and anxious to accept this decrease when the system as a whole is changed, but that he sees no gain to society or himself in giving up his personal fortune and large income prior to that time. He vigorously denies that his own sincerity is disproved by this attitude.

Mr. Shaw contends that no one can really practice socialism, even though he might desire to, until society exercises complete control over the distribution of the national income. He feels that while to give substantial portions of one's large personal income to those who have less may constitute a certain type of proof of one's sincere belief in the desirability

[5] Hartley Withers, in *Commercial and Financial Chronicle,* January 22, 1927, p. 442.
[6] S. Paton, "The Psychology of the Radical," *Yale Review,* October, 1921, p. 98.
[7] George Bernard Shaw, *The Intelligent Woman's Guide to Socialism and Capitalism,* Brentano, New York, 1928.

of socialistic equalization, it probably would injure the recipients and in no way would it further the cause of socialism. In Mr. Shaw's opinion, one who requires such proof of a socialist's sincerity merely demonstrates his ignorance of the nature of social change.[8]

Since objective proof of the sincerity or insincerity of the socialist cannot exist prior to the coming of socialism, this criticism must be dismissed as always superficial and usually motivated by a desire to confuse the real issues. As commonly used, it can be made an argument against any proposal for change however narrow or comprehensive, and regardless of who makes the proposal or when it is made. It can be turned against the defender of the existing capitalist régime no less vigorously, but just as illegitimately, as it often is used against the socialist. Whatever one's final decision may be on the merits of socialism, sincere criticism must be based on an assumption of sincerity and honesty on the part of its advocates.

"Improvements in Capitalism Make Socialism Unnecessary"

Socialists often have been criticized as being blind to the large measure of improvement which our capitalist system has experienced in recent decades and to the possibilities of adapting it still further to human needs. It is held that the capitalist system has proved itself so flexible, and actually has been so modified, as to demonstrate its permanent adequacy as a form of economic organization, thereby making programs of socialism superfluous. With varying illustrations, it is argued that capitalism has done all that socialism could do to improve our economic life and that it holds prospects for future improvement which exceed the potentialities of socialism.

Interestingly enough, it is a former ardent socialist who has been a leading proponent of this point of view. John Spargo, one of a group of dissenters who left the Socialist party during the First World War, phrased this in comprehensive terms when he wrote: "In the decade since the end of the war the capitalist system, which according to the socialist philosophy was doomed to inevitable early extinction, has become much vaster and more stable than ever before, and less vulnerable alike to economic crises and social revolt. Never in the history of the world was successful social revolt so nearly impossible and unthinkable as it now is in the foremost industrial nations of the world."[9] In casting about for specific illustrations of this "new capitalism," Mr. Spargo cites the regulated public utility industries about which he says: "The modern public service corporation with its stock owned by tens of thousands of people, many of them wage earners, producing and selling a primary necessity of life, a monopoly in fact, is essentially socialized."[10]

[8] See *ibid.*, pp. 97–99.
[9] John Spargo, in *Nation's Business*, February, 1929, p. 96.
[10] *Ibid.*, p. 29.

Mr. Spargo's argument falls considerably short of being a weighty criticism of socialism. Although the "socialized individualism" which is pictured as the result of government control over public utility industries seems to Mr. Spargo to achieve all of the advantages of socialism, while it retains also the "essential form of capitalism, with the incentive and opportunity for individual enrichment through thrift and prudent investment,"[11] it seems quite otherwise to many students of public utility affairs. Mr. Spargo wrote without the benefit of those numerous volumes of testimony evoked by congressional investigating committees of recent years. The financial and other practices of leading utility companies (despite governmental regulation) there disclosed, coupled with various studies of the theoretical and practical problems encountered by regulatory bodies operating in a capitalist environment, throw a major doubt upon Mr. Spargo's implications that merely extending similar controls to fields other than those now affected will yield a "socialized" capitalism. Since Mr. Spargo's suggestions concerning the decreasing vulnerability of the existing system to economic crises were made prior to the economic debacle of the nineteen-thirties, they require no comment.

This sort of criticism is considered superficial not because its claim to progress under capitalism is unfounded, but because it fails to reach the major point in the socialist program. While many socialists undoubtedly have underestimated the flexibility of capitalism and its ability to adapt its forms and processes to changing needs, modern socialism does not deny the possibility of economic progress under a capitalist order. Mr. Spargo's argument apparently reduces itself to a contention that the capitalism of today is at least in certain important respects more likable than its ancestral lineage. While admitting that this may be true, socialists contend that within the fundamental institutions of capitalism—private property in producers' goods and the concomitant profit motive—there exist inherent limitations upon the potentialities of that system to serve human ends. Mere citation of historic progress under capitalism fails to reach this contention which lies at the basis of and shapes all socialist programs. It is not a question of *some* economic progress in the *past*. Many objective facts are admitted by socialists to prove past progress. It is a question of what kind of a system will be conducive to the *greatest* economic advance in the *future*.

"Socialism Would Breed Dishonesty and Graft"

Some critics of socialism contend that a socialized order will offer more opportunities than capitalism for fraud, graft, and other forms of personal dishonesty, and that government agencies under socialism will have such numerous and exacting tasks to perform that they will be unable to ferret out and punish any substantial number of these anti-social acts. The many

[11] *Ibid.*, p. 30.

qualifications with which this suggestion must be modified make its usual popular form very superficial.

Since more persons will be connected with governmental administrative agencies under socialism than under capitalism, there will be more *numerical* possibilities of dishonesty on the part of *government* employees under socialism than under capitalism. In this form the criticism means nothing. If one is to consider fairly this problem of dishonesty, the *totality* of opportunities for and incentives toward dishonesty in the entire governmental system *plus* the "business" system under existing capitalism must be contrasted with a similar totality under the proposed socialist system. The major question is this: If social agencies were to absorb all the activities of large-scale "private" business, would the existing dishonesty in private business be absorbed intact, would it be absorbed and enlarged, or would it be absorbed and decreased?

To put the question in this form calls to our attention the existence of dishonesty in the existing system of private business. The presence of a variety of forms of graft and dishonesty of varying intensity in the field of private business can scarcely be doubted after a reading of John T. Flynn's *Graft in Business.*[12] The first sentences of Chapter 1 read as follows: "The average politician is the merest amateur in the gentle art of graft compared with his brother in the field of business. I have already observed that there is more graft in business than there is in political life. That statement will be received as a preposterous exaggeration by those who are deceived by the eternal chanting of the praises of honesty in business which has been so popular ever since the high profession of public relations counsel came into its own. Before we are done with this matter we shall see that there is at least very considerable ground for making this statement."[13]

It is wholly incorrect to think of private business as free from graft and dishonesty; and yet this is precisely the implication of many critics of socialism who picture a "pure" private business system being socialized and thus contaminated with dishonesty and graft prevailing in government agencies. In calculating the net (plus or minus) change in the amount of graft and dishonesty which would be occasioned by a socialization of private business, the amount now prevailing in private business must be allowed as a set-off against the probable *totality* of dishonesty and graft in a socialized order. Unless one could expect the totality of graft and dishonesty under *socialism* to exceed the *totality* under *capitalism* there would be no argument here against socialism.

The fact that this comparison cannot be made with any precision in advance of some considerable experience with socialism, and that a careful scrutiny of private business reveals a large amount of graft and dis-

[12] John T. Flynn, *Graft in Business,* Vanguard, New York, 1931.
[13] *Ibid.,* p. 55.

honesty, weakens this argument to the point of superficiality. Moreover, there are reasons for believing that graft and dishonesty in government today are not so prevalent as they are commonly supposed to be, as compared with private business. Socialists hold that on the average a greater portion of existing governmental graft and dishonesty is made known to the public than is the case in private business. It may be more difficult for public officials to conceal their acts of dishonesty and graft than it is for a private business concern to do so, since public officials are subject to more rigorous requirements of publicity for their records than are officers of private business concerns. In addition, socialists often contend that a complete socialization of our economy would remove the chief temptation to graft and dishonesty influencing government officials today. They claim that in the usual case of graft or dishonesty in the government service the *agent provocateur* is a private business enterpriser seeking a profit through some special favor of government. They cite the oil scandals of the Harding administration as a perfect illustration of this contention. Since under socialism the profit motive would disappear from the field of large-scale business, socialists contend that the chief incentive to governmental dishonesty and graft would disappear.

"Socialistic Methods May Be Used to Anti-Social Ends"

Another specious criticism of socialist programs is that the structure and processes of a socialized economy could be used to achieve ends quite foreign to those at which socialists assert they aim. Apparently such criticisms envision the centralized control mechanism, essential to a successful modern socialized economy, falling into the hands of a self-seeking unprincipled group which would exercise control for its own benefit, rather than for the good of society as a whole.[14]

This criticism is similar to the charge of *bureaucracy* which is often levied against socialism, and which has been dealt with earlier in this discussion. While keeping the centralized agencies of government responsive to the popular will is no mean task, it is not exclusively a problem of socialism. It is true that, whenever a government agency is given administrative power, it becomes possible that such power will be used to achieve ends other than those for which it was granted. It is also true that, in a society as intricate as ours now is, central controlling and administrative agencies must have powers essential to the coordinated functioning of society's specialized parts. It therefore appears to be superficial to direct this criticism specifically at socialism, when similar problems must be faced by all of the centralized social agencies which are arising as the inevitable products of the necessity for coordinated endeavor in a society constantly becoming more intricate and highly specialized.

[14] See F. A. von Hayek, *The Road to Serfdom*, University of Chicago Press, Chicago, 1944.

"Socialism Is Un-American"

Possibly the epithet "un-American" has been applied to socialism more often than has any other. In its broadest sense, this criticism means nothing more than that the person making it does not like socialism. Many persons associate the interests of the social group so closely with their interests as individuals that whatever they feel would injure them as individuals they feel would also injure the group. Thus the charge of being un-American often is merely another way of expressing personal dislike, and when the term is applied to socialism in this manner, it constitutes an extremely superficial criticism.

However, the phrase may be used in a more meaningful way. It is sometimes held that socialist programs have originated pretty largely in European countries, and are reflections of economic and political problems which have existed there rather than in the United States. It is true that early American socialism was imported into the United States. Its philosophy, organization, and programs came with its personnel in the tide of immigration which swept into this country something less than a century ago. Many of the early programs could have been called "un-American" in this sense. However, as socialism has adapted itself to its local environment, and as the capitalist system in the United States has matured, socialist programs have gained sufficient pertinence here to invalidate the charge of being un-American.

BASIC CRITICISMS

The Nature of a "Basic" Criticism

As is the case with so many controversial economic subjects, the most superficial, and sometimes downright fallacious, criticisms of socialism are those most often advanced in popular discussion, while those which are deserving of much careful consideration are less often discussed. Turning from the consideration of some typical superficial arguments against socialism, we shall note certain basic criticisms of socialist programs. "Basic" does not mean "unanswerable" criticisms, nor does it mean arguments which destroy with finality the case for socialism. There may be such criticism, but those presented here are not assumed to be of that order.

There are theoretical problems involved in the operation of a socialized order which go to the very heart of the economic process, and which up to the present time have not been solved satisfactorily by the proponents of socialism. In attempting to suggest solutions for these problems, socialists have become involved in certain basic inconsistencies. Moreover, in some cases the several parts of a proposed solution are mutually inconsistent. These theoretical problems and the inconsistencies involved in socialist proposals for their solutions are here referred to as "basic criticisms of socialism."

The Primary Function of an Economy

Before proceeding to these basic criticisms, it will be well to recall that the primary function of a socialized economy must be the same as that of a capitalist economy, and that, in performing this function, a socialized economy will be confronted with many of the same environmental circumstances that surround a capitalist economy.[15] The one primary function of any economic system, regardless of its name or nature, is to produce goods for the satisfaction of human desires by the direct and indirect application of human effort to materials provided by nature.

In performing this function, a socialized economy, no less than a capitalist, would encounter limited quantities of nature-made materials and an unlimited capacity for human wants to expand. Also, man-made producers' goods and human effort will be available at any one time only in limited quantities, in contrast with the permanency of unsatisfied human desires. Despite whatever increases in per capita production a socialized economy may bring, it seems evident that scarcity of economic goods will exist under socialism just as under capitalism.

The Operational Task of Socialism

The primary operational task of a *socialized* economy would be just what it is under the *existing* economy: the guidance of the scarce agents of production into specific channels of productive use, and the restriction of effective consumer demands for specific goods to the amounts of such goods that are turned out. In a capitalist economy this guidance, whether it be the best possible or not, is achieved mainly by permitting the willingness of consumers to spend portions of their incomes for specific products to be reflected in relatively free markets, and by permitting enterprisers to hire and organize scarce productive agents into producing units to turn out those goods the bids for which are attractive to them.

General Nature of the Pricing Process Under Socialism

Some of the most severe and basic criticism of socialism is directed at the guidance of production which socialists propose to substitute for this free price guidance. Since socialism proposes the social ownership and operation of the means of production, goods would no longer be fed into markets by competing sellers. They would be offered for sale by various agencies directly or indirectly representing the social agencies responsible for their production. The supplies of goods thus would be marketed by what in effect would be a socially owned monopoly, the prices asked for goods and the quantities offered for sale being determined by this monopoly rather

[15] For a summary of this point as developed by several economists, see M. Dobb in *The Economic Journal,* December, 1933, p. 588, note.

than by the freely interacting demands of many competing buyers with the offerings of many competing sellers.

It is held by some people that the decisions of these agencies controlling the flow of various goods to market, and the prices asked for them, would be made arbitrarily by the central planning bodies at the sacrifice of certain advantageous features of the existing pricing process. Moreover, these social agencies could not eliminate this arbitrary nature of the pricing process under socialism by deciding to offer all goods on the markets at their costs of production. To do this would be a no less arbitrary procedure, for under socialism there would be no competition for the two important agents of production—nature-made and man-made producers' goods. Since by the definition of socialism these would be socially owned, any values attached to them in calculating costs would be arbitrary values, placed upon them by their only possible user and owner, the social agencies involved. Thus, prices from the consumers' goods level back through the various stages of production to their origins in man's effort combined with nature would be arbitrarily assigned prices, not determined by the forces of supply and demand operating on competitive markets.

There is nothing innately wrong with such an arbitrary pricing of producers' and consumers' goods. The point which critics insist upon is that if such pricing takes place, consumers' freedom of choice and workers' freedom of occupational choice cannot be preserved. If goods are arbitrarily priced, either their production will have to be arbitrarily fitted to the amounts which consumers wish to take at the price set (thus requiring some direction of labor into occupational lines), or the amounts taken by consumers will have to be restricted to the quantities the social agencies see fit to produce (thus creating direct or indirect rationing). In brief, a socialistic pricing process is inconsistent with either consumers' or workers' freedom of choice, or both, and yet socialists either by assertion or by implication insist that they will preserve both of these under their new order. Certain ramifications of this inconsistency will be examined in greater detail.

Alleged Advantages of the Capitalist Pricing Process

The critics of the socialist pricing process point to certain inherent and allegedly advantageous features of the existing pricing process which they contend cannot be duplicated by socialism. The pricing process in the existing system is "impersonal" in that it operates without a deliberate, comprehensive, human control.[16] The human decisions which enter the pricing of goods under capitalism presumably are those of a large number of independent sellers and buyers. No one buyer or group of buyers, and no one seller or group of sellers, exercises singly any significant control over

[16] See G. J. Cauley, in *North American Review*, February, 1933, p. 142.

pricing. Thus a totality of independent single personal acts brings an "impersonal" result. Mistakes in calculations or judgment made by single buyers or sellers, or groups of buyers or sellers, tend to be offset by other decisions of other individuals and groups. The contention is that if "personal" control were exercised directly over the central portion of the pricing process, as it would be under socialism, there would be far more probability of the net result being undesirable than under an "impersonal" pricing process.

Following much the same line of thought, it is pointed out that the pricing process under capitalism need not be understood in order to function efficiently, whereas the socialist pricing process must be understood by the persons comprising the agencies which make the major pricing decisions.[17] Thus, individual economic units play their respective parts efficiently in the capitalist pricing process, even though each may make its individual decision in a state of complete ignorance of the nature of the pricing process as a whole. Such ignorance causes no interference with the proper functioning of the process, but ignorance of the comprehensive nature and operation of the socialist pricing system would immediately forestall its effective functioning.

Pricing under capitalism is dominated by neither the producers nor the consumers, since inherently it cannot be dominated by either group. Price bids by potential consumers meet offerings of goods by potential producers on free markets, and the resulting "equilibrium price" is thus established by the two independent sets of forces. Thus, prices could not be manipulated to favor consumers at the expense of producers, for if this were tried, producers would automatically check it (without planning to do so) by their unwillingness to continue the flow to market of the goods affected at prices not satisfactory to them. Moreover, consumers automatically would impose checks upon any attempt by producers to manipulate the pricing process to their own benefit and to the injury of the consumers. Of course, there are exceptions to this broad generalization, but inherently the nature of the existing system creates such checks and balances, whereas socialism would lack such limitations to manipulation. Under socialism, either consumers or producers theoretically could gain major control of the pricing agencies and use them to serve their own ends, the only check to such action being the political controls over these agencies. The latter are far less direct in their action than are the immediate responses of buyers and sellers in free markets when one or the other group attempts manipulation in its own interest.

It is, then, through these impersonal, unmanipulated, automatic pricing processes that economic activity is directed to certain ends, which are socially selected in a way not possible under any planned socialist order.

[17] F. A. von Hayek (ed.), *Collectivist Economic Planning*, p. 8.

It is held by these critics of socialism that there is no other system which can bring "rational economic" direction to specific portions of the economic process or to the process as a whole. Professor von Mises has stated this point as follows "Without economic calculation there can be no economy. Hence in a socialistic state wherein the pursuit of economic calculation is impossible, there can be—in our sense of the term—no economy whatsoever. . . . There would be no means of determining what was rational, and hence it is obvious that production would never be directed by economic considerations. . . . Rational conduct would be divorced from the very ground which is its proper domain."[18]

The "Arbitrary" Nature of the Guidance of Production Under Socialism

Critics do not contend that this arbitrary pricing in a socialized order would have to be flavored with bad intent in order to be irrational or out of line with the totality of group well-being. By its very nature socialist pricing would force those who administer it to choose arbitrarily some standard or norm to which they would direct productive activity; and such a norm, by the very nature of its selection, would be irrational as compared with the automatic direction given production by a capitalist pricing process.

Thus, it has been pointed out that such an agency might choose to direct production along what is the most efficient line *technically*. The quantities and qualities of the agents combined into an industrial unit might be such as to achieve the highest technical level of production in that unit. This might appear to be an admirable goal for the controlling agencies to adopt. However, attempts to achieve such "technical optima" in the organization of industry could result in the use of more or less of a given agent in some line of production than would have been used there if the values of consumers' goods and productive agents had been determined in freely competitive markets, and enterprisers had been free to combine agents to produce goods in the most "economic" or "lowest possible cost" manner.[19]

As soon as free market prices for consumers' goods and agents of production are abandoned as the control mechanisms for guiding production, the administrative agencies are at liberty to choose any norms they like. This unrestricted range of possible choice, and the implied lack of objective determination of which norm is "best," create "irrational" and "non-economic" direction of production in contrast with the "rational economic" direction which follows from the acceptance of prices competitively determined in free markets as the controlling forces.

[18] *Ibid.*, chapter by von Mises, p. 105.
[19] See *ibid.*, chapter by Halm, p. 146.

Ideal Equilibria as Goals in a Socialized Economy

Various attempts have been made to answer this charge that an objective guide to production is necessarily lacking in a socialized economy. For instance, it has been held that, although the pricing process under capitalism is supposed to work as described above, in fact it works so imperfectly that freely determined equilibrium prices for goods bear little if any resemblance to the actual price structure that has come into existence under capitalism. Indeed, some socialists go so far as to contend that control agencies in a socialized economy can aim just as effectively at, and can achieve more precisely, those hypothetical competitive price equilibria which are supposed to be realized, but actually are not, in a capitalist economy. A British economist has summarized this point of view as follows: "In fact, we may go so far as to say that only in a socialist community, where production can be carried on in the full light of statistical measurement and publicity, is it possible to realize the true principles of economic valuation. Capitalist society with its deviations from equilibrium due to inequalities in individual income, to competition, to monopoly, and to the mutual ignorance of enterprisers concerning other enterprisers' activities, is a very imperfect approximation of the economic ideal. The beautiful systems of economic equilibrium described by Böhm-Bawerk, Wieser, Marshall and Cassel are not descriptions of society as it is, but prophetic visions of a socialist economy of the future."[20]

However, this is scarcely an adequate answer to the challenge that there would be an inherently less objective pricing of goods in a socialist than in a capitalist economy. If, as Mr. Dickinson implies, the socialist likes the theoretical equilibria of a competitive capitalist economy, it would be more logical for him to follow a program of removing restrictions upon their attainment in the existing system than to adopt the socialist program of setting up a system in which there would be no inherent necessity of accepting similar equilibria as guiding norms.

Moreover, the administrative agencies of a socialized economy could not, even if they would, choose and achieve pricing norms which are equivalent to the theoretical competitive price equilibria of a capitalist economy. The very choice and description of such equilibria would require most comprehensive and detailed knowledge of economic phenomena on the productive and consumptive sides of the economic process. This necessity would preclude any possibility of ever establishing in a socialized economy consciously selected goals coinciding with these theoretical capitalist equilibria. Even if this were possible, attempts to achieve such norms would be completely inconsistent with socialist advocacy of comprehensive economic planning to direct production more along lines of human needs than occurs in a capitalist economy.

[20] H. D. Dickinson, in *The Economic Journal*, June, 1933, pp. 246–247.

The Possibility of Competitive Price Determination Under Socialism

Other socialists defend socialist pricing processes by contending that there could be sufficient competition under socialism to establish competitive values for goods in both the producers' and the consumers' goods categories. Such competitive price phenomena either would be left to guide production with some degree of automaticity or would be used by planning and pricing agencies to guide prices, production, and consumption towards ends generally corresponding to the theoretical equilibria of the capitalist pricing system.

A British economist has worked out such a proposal in some detail.[21] A number of governmentally owned but semi-autonomous business units would be organized within each industry of the socialist economy. Each would be substantially autonomous in selling its product and in hiring land, labor, and capital for use. In bidding for the available supplies of the agents of production, competitive prices would come to exist for each kind of each agent. Thus each industrial unit would know how much it will cost to produce its product. Through competitive selling by these various units, prices to consumers would be kept at or near costs, and only as much as consumers would purchase at these cost-of-production prices would be turned out. Thus the prices of consumers' goods in the socialized economy would come to be equilibrium prices in much the same way as do prices in a competitive capitalist economy. These prices, by determining the bids the producing units can make for the agents of production, would guide the agents into their various possible uses in an objective manner, much the same as under capitalist pricing.

However, such a procedure is entirely inconsistent with socialist economic planning for the coordination of economic activity. Either producing units must conform to a plan, or they may follow what they conceive to be the future prospective demands for the goods they produce. To advocate autonomous producing units is a brand of socialist "eating your cake and having it too" which is a perfect counterpart of the proposal that comprehensive economic planning should be instituted within the capitalist system.

The Competitive Pricing of Land and Capital Is Impossible Under Socialism

Moreover, this proposed basing of prices on costs is subject to a still more fundamental criticism. The prices of the agents of production under a socialist system could not be competitively determined. Hence, the unit

[21] H. D. Dickinson, *Economics of Socialism,* Oxford University Press, London, 1939. For other plans which resemble this but differ in their details, see Oskar Lange and Fred M. Taylor, *On the Economic Theory of Socialism,* University of Minnesota Press, Minneapolis, 1938; R. L. Hall, *The Economic System in a Socialist State,* Macmillan, London, 1937; A. C. Pigou, *Socialism Versus Capitalism,* Macmillan, London, 1939.

costs of the "autonomous" producing agencies would be largely meaningless. By the very definition of socialism, most producers' goods are to be socially owned. Therefore, these so-called autonomous units, in competing for their supplies of land and capital, would all be buying from the same seller. Since the supply of land is fixed by nature and would be owned socially, and since under socialism capital goods would be created through social saving rather than by individuals, there could not be any independent competing sources of supply of either of these agents for which the autonomous units might bid.

There might be some possibility of establishing competitive differentials in the prices attached to various natural resources by noting how much more the competing autonomous units would bid for the services of one piece of land than for those of another. Whether the general level of charges for land were high or low would necessarily be determined by the sole owner of these resources—the agency or agencies representing society. There is no alternative source of supply to which the producing units could transfer their demand if this owner asks "too much" (in the sense of the level of charges), and there would be no withholding of land from use if the charges for land were made low (in the sense of the level of charges). In other words, except for certain differentials in charges for various kinds of land, the sole owner, by the very nature of the situation, is forced to establish arbitrarily the level of charges for the use of land in production. The same necessity would prevail in connection with charges made upon the various autonomous producing units for the socially owned man-made producers' goods (or long-term credit) which they would need in production.

The Effects of the Arbitrary Pricing of Land and Capital

There is nothing inherently wrong with arbitrarily established land and capital charges in a socialized economy. The important point is that, when arbitrary land rents and an arbitrary interest rate enter the cost calculations of these autonomous units, the resultant per unit costs must also be proportionately arbitrary phenomena. Consequently costs and prices under such a situation are something quite different from costs and prices in a competitive capitalist economy. Hence, when consumers contemplate their willingness or unwillingness to pay such prices, and when the productive agents are directed into various lines of use in accordance with consumer decisions based upon such costs, the resultant allotment of agents to specific uses becomes an arbitrary one. It is substantially shaped by the original arbitrary pricing of the two important socially owned agents—land and capital. The basically arbitrary nature of the guidance of productive agents under socialism cannot be influenced substantially by an attempt to create some "fictitious" competition under socialism.

The arbitrary nature of this process and its significance in the guidance of the agents of production may be seen from a simple illustration. Suppose that, in the production of commodity A, large quantities of capital as compared with land are necessary for technical reasons, whereas, in the production of commodity B, relatively large quantities of land are needed. If it were decided to place capital charges on a high level and land charges on a low level, the cost of production of commodity A would be much higher than if capital costs had been low and land costs high. Commodity B would, of course, be affected in just the opposite way. Consequently, high capital charges and low land charges would tend to make the cost of commodity B lower (other things being equal) than that of commodity A, while low capital charges and high land charges would tend to make the production cost of commodity A lower than that of commodity B. Thus, if one decision were made, the consumers of commodity B would be favored and more productive resources go to serve them, while, if the other decision were made, the consumers of commodity A would be favored in the allotment of resources. This would necessarily be true despite the injection of some "competition" into the pricing process at certain stages The necessarily arbitrary pricing, in a socialized economy, of two important productive agents—land and capital—creates substantial elements of arbitrary pricing all through a socialized price system, and this means that the allotment of productive resources to their various possible uses also is inherently and substantially arbitrary.[22]

Consequences of an Arbitrary Interest Rate Under Socialism

The arbitrary nature of the pricing of the services of capital in a socialized economy is of special significance. In a system featured by the private ownership of capital goods, these goods will come in large part from two sources (1) voluntary saving by individuals as such, and (2) saving by individuals organized into corporations which reinvest earnings. A supply coming primarily from such sources meets a demand for funds coming from privately owned and operated competing business units which are seeking funds for conversion into capital goods. A competitive interest

[22] In order to simplify this illustration, labor costs are not considered. It is more likely that something resembling competitive wage rates could be established in a socialist economy than that competitive valuations of land and capital could exist. On the supply side, labor services presumably would be offered by many independent and competing possessors of various kinds and degrees of skill. Moreover, while socialized industries would be the sole source of contractual demand for workers, there presumably would be alternatives open to the individual to acquire his livelihood through self-employment in handicraft or agricultural production or in some cooperative producing unit. The issue of whether or not these circumstances would create the possibility of establishing a truly competitive labor market under socialism merits more attention than can be given it here without unduly extending the treatment of the pricing process. Regardless of this issue, the arbitrary nature of the socialist pricing of land and capital would be entirely adequate to make the pricing process as a whole in a socialist economy basically an arbitrary one.

rate on long-term funds results from the interaction of these two forces on investment markets. All potential savers who are induced to save by this rate will abstain from consuming certain portions of their current incomes. Thus, the division of the totality of productive energy in society, as between that used to produce consumers' goods and that used to produce producers' goods, takes place with the same automaticity and impersonality as have been noted in the general pricing processes of a capitalist order.

Socialism transfers the administration of the saving process to society, whose planning and controlling agencies dictate the amount of social saving or capital accumulation to be done. They choose the point in the economic process at which, and the manner in which, saving shall occur. No interest rate as the resultant of demand and supply forces operating in free markets any longer exists. However, individuals are free to decide to postpone consumption to the future if they care to do so. If they wish to lay aside non-perishable goods for later use, they may. Also, if they wish to save purchasing power for future use, presumably they may in a socialized economy. But since there is no longer a free investment market—*socialized industry being the only agency seeking to get capital funds to* use—these money savings would have to go into government bonds, savings accounts, or other evidences of debt offered for sale by the financial agencies of the socialized economy.

The interest rate that such agencies would pay would necessarily be arbitrarily established, for reasons noted above. Under such a system all persons who were willing to save portions of their current income at the prevailing arbitrary rate would do so, and those who considered this rate unattractive would consume all of their current incomes. Potential savers, by adjusting their current saving activities to this arbitrary interest rate, would assist in determining how much of society's effort was to be devoted to turning out consumers' goods and how much to turning out producers' goods. But in this case the interest rate to which they responded could in no sense be determined by those who responded or decided not to respond. The amount of saving or capital accumulation taking place in a socialized economy necessarily must be decided upon by central agencies. There is no possible way in which individuals may be left to do this as they do in large measure in a capitalist economy. An arbitrary raising or lowering of the interest rate obviously would bring a similarly arbitrary reallotment of society's productive energy between its two possible uses—the satisfaction of present desires and the larger satisfaction of future desires.

Socialists sometimes seek to invalidate this contrast between capitalist and socialist saving processes by contending that, in the existing capitalist system, individuals' decisions have ceased to be influential in determining the available supply of investment funds. It is pointed out that increasingly large portions of all capital funds have been coming from corporate

reinvestment of earnings and from the investment of reserves by life insurance companies. These are called "automatic" or "involuntary" savings, with the implication that the individual as such has no influence over their amounts.

This is a highly questionable line of reasoning. Control of corporate policies stems back to stockholders. If corporations reinvest portions of their earnings, it must be assumed that stockholders give at least tacit consent to such a policy. They know that earnings which are reinvested cannot be paid to them in dividends and that they ultimately contribute the funds so used by the corporation. By and large, the stockholders' willingness to contribute such funds is tantamount to a decision to save at the prospective rate of earnings on such reinvested funds. Moreover, life insurance premiums are affected by the earnings which insurance companies can make on their invested reserves. As these earnings increase, the net premiums that must be charged for the various kinds of life insurance decline, and as the earnings decline, net premiums increase. Hence, prospective policyholders' decisions to purchase or not to purchase life insurance policies at current premium rates constitute decisions by individuals to save through this medium larger or smaller portions of their current incomes. The automaticity of certain forms of saving in our capitalist society is more apparent than real. Independent decisions of individual savers constitute the most important influence on the supply side of the determination of the interest rate on long-term investment funds.

Apparent Advantages of the Socialist Pricing Process

Thus, a basic criticism of the programs of modern socialism focuses upon the nature of the pricing process which is inherent in a socialized economy. Socialist pricing is practical, in the sense that it could be made to work. In some ways its operation would give an appearance of smoothness and efficiency which the capitalist pricing process lacks. It is very probable that socialist pricing also would give a certain appearance of flexibility that is lacking in the existing pricing processes, for prices could be adjusted quickly to remove from markets surpluses of goods unsalable at prevailing prices. In other cases, what would have been drastic and sudden price movements under capitalism to equate widely divergent supplies with demands, or demands with supplies, could, under socialism, be smoothed out into more moderate and gradual shifts of prices to accomplish the same ends.

The Effect of Socialist Pricing upon Individual Freedom of Choice

The fundamental difficulty is that the apparent smoothness, efficiency, and flexibility of pricing under socialism are superficial. For price adjustments which equate supplies and demands in free markets under capital-

ism there are substituted controlled market prices, the adjustments being forced to occur elsewhere. This "elsewhere" is primarily in the fields of consumer and occupational choices. For decisions by independently functioning consumers and workers, which decisions are reflected and coordinated in price movements in free markets, socialism substitutes price decisions made for certain socially desirable ends. From the ultimate ends there follow certain necessary decisions which consumers or workers, or both, find dictated for them by the very existence of the arbitrary price decisions.

To put the matter somewhat differently, whereas in a capitalist economy consumers' and workers' choices are something of ultimates, shaping free market prices which control economic processes, socialism makes the chosen social ends the ultimates, setting prices on agents of production or consumers' goods, or both, to achieve these ends. Hence, under socialism, the consumer and the worker (or each person in one instance as a consumer and in another as a worker) must adapt their decisions to the chosen ultimates—the social goals.

The Basic Inconsistency in Socialism

From a strictly ethical point of view, it cannot be argued that starting from decisions of individuals, and letting the system respond to them as it will through the pricing process, is better or worse than deciding what the system as a whole ought to do, and then dictating through the pricing process the part to be played by each individual. The vital point is that a socialized economy, with its necessary choice of comprehensive social goals and its arbitrary pricing to those ends, cannot exist *without substantially interfering with either the freedom of consumers' choice or the freedom of occupational choice.* If comprehensive goals are chosen, individual action must conform to them; whereas, if individual actions are left free, the comprehensive results will be determined thereby.

The advocates of real economic planning in a capitalist order make the mistake of advocating an impossible combination of freedom of individual action and a realization of chosen comprehensive economic goals. Socialists are just as much in error when they advocate the social ownership and planned operation of our economy without interfering basically with the individual's freedom of choice. Both groups of advocates propose the impossible.

The Dilemma of Socialism

Apparently socialists have not fully comprehended this basic issue or they have evaded it. Obviously, it is inadequate to reply that under capitalism neither consumers nor workers are entirely free to make whatever decisions they might, in an abstract way, like to make. It is pointed out that

consumers' decisions today are influenced by inequalities of income, by consumer ignorance, and by clever advertising. Occupational choices often are affected by inability to acquire training and by false or ignorant ideas concerning occupational prospects. Such a contention merely confuses the issue by pointing out that the environment within which capitalism now functions imposes certain limitations upon the freedom of individual choice, whereas the socialist, by the very nature of his case, must deal with the *inherent nature* of the capitalist system, in contrast with the *inherent nature* of socialism.

When the issue is put upon this plane, it becomes clear that capitalism inherently emphasizes individual choices as the directing forces in the operation of our economy, while socialism emphasizes comprehensive goals as the directing and controlling forces. It may be ethically good to have a social ownership and operation of our economy, so that these comprehensive social goals can dominate economic activity. If we are to follow the plans of socialism in this regard, we must expect a concomitant and inherently necessary modification of a certain basic freedom of individual choice prevailing under capitalism. Since this freedom, although much qualified in actual life, apparently is highly valued by many people for whom socialism proposes a new system, programs of socialism to be sound and consistent must cease to promise a continuance and enlargement of individual economic freedom under socialism, or they must successfully demonstrate how that freedom can be preserved in a socialized economy. Modern socialism has as yet done neither.

QUESTIONS FOR CLASS DISCUSSION

1. How do you account for the numerous superficial criticisms that are continually leveled against socialism?
2. Could socialism be anything else than theoretical as long as a capitalist economy exists?
3. By what test would it be possible to prove or disprove the sincerity of the proponents of socialism? Is this test practicable as long as a capitalist economy prevails?
4. Does the mere fact that economic progress has been made under capitalism substantially dispose of the arguments advanced by socialists?
5. What error commonly is made by the critics of socialism when they discuss the possibilities of dishonesty and graft in a socialized economy?
6. Is there any absolute guarantee that those who hold high office under socialism, will not use their power for their own selfish ends? Is socialism, then, not fatally weak on this score?
7. Point out the basic difference between the pricing process in a capitalist economy and the socialist pricing process.
8. Is the distinction referred to in Question 7 one which can be eliminated or is it inherent in the nature of capitalism and of socialism?

9. What is the significance to workers and consumers of the distinction referred to in Question 7?
10. Could a socialized economy through its planning agencies deliberately choose the same allotment of resources to their various possible uses as would be achieved by the automatic market processes of capitalism?
11. Could a socialized economy achieve competitive price determination and allotment of resources by creating independent and competing business units, all of which would be owned by society?
12. Why must the interest rate under socialism be arbitrarily set? What is the significance of this?

SUBJECTS FOR STUDENT REPORTS FOR PART V

1. A Comparison of the Latest Platforms of the American Communist and Socialist Parties.
2. The Connections of the Communist Party of the United States with the Third International and with Moscow.
3. The Present Status of the Socialist Party of the United States.
4. The Place of Eugene V. Debs in American Socialism.
5. The Labor Organization Policies of the American Communist and Socialist Parties.
6. The Attitude of Patriotic Organizations (Such as the Daughters of the American Revolution and the Patriotic Order of Sons of America) Toward Socialism and Communism.
7. The American Socialist Party's Attitude Toward America's Participation in the First and Second World Wars.
8. Changes in the Political Strength of the American Socialist and Communist Parties in Recent Years.
9. The Financial Strength and the Sources of Funds of the American Socialist and Communist Parties.

SUGGESTIONS FOR FURTHER READING FOR PART V

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Part VI

British Socialism

Chapter 19

THE NATIONALIZATION OF THE BANK OF ENGLAND, COAL MINES, CIVIL AVIATION

The British Labor Party

In London, in 1900, a conference of socialist groups and trade unions formed the "Labor Representation Committee," the precursor of the Labor party. Its purpose was to "establish a distinct Labor group in Parliament who shall have their own whips and agree upon their own policy, which must embrace a readiness to co-operate with any party which for the time being may be engaged in promoting legislation in the direct interest of labor."[1] Thus the Committee's aims were not definitely socialist at the outset. However, Fabian socialists were among the founders and gradually the organization assimilated their socialist goals.[2] By 1906 the name of the Committee had been changed to the British Labor party, some victories had been won in the general election of that year, and the party had become known to the electorate as an advocate of evolutionary socialism. From that time until the beginning of the First World War the party's efforts were devoted to strengthening its organization. It remained a federation of socialist and trade union organizations until 1918 when individuals were admitted to membership. While its "manifesto" *Labor and the New Social Order* (1918) marked the party as a thorough-going socialist political party, it remains true even today that many individuals who are not doctrinaire socialists are associated with the party because they favor its immediate program.

By 1913 the Labor party had a small representation (52 members) in Parliament. Since an important element in the party was strongly pacifist, the opening of the First World War forced a choice between opposing or

[1] From Resolution adopted by the Conference, *Encyclopaedia Britannica,* vol. 13, p. 554.

[2] The Fabians advocated gradual evolutionary socialism, emphasizing the necessity for educating the electorate to adopt socialist measures because of their logical soundness. For a brief history of Fabianism, see Harry W. Laidler, *Social-Economic Movements,* Crowell, New York, 1944, pp. 184–222.

participating in Britain's war effort. Disagreement on policy led to the resignation of some of its leaders. However, the party eventually joined the war effort and participated in the coalition government until the end of the war, when it withdrew to stand again as an independent party. The party's strength, measured in terms of its candidates elected to Parliament, increased in the elections of 1918, 1922, and 1923. In the latter year its elected candidates (191) outnumbered those of the Liberals and when, in January, 1924, the Conservative government was defeated in Parliament on a major matter, the first Labor party government was formed. However the Labor government's position was extremely weak. Since less than one-third of the members of the House of Commons were Labor party representatives, it had to rely upon a coalition with the Liberals to remain in office. When both Liberals and Conservatives refused to approve two treaties the government had negotiated with the Soviet Union, a general election was held. Only 151 Labor party candidates were returned to Parliament and the Labor party resigned in November, after an ineffectual régime of less than a year.

The second Labor party government lasted longer but was no more successful. In the general election of 1929 the Labor party placed 287 members in the House of Commons, becoming the strongest party but still lacking a majority. Its program called for housing reforms, improvements in education, full employment, permanent peace in Europe, and the settlement of German reparations problems.[3] In meeting these issues the party proved to be "hesitant and fumbling." It retained its "forty-year-old inferiority complex, its half-belief that Labor was not really fit to govern, to manage the two vital and difficult problems of finance and international relations."[4] The depression of the early 1930's swept the Labor party from power. It had not convinced the electorate of its ability to handle major economic issues during a depression. The Labor party defeat in the general election of 1931 left it in a condition of "confusion and dispute" during the 1930's.

Again the approach of war presented the question of what attitude the Labor party should assume. Again the decision was for participation in a coalition war government, and in the Churchill war cabinet Labor party ministers occupied several of the most difficult posts. During the war a political truce prevailed, but from 1943 on the Labor party became increasingly critical of the government for not formulating a post-war policy. During the war period the Independent Labor party, a constituent organization within the Labor party, exercised considerable influence in the direction of strengthening the socialist portions of the Labor party's program. At the 1944 Conference of the party it was decided that in the 1945 general election its candidates would stand as representatives of an in-

[3] As summarized by Margaret Cole, *The Antioch Review*, Summer, 1946, p. 172.
[4] *Ibid.*

dependent party. Hence, in May, 1945, at the close of the European phase of the war, the Labor members of the Churchill cabinet withdrew and the political truce was ended. In the July, 1945, general election the Labor party won a sweeping victory, polling approximately 12 million votes as against 10 million for the Conservatives and 2.2 million for the Liberals. It elected 393 of the 640 members of the House of Commons. The by-elections in 1946 showed the party's hold on the electorate to be as strong as it was in 1945. The British electorate had entrusted its immediate future to the socialist Labor party. In August, 1945, a Labor government took office for the third time.

The Labor party has a total membership of over 3 millions, of whom about one-fifth are individual members and four-fifths are members of trade unions and other less important organizations which, in turn, are affiliated with the Labor party. Its membership is far from homogeneous in economic philosophy. Mild evolutionary socialism is represented by the Fabian socialists while at the extreme left is the affiliated Independent Labor party. Possibly even farther to the right than the Fabian socialists are some of the members of the affiliated trade unions, the clerical workers, the middle-class shopkeepers, and the political independents who are party members.

Among the cabinet members of importance during the early years of the Labor government are able men with varied backgrounds. Prime Minister Attlee was an Oxford intellectual who as a young man became a London dock worker to observe social conditions at close range. He later entered legal practice and lectured in social science at the London School of Economics. He was Prime Minister Churchill's deputy in the coalition war cabinet. Sir Stafford Cripps is Chancellor of the Exchequer and, since he also holds the powers of his abolished former post of Minister of Economic Affairs, is something of a general manager of Britain's economy. Sir Stafford's rise within the cabinet represents some shift of the balance of power to the right despite the fact that he was expelled from the Labor party in 1939 as too independently leftist. During a portion of the war Sir Stafford, who was a successful corporation attorney, was responsible for British aircraft production. Later he was Ambassador to Moscow and also headed a special mission to India to start negotiations on Indian independence. He is known for his brilliant mind and his faith in economic planning through socialism. Ernest Bevin, Secretary of State for Foreign Affairs, and Herbert Morrison, Lord President of the Council, rose through the trade union ranks, the former having headed the largest single trade union in the world, the British Transport and General Workers Union. Morrison was at one time head of the London County Council, a post comparable to that of mayor of New York City.

The personnel of the Labor party's representation in Parliament has changed since the war. Much younger men now are representing the party,

many of them being veterans of the Second World War. Whereas previously about one-half of the Labor candidates for Parliament were sponsored by the trade unions, this number has decreased to one-fifth, with the majority of new members coming from the middle and lower middle classes. This shift gives the party's Parliamentary representation a broader social base.

Since coming into office the organization of the Labor party has been strengthened. New local party units have been established, especially in smaller towns and outlying areas, and party membership has increased substantially. The party is headed by a National Executive consisting of thirty members, which, together with the annual Conference of the party, shapes party policy. At the first two Conferences after the party came into power, cabinet members reported back to the party with full opportunity for the membership to question and censure them. At the 1946 Conference no major changes in policy were made. The membership expressed a desire to proceed expeditiously with the previously adopted program of nationalization. An application from the British Communist party for affiliation with the Labor party was rejected by a decisive vote and the party rules were changed "making other political parties definitely ineligible for affiliation."[5] At the 1947 Conference, attended by 1255 delegates, the government's foreign policy was under attack by left-wing elements in the party. While there was no disagreement on the broad program for domestic reform, there was considerable criticism of the administration of some of the government's economic measures.[6] Of the 500 resolutions placed before the Conference many were critical of the government, and there was extensive debate on the government's activities in housing, education, social insurance, and agriculture; but all resolutions of censure were defeated. The National Executive was continued essentially unchanged, despite an attempt by the left wing to increase its strength in that body.

In the fall of 1947, elections of local officials, as well as a few local elections to fill vacant seats in Parliament, were fought out on national issues. Conservative party candidates appealed to the electorate to cast votes against the socialist program of the Labor government, and Laborites defended their national administration. Although the election results showed a relative weakening of the Labor vote, there was insufficient change to

[5] 1947 *Britannica Book of the Year*, p. 443. Compared with an electorate of 25,000,000 in Great Britain, the Communist party membership is about 39,000. Of the 640 Members of Parliament, only two are Communists and perhaps an additional twelve seek to create closer relations with the Soviet Union. Trevor Evans, New York *Times*, July 28, 1947.

[6] The distinction between the policies and programs of the party and those of the government should be borne in mind. As was clear in the speeches at the 1947 Conference, "the government has wider responsibility for the interests of the whole community, and also for the immediate implementation of policy, than has the party." *Economic Record*, June 5, 1947, p. 2. As expressed by one of the ministers attending the Conference: "The Conference should decide on principles, but must leave it to the government to decide on priorities." *Ibid.*, pp. 2–3.

warrant the Conservatives' contention that the electorate had repudiated the Labor government and its program. Unless complete economic collapse occurs, the Labor party undoubtedly will stay in power until 1950. Laborites believe that by that time their achievements will be so substantial and satisfactory to the electorate that they will again be returned to power in general elections.

The Labor Party Program

The Labor party based its 1945 election campaign on a platform calling for nationalization of the Bank of England, the coal mines, inland transportation, the electric power and gas industries, and the steel industry. It also proposed to continue essential war-time controls, to press a housing program, to develop city and regional planning, and to extend social security measures. After the election the party added proposals for a national health service, for reorganization of the textile industry, for repeal of the Trade Disputes Act, and for extensive educational reforms.

During the first session of Parliament under the Labor government (August 1, 1945–November, 1946) legislation was passed nationalizing the Bank of England, civil aviation, the coal industry, and cable and wireless communications. This is reported to be "an all-time record in respect of the amount of major legislation placed on the Statute Book."[7] At the opening of the second session (November 12, 1946) the party scheduled for enactment measures nationalizing inland transportation and the electric power industry, controlling investment, providing housing on a large scale, dealing with town and country planning, and assisting agricultural development. The development of atomic energy is already under government control and, of course, will remain so. Many important industries are not considered "ripe" for socialization and hence are not included in the nationalization program. Among these are ocean shipping, chemicals, cotton textiles, aluminum, pottery, hosiery, and shoes. For these the Labor party program calls for modernization and increased efficiency under government aegis. Moreover, these privately owned and operated industries will be subject to government controls over manpower, finance, and materials. Under the Labor party program "the British government henceforth has the key to its industrial house."[8]

The electorate placed the Labor party in power with full knowledge of its socialist aims and the party has followed a fundamentally socialist policy since achieving power. As evolutionary socialists, the Laborites favor the purchase of industries rather than their confiscation. They advocate carrying out their socialization measures at a speed geared to the ability of the economy and the government to assimilate socialism. The party's pro-

[7] *Labor and Industry in Britain,* December, 1946, p. 216.

[8] Grant S. McClellan "Labor's Program for British Industry," *Foreign Policy Reports,* January 15, 1947, p. 258.

gram is to complete during its first three years in office the enactment of nationalization measures bringing under the government about twenty per cent of the total economy; to spend the next two years concentrating on efficient administration of the nationalized industries and on the solution of Great Britain's major economic problems; and, thereby, to offer the British electorate an appealing set of accomplishments by the date of the next general election which is expected to be in 1950. The party leaders fear that more rapid nationalization would overtax the government's administrative resources.[9] They also believe that with twenty per cent of the economy socialized, there can be no turning back and that within 25 years the industry and natural resources of Great Britain will be completely socialized, thereby eliminating mass unemployment, ameliorating economic and social inequality, and increasing production. We now turn to a more detailed description of the nationalization measures which constitute the immediate program of the Labor government.

Nationalization of the Bank of England

The Bank of England was established under a charter granted by the King and Queen of England pursuant to the Bank of England Act of 1694. From then until March 1, 1946, when it was nationalized, it was owned by private stockholders and administered by directors and a governor chosen by them. Over several centuries the Bank had evolved complex and intimate relationships with the government, making it almost indistinguishable from a government agency. At the time of its nationalization it was a "central bank" or "bankers' bank" much as are our Federal Reserve Banks. It accepted deposits from other banks and by its assistance and advice set the pattern for British banking. It acted as custodian of the nation's gold reserves, issued bank notes, administered the national debt, and carried out the government's monetary and credit policies.

Two facts caused the Labor government to give first priority in its nationalization program to the Bank of England: (1) Its close relationship with the British treasury made it almost an arm of the government despite its private ownership. Thus nationalization could be accomplished without any substantial change in the policy or operations of the Bank. (2) It constituted the key instrumentality in the credit area. Since its policies and operations vitally affected the flow of both short-term and long-term credit to industry, any vestige of private ownership would have been an inexplicable anachronism in a program encompassing the socialization of key industries. As explained in our discussion of modern socialist pro-

[9] In reviewing the program of the Labor party, Prime Minister Attlee, speaking at the 1947 Conference of the party, described accomplishments to that date as only part of a long-term plan. He urged the Conference to remember that laying "the foundations of a new social order evolving from the old" is demanding on parliamentary time and on administration. He warned the party "not to over-strain the machine." *Economic Record,* June 5, 1947, p. 3.

grams, the socialization of credit must be one of the first measures to be undertaken by an evolutionary socialist regime.[10]

Actually the nationalization of the Bank was a very simple matter. The basic measure was an Act passed by Parliament[11] "to bring the capital stock of the Bank of England into public ownership and bring the Bank under public control," and "to make provision with respect to the relations between the Treasury, the Bank of England and other banks."[12] The Act provided that all capital stock of the Bank be transferred to the Treasury[13] and that the former owners be compensated therefor by receiving "Government stock" (bonds) bearing 3 per cent interest. Each former owner of Bank stock received as much Government stock as it would take to make his annual interest income therefrom "equal to the average gross dividend declared during the period of twenty years immediately preceding March 31, 1945."[14] Since the Bank's stockholders had received 12 per cent annually on their stock since 1923, the exchange was a four-for-one transaction, the £14,553,000 par value shares being exchanged for £58,212,000 par value shares of the 3 per cent Government stock.[15] The Act provided that the Government stock could be redeemed at par by the Treasury on or after April 5, 1966, upon three months' notice of intention. The Act forbade dividends on the Bank stock, henceforth to be held by the Treasury, but provided for a semi-annual payment by the Bank to the Treasury of £873,-180 (the amount of its previous semi-annual dividends), "or such less or greater sums as may from time to time be agreed upon between the Treasury and the Bank."[16]

To administer the Bank, the Act provided for a governor, deputy governor, and sixteen directors, together comprising the "court of directors," to be appointed by the government. When the new court of directors took office on March 1, 1946, all but three directors had held the same offices immediately prior to nationalization. The Treasury was vested with power to "give such directions to the Bank as, after consultation with the governor of the Bank, they think necessary in the public interest."[17] The Bank, in turn, was authorized, when the Treasury and the governor deem it "in the public interest," to "request information from and make recommendations to bankers" and, if so authorized by the Treasury, issue

[10] See p. 286.

[11] Introduced into Parliament on October 10, 1945; became law on February 14, 1946; became effective March 1, 1946.

[12] *Bank of England Act,* 1946, H. M. Stationery Office, London, p. 1.

[13] Technically to a person nominated by the Treasury to hold the stock on behalf of the Treasury.

[14] *Ibid.,* p. 1.

[15] The Bank of England stock was quoted on the Stock Exchange at about £400 per share, making the yield on its current value about 3 per cent. *Labor and Industry in Britain,* December, 1946, p. 214.

[16] *Bank of England Act,* 1946, p. 2.

[17] *Ibid.,* p. 2.

directions to any banker for the purpose of securing that effect is given to any such request or recommendation."[18]

These provisions clinch the government's hold on the nation's credit resources and their use by giving the Treasury greater control over the volume of credit granted and the interest rate than it had wielded when the Bank was privately owned. Controls which previously were effected by suggestion and persuasion now can be ordered. Moreover, the Treasury is given the power to decide what financial firms are subject to these provisions by being granted the power to declare a firm "to be a banker for the purposes of this section."[19] It is provided that no member of the House of Commons, or cabinet minister, or anyone employed in a government department paid out of money appropriated by Parliament is eligible for the office of governor, deputy governor, or director. Under authorization in the Act, the King issued a new Bank of England Charter[20] more closely specifying the qualifications, powers, and duties of the Bank's officers and directors and detailing such internal matters as the adoption of by-laws, the keeping of minutes, and the definition of a quorum.

There was no serious opposition to this Act which, in the words of the Chancellor of the Exchequer, "brings into the safekeeping of the nation an indispensable key-point for all future financial planning."[21] The nationalization of the Bank was a foregone conclusion as soon as the Labor party won the 1945 general election. Moreover, the former stockholders fared well in being assured for the next twenty years of the same income they had received for the past two decades. In fact, the price of bank shares rose on the market while the nationalization measure was pending in Parliament.

Control of Investment

In 1945, prior to the Labor government taking office, two financial institutions were set up to facilitate the flow of investment funds into smaller business firms and major industries which, because of their immediate conditions, could not obtain financing through normal channels. The Finance Corporation for Industry is the larger institution designed to provide sums of £200,000 ($800,000) or more for modernization of large-scale enterprises showing prospects of eventual business success. Loans were expected to be repaid as the investment position of borrowing firms improved and the normal sources of funds could be tapped. The share capital of £25,000,000 ($100,000,000) came in approximately equal parts from

[18] However, "no such request or recommendations shall be made with respect to the affairs of any particular customer of a banker" and, before directions are issued to any banker, he must be given the opportunity of "making representations with respect thereto." *Ibid.*, p. 3.

[19] *Ibid.*, p. 3.

[20] H. M. Stationery Office, London, 1946.

[21] *Labor and Industry in Britain*, December, 1946, p. 183.

the Bank of England, insurance companies, and investment trust companies. The FCI was authorized to borrow an additional £100,000,000 ($400,000,000) from banks. The smaller institution, the Industrial and Commercial Finance Corporation, is authorized to supply capital in sums ranging from £5,000 ($20,000) to £200,000 ($800,000) to firms with good prospects but temporarily unable to borrow from normal sources. Its £15,000,000 ($60,000,000) of share capital was supplied by the private banks, with a "token subscription" by the Bank of England. Its authorized borrowings from banks amount to an additional £30,000,000 ($120,000,000).

Reports indicate that these institutions were used to bridge some reconversion financing gaps in British industry. The average loan to smaller firms is under £37,500 ($150,000), runs for 15 to 25 years, and carries interest of 4 to 5½ per cent depending upon the degree of risk. These institutions have agencies to advise borrowers on business problems and they keep in close touch with government departments controlling supplies which clients need in order to utilize their loans. Also, any loan which is for more than £50,000 ($200,000) is subject to approval by the British Treasury's Capital Issues Committee described below. These facts, together with the now nationalized Bank of England's relations to the two institutions, indicate that they may play important roles in the Labor government's determination to control capital investment, with priority going to industries of greatest importance to the nation.[22]

The Borrowing (Control and Guarantees) Act is more important as a means of planning the flow of investment credit into private industry.[23] As a war-time measure, beginning with 1939, a Capital Issues Committee within the British Treasury granted or denied permission to float each proposed new issue of corporate securities. This Act perpetuates the Committee and its power over the issuance of all new corporate securities, as well as the capitalization of accumulated corporate surpluses or reserves into corporate shares.[24] The committee also passes upon all projects for raising new capital by means other than security issues, if the amount involved exceeds £50,000 ($200,000). The Act creates a National Investment Council with the Chancellor of the Exchequer as chairman, and with the governor of the Bank of England and the chairman of the London Stock Exchange among the twelve members, representing industry and finance.

[22] For further details on the FCI and ICFC see *Business Week*, July 6, 1946, p. 105.

[23] Introduced into Parliament, January 23, 1946; enacted July 12, 1946.

[24] These powers far exceed those of our Securities Exchange Commission. The latter has no power to deny a corporation the privilege of floating a capital issue *because the company to be financed is not in an industry sufficiently important to the public interest.* It is just this power which the British Treasury, through its Capital Issues Committee, *does* exercise. The Committee is obligated to work in close cooperation with the existing Public Works Loan Board which controls all municipal borrowings of importance.

Its purpose is to advise the Treasury Committee on matters of broad policy to be followed in determining which industries will be permitted to raise capital. These provisions give the government direct control over the choice of private industrial channels into which investment funds will flow. Hugh Dalton, then Chancellor of the Exchequer, stated that the Act will "establish and maintain a proper balance" between "economic resources and the demands on them" and that it assures "priority for those projects of capital development of the greatest importance to the national interest."[25]

One section of the Borrowing (Control and Guarantees) Act provides that the Treasury may guarantee loans from private sources made to private industries for construction and development up to a total maximum of £50,000,000 ($200,000,000) annually. This is an entirely new device in British finance and is designed to be of use in financing construction expenditures to assure full employment during periods of slack in private industry. The specified upper limit appears small in the light of this comprehensive purpose. However, the Chancellor of the Exchequer has emphasized that this type of help was designed only for the non-nationalized industries when purely private financing through normal channels proved unavailable and is supplementary to the direct investment of public funds in nationalized sectors of the economy and in the usual public services. He also stated that in the event of need he would not hesitate to recommend an increase in the specified maximum.[26]

There can be no doubt that through the nationalization of the Bank of England, supplemented by the establishment of the FCI and ICFC and by the Borrowing (Control and Guarantees) Act, the government stands in a position to determine directly the amounts of short-term and long-term capital funds available to both nationalized and private industries, to guide those funds into the specific industrial channels considered preferable, and to determine the interest cost of such funds. It is clear that extensive control over the 80 per cent of industry which is to remain privately owned and operated can be exercised through these socialized credit instrumentalities.

Nationalization of Coal Mines

The British Labor party's program for the nationalization of coal mines must be considered in the perspective of the industry's importance to Great Britain's economic life and its history since the early days of the twentieth century. Britain once was described as "a lump of coal surrounded by fish."[27] From an economic standpoint this is only a mild exaggeration. Great Britain's world leadership in the nineteenth century was based

[25] *Business Week*, March 16, 1946.

[26] New York *Times*, January 24, 1946.

[27] Aneurin Bevan, as quoted in the *New Republic*, January 6, 1947, p. 47.

directly on her adequate supply of low-cost coal. Coal is Britain's "only raw material in plentiful supply" and today is "the backbone of British industry and indispensable in Britain's recovery and immediate progress."[28] Her domestic industry, transport, and finance have been tied in closely with coal and she has depended heavily upon coal exports as a means of acquiring foreign exchange to purchase vital imports of raw materials and foodstuffs.[29]

From the First World War to the end of the Second World War the British coal industry deteriorated economically, physically, and in morale. The trend was one of declining total output, declining exports, exhaustion of rich seams, deterioration of equipment, decreasing output per man-hour, a reduced labor force, and lowered morale on the part of mine workers. The exhaustion of the better seams and rising wages, without increasing labor productivity, increased costs per ton. Meanwhile the world depression of the thirties and world shifts to other sources of power, such as oil and hydroelectric energy, cut both domestic and foreign demand for coal.

Between the Wars the government made various unsuccessful attempts to stem the unfavorable trends. In 1919 a Royal Commission report on coal carried a recommendation by its chairman that the coal industry be nationalized, although the Commission as a whole did not concur. By 1924 the wage situation had become so serious that the government had to subsidize wages temporarily, with a long strike following the withdrawal of the subsidy. In 1930 Parliament established a Coal Reorganization Commission to encourage amalgamation of mining enterprises and thereby increase efficiency. The same Act established boards of owners with the power to set up "selling schemes" for the control of production and prices. In 1938 Parliament passed an Act nationalizing the ownership of the coal resources of the nation, leaving the mines privately owned and operated. Thus coal royalties to private owners were stopped and the owners were given government stock (bonds) totaling fifteen times the annual revenue the royalties had yielded.[30]

During the Second World War the condition of the sick coal industry became grave. The downward trend of productivity continued, leaving

[28] *Economic Record,* February 1–20, 1947, p. 6; *Labor and Industry in Britain,* July, 1946, p. 105. Britain's coal reserves are estimated to be adequate for 500 years at their present rate of utilization, *Encyclopaedia Britannica,* 1944, vol. 5, p. 875.

[29] The exportation of coal has been of particular importance to Great Britain. In 1913, for instance, she exported and supplied to ships as fuel 94 of the 287 millions of tons of coal mined. Her coal exports amounted to 55 per cent of total world exports of coal. In 1929 she exported 77 million tons out of a total production of 258 million tons and in 1938 exported 46 of the 227 million tons mined. Britain's post-war economic plight is partially due to the fact that after the war (1946) her coal exports (including bunkers) amounted to only 8.7 million tons out of a total production of 189 million tons. *Economic Record,* February 1–20, 1947, p. 6; *Labor and Industry in Britain,* March, 1947, p. 71.

[30] The total amount paid for these royalty claims was £70,500,000 ($282,000,000). *Labor and Industry in Britain,* February, 1946, p. 23.

the government no choice but to institute drastic war-time controls. During the early war years a labor-management organization with "Pit Production Committees," "District Coal Production Committees," and a national "Coal Production Council" struggled unsuccessfully with the problems of reduced manpower and declining productivity. In 1942 a Ministry of Fuel and Power was appointed and empowered to take "operative control" of the mines.[31] National and regional coal boards were set up and in each region a Controller, appointed by the Ministry, was empowered to issue such orders as would "ensure the most efficient operation of the industry . . . including directions as to concentrations and groupings of pits."[32] The Controller had the power to remove mine managers. An Essential Work Order "froze" miners to their jobs, military draftees were given an option of working in the mines, and some draftees were sent into the mines compulsorily. Some efforts were made to further mechanize the mines but without tangible success. The wage question further hampered efficiency. Finally, by 1944, wage increases acceptable to the miners were made, but in order to apply them nationally the government was forced to establish a "coal charges account" through which levies on sales were pooled to meet the cost of wage increases. It is estimated that the net result was that "probably half the pits were kept in existence by the other half . . . Economic laws had ceased to apply in the industry."[33]

By the end of the War (1945) production was down to an annual level of 182,000,000 tons compared with 227,000,000 tons in 1938; the number of miners had fallen from 858,000 in 1938 to 709,000 in 1945; and production per man-shift had fallen from 1.14 tons to 1.00 tons.[34] The morale of the miners was low and while some mines were efficient, an enormous capital expenditure, estimated to exceed a billion dollars,[35] was needed to modernize the industry adequately. Moreover, whereas costs had been a secondary matter during the War, they again became uppermost because of their effect upon Britain's ability to export coal and other goods into which coal enters as a cost. In March, 1945, a committee of seven mining engineers, known as the "Reid Committee," issued its report, which concluded: "It is evident to us, as mining engineers, that they [i.e., the changes] cannot be satisfactorily carried through if the industry is organized as it is today. . . . An authority must be established which would have the duty of ensuring that the industry is merged into units of such sizes as would provide the maximum advantages of planned production."[36]

[31] *Labor and Industry in Britain,* July, 1946, p. 106.

[32] *Ibid.,* p. 106–107.

[33] H. Wilson, *New Deal for Coal,* p. 17. Quoted in *Labor and Industry in Britain,* July 1, 1946, p. 108.

[34] *Labor and Industry in Britain,* March, 1947, p. 71; *Economic Record,* February 1–20, 1947, pp. 6–7. It is estimated that production per man-shift in American soft coal mines is about six times that in British mines. *Business Week,* February 22, 1947.

[35] Heydon Davies, *New Republic,* May 13, 1946, p. 690.

[36] *Labor and Industry in Britain,* July, 1946, p. 108.

The Reid Committee, which had been appointed by the Ministry of Fuel and Power, was non-political and its recommendations for sweeping changes carried great weight with the public. The tone of the report left no doubt about the inability of any group of private owners to finance and administer the complete reorganization of the industry. While the Mining Association, representing mine owners, made a feeble suggestion that the private owners through a central board should reorganize the industry technically and financially, the basic problems to be met and the degree to which the government already was controlling the industry, made nationalization an inevitable plank in the Labor party's successful 1945 platform.

In July, 1946, the Coal Industry Nationalization Act was passed by Parliament after some six months of consideration. Members of the National Coal Board, which operates the industry under the Minister of Fuel and Power, were appointed during 1946, and on January 1, 1947, the coal-mining industry of Great Britain passed into public ownership and operation. By this Act the government took over some 1500 collieries which had been privately owned and operated by about 800 mining firms, over 400 small mines, and many coke ovens and other ancillary facilities for handling, processing, and transporting coal. Included in the transfer of ownership were some one million acres of land, farms, villages, and houses, 200,000 coal cars, and 23,000 ponies used in the pits. The government became the employer of over 690,000 miners and an additional 25,000 managerial, administrative, and clerical workers connected with mining companies.[37]

The provisions of the Coal Industry Nationalization Act[38] merit careful scrutiny for they constitute the framework of a democratic socialist plan for solving the problems of a sprawling, sick, heterogeneous industry which for three decades thwarted all efforts to improve it under private ownership. The Act establishes a National Coal Board charged with (1) "working and getting the coal in Great Britain," (2) "securing the efficient development of the coal-mining industry," and (3) "making supplies of coal available of such qualities and sizes, in such quantities and at such prices, as may seem to them best calculated to further the public interest in all respects, including the avoidance of any undue or unreasonable preference or advantage."[39] The Board is authorized to carry on any activity and to enter into any transaction necessary to the above ends. In particular, it is authorized to search for coal "to the exclusion of any other person;" to treat, render salable, supply, and sell coal; to produce or manufacture and sell the products of coal; to operate any facilities required or advantageously carried on in connection with these functions; and to oper-

[37] *Ibid.*, February, 1947, p. 25.
[38] H. M. Stationery Office, London.
[39] *Ibid.*, sec. 1.

ate facilities for training needed personnel.[40] In operating the industry the Board is directed to secure the "safety, health and welfare of persons in their employment," to make use of available practical experience and to so manage the industry that "the revenues of the Board shall not be less than sufficient for meeting all their outgoings . . . on an average of good and bad years."[41]

The Board, appointed by the Minister of Fuel and Power, consists of a chairman and eight other members and must be made up of persons who, in the Minister's opinion, have "experience . . . and capacity in industrial, commercial or financial matters, applied science, administration, or the organization of workers."[42] No member of Parliament is eligible for Board membership. The Board salaries are to be determined by the Minister with the approval of the Treasury. The members of the first Board were designated by the Minister of Fuel and Power in March, 1946, before enactment of the measure. Named as chairman was Lord Hyndley, who had been managing director of one of Britain's largest coal firms, a director of the Bank of England, chairman of the Finance Corporation for Industry[43] and Controller-General of the Ministry of Fuel and Power. He has been referred to "as having a more extensive knowledge of the British coal industry than any other man."[44] Among the members of the original Board were the general secretary of the Trades Union Congress, the general secretary of the National Union of Mineworkers, a professor of Physics at London University, a director in a number of companies engaged in the domestic and foreign marketing of coal, the managing director of a large coal company, a distinguished chartered accountant who also had been Director of Finance in the Ministry of Fuel and Power, and Sir Charles Reid, a mining engineer and chairman of the Reid Committee whose report on the coal industry was referred to above.[45] The salary of the chairman was fixed at $34,000 per year and members' salaries at $20,000. Board members are expected to devote their full time to the Board's work and only in exceptional circumstances will they be permitted to hold any other positions. Under the National Coal Board the industry is divided into eight districts corresponding with the geology of the industry, each with a district board responsible for day-to-day operations. Each district board is to include persons skilled in production, finance, marketing, and labor relations. The Board is not without its trappings, for its flag, a banner with the letters N. C. B. in white on a blue field, will fly over every mine the Board operates.

The Act contains only brief provisions on the location of authority to

[40] *Ibid.*, sec. 1.
[41] *Ibid.*, sec. 1.
[42] *Ibid.*, sec. 2.
[43] See pp. 354–355.
[44] *Labor and Industry in Britain*, April, 1946, p. 56.
[45] See pp. 358–359.

make managerial decisions concerning mining operations. The Minister of Fuel and Power is authorized "after consultation with the Board" to give the Board "directions of a general character as to the exercise and performance by the Board of their functions in relation to matters appearing to the Minister to affect the national interests" and "the Board shall give effect to any such directions.[46] In reorganizing the industry, and in making substantial capital outlays therein, "the Board shall act on lines settled from time to time with the approval of the Minister."[47] Broad policies on training and research also are subject to approval by the Minister. The Minister has authority to require any desired information from the Board at any time and the Board must "afford to him facilities for the verification of information furnished."[48] The net effect of these provisions is that broad policy matters are very much under the control of the Minister who, in turn, is responsible to Parliament, while the Board is responsible for the operation of the mines within the framework of that broad policy.

Consumer interests are recognized by providing for two consumers' councils appointed by the Minister, to submit to the Minister recommendations from time to time and an annual report. The latter must be transmitted to Parliament by the Minister. The Industrial Coal Consumers' Council represents the interests of users of coal for industrial purposes and of persons interested in bulk marketing of coal at home or abroad. The Domestic Coal Consumers' Council represents domestic users and persons engaged in marketing coal for domestic consumption. The Act does not obligate the Minister to make any use of the Councils' recommendations. However, if he chooses to carry out any recommendation "he may give to the Board such directions as he may think requisite for remedying the defect, and the Board shall give effect to any such directions."[49] The Act provides for regional consumers' councils to be constituted at the Minister's direction.

While the Act leaves the lines of managerial authority quite flexible, its provisions controlling the transfer of mining assets to the government and specifying compensation therefor, cover many pages and include numerous intricate details. The Act requires that the collieries themselves together with coke ovens, plants manufacturing fuel (such as briquettes) and other products from coal, and electric plants, transportation systems, and marketing facilities connected with the collieries *must* be transferred to government ownership. Collieries owned by iron or steel companies and used exclusively or mainly for their own coal supply are excluded. Some properties such as spare stores, water supply facilities, certain types of

[46] *Coal Industry Nationalization Act*, sec. 3.
[47] *Ibid.*, sec. 3.
[48] *Ibid.*, sec. 3.
[49] *Ibid.*, sec. 4.

wharves, and houses and farms owned by collieries *may* be transferred to the government if *either* the Board *or* the owner so desires. Still another category of properties, including some transport facilities, rescue station equipment, brick and other earthenware manufacturing facilities utilizing mine by-products, *may* be transferred if *both* the Board and the owner agree, but, in case of disagreement are to be transferred only if so ordered by an arbitrator.

The Act provides that the aggregate or "global" compensation for all property transferred to the government should be set in accordance with terms previously agreed upon by the Minister of Fuel and Power and the Mining Association of Great Britain (representing the owners). This agreement[50] provided that the aggregate compensation should be fixed by a Tribunal consisting of "two Judges of the Supreme Court to be appointed by the Lord Chancellor . . . and of an accountant to be agreed between the parties, or in default of agreement to be nominated by the President of the Institute of Chartered Accountants for England and Wales."[51] The agreement specified that "in determining the global sum required to provide fair compensation to the owners" the Tribunal should apply the following formula: ". . . ascertain the amount which the assets might be expected to realize if sold as one unit in the open market as assets of a going concern by a willing seller to a willing buyer on the basis of (a) the net annual maintainable revenue, that is to say the net annual revenue which the assets as a whole might reasonably be expected to earn in the future, if they were not transferred to public ownership and (b) the number of years purchase to be applied thereto."[52]

The parties specifically agreed that the Tribunal should not make "any allowance . . . because the acquisition will be compulsory" nor should it "allow in favor of the owner any increase in value which the assets may be expected to have after transfer by reason of their being in the hands of one owner and of that owner being, in effect, the State."[53] The parties further agreed to a factual schedule of net revenues for the entire industry for each year from 1922 to 1939.[54]

The Act provided that a Central Valuation Board should apportion the "global" sum among the various "valuation districts" into which the national industry would be divided by the Minister, and that within each such district a District Valuation Board should determine the proper compensation for each local mining "unit." The compensation value of each local unit is to be the "amount which it might have been expected to realize if this Act had not been passed and it had been sold on the primary vesting date [January 1, 1947] in the open market by a willing seller to a will-

[50] H. M. Stationery Office, London.
[51] *Ibid.*, sec. 1.
[52] *Ibid.*, sec. 3.
[53] *Ibid.*, sec. 4.
[54] *Ibid.*, annex II.

ing buyer, no allowance being made on account of the vesting of the transferred interests comprised in the unit being compulsory."[55] When the valuations of the units in any valuation district are completed the Minister publishes a notice indicating where they may be seen. If within six weeks from publication of such notice no interested party challenges a valuation it is considered proper and final for that unit. If challenged, the question of the proper valuation of the unit is finally resolved by the High Court.

The Act further provides compensation for increases in overhead expenses experienced by companies which would lose colliery facilities but retain and operate other properties, for capital outlays made in the mines after August 1, 1945, and for loss of interim income before final compensation for the mines is received. Compensation is to be in the form of government stock (bonds), except that money payments are to be made for certain of the less durable ancillary facilities, stocks of coal on hand, spare stores of materials, and other similar items. The compensation stock is to be given to the respective mining companies and not to individuals. It cannot be sold as it is non-transferable except upon the liquidation of the company or upon the company's need for liquid capital proved to the satisfaction of the Treasury.[56] The National Coal Board is obligated to pay to the Minister, as he and the Treasury may decide, "payments, of such amounts as he may so direct, by way of recouping the Crown ex-

[55] *Ibid.*, sec. 13.

[56] While the stock was made non-transferable so the securities markets would not be adversely affected by heavy liquidation, the intention is to provide for its eventual liquidation into money by the Treasury. *Labor and Industry in Britain,* December, 1946, p. 215.

In connection with the compensation of former owners, it is useful to recall the principle of income capitalization which is followed in capitalist systems. When making investments (not speculation) an effort is made to purchase an income which extends into the future. Such future incomes have a present value less than their value when due, but title to such future incomes can be capitalized into a sum which invested at the current rate of interest yields the same income.

The formula for determining this capital value from income is

$$V = \frac{a}{r} + \frac{i}{r^2}$$

where

V = capital value of anticipated future incomes
a = amount of annual net income
i = anticipated increases in annual net income
r = current rate of interest in investments of similar risk

Accordingly, if privately owned shares had been earning $12 per share with no anticipated increases in income in the future at a time when the government rate of interest is 3 per cent the formula would be solved as follows:

$$V = \frac{a}{r}$$

$$V = \frac{\$12}{0.03} = \$400$$

This compensating sum of $400 would be the full "capitalistic" sum which, if invested at 3 per cent interest, would yield $12 which is the net income before socialization.

penses" incurred under the Act.[57] The Minister pays these receipts into the Exchequer from which they may be paid out as interest on the compensation stock. The interest rate and the "conditions of repayment, redemption and other matters (including the provision for a sinking fund)" are to be determined by the Treasury.[58] The stock issued in 1938 to pay for nationalization of the coal royalties[59] is to be cancelled and additional new compensation stock issued, to take its place.

One of the most important provisions of the Act empowers the Minister to advance government funds to the Board to pay for mechanization and modernization of the mines up to a maximum of £150,000,000 ($600,000,000) within five years and to advance funds thereafter as determined by Parliament.[60] Numerous additional sections provide for the accumulation and use of reserve funds, the licensing of small private coal-mining operations or coal operations incidental to the mining of other minerals, the payment of pensions to employees, the administration of a "Miners' Welfare Fund," the promotion of safety and health research by the Minister, the negotiation of contracts between the Board and the Union, the liability of the coal mines for taxes, the position of the Board with respect to workmen's compensation, the records to be kept and reports to be made by the Board, and the protection of confidential data and records.

Under the Nationalization Act the government rapidly proceeded to take over and operate the coal-mining industry. The Tribunal to determine the "global" compensation for the mines held a six-week session during the summer of 1946. After hearing the respective parties, the Attorney-General for the government and a distinguished attorney for the mine owners, the Tribunal established £164,660,000 ($658,640,000) as the "global" compensation for the mines.[61] The proceedings before the Tribunal were amicable and ended with the chairman thanking the parties for their presentations which were "in every respect in accordance with that high level of candor and fairness which we in this country are accustomed to expect."[62] The London Stock Exchange received the Tribunal's valuation "favorably" and the market prices of colliery shares rose as, indeed, many of them had been rising during the period of Parliamentary consideration of the Bill.[63] The next steps in arranging compensation, the district break-down of the "global" sum by the Central Valuation Board and the unit break-down by each District Valuation Board, were expected to require years for completion.

Early in 1947 the National Coal Board negotiated a contract with the

[57] *Coal Industry Nationalization Act*, sec. 28.
[58] *Ibid.*, sec. 33.
[59] See p. 357.
[60] *Coal Industry Nationalization Act*, sec. 26.
[61] This sum does not include the compensation value of certain ancillary assets which were left to be valued by the District Valuation Boards.
[62] *Economic Record*, July 29—August 4, 1946, p. 4.
[63] 1947 *Britannica Book of the Year*, pp. 218, 724.

National Union of Mineworkers representing the coal miners. The agreement, which was reached "by the normal methods of collective bargaining," placed the miners "in the same position as workers in private undertakings as regards the right to strike," and provided for an "elaborate conciliation machinery."[64] The president of the Union stated that "this agreement places the British miner in the best position of any in the world."[65] The contract provided a five-day week to replace the customary six-day week, with time and piece-wage rates adjusted so that the miner receives as much for five shifts as he previously received for six, *provided* he actually works the entire five-day week. This provision was designed to solve the major problem of some fifteen to twenty per cent absenteeism persistently experienced in British mines. The only excusable absences in determining whether the miner is entitled to this bonus for a full five-day week are those due to accidents and the conduct of authorized union business. The Union, on its part, entered a contractual pledge that all its members would complete full work-weeks of five shifts and that its members would not tolerate any "restriction of effort" on work to which they were properly assigned, that they would cooperate fully in the upgrading and transference of workers to maximize labor productivity, and that through their Union they would support efforts to recruit additional personnel for the mines.[66] The Union placed in the hands of each miner a pamphlet urging greater production and telling the miners that a fall in production "would be catastrophic to the nation, bringing grave suffering to the people, as well as discrediting both the Labor Government and the National Coal Board."[67]

No complete appraisal of coal nationalization in Britain can be made until after an extended period of governmental operation.[68] It is generally

[64] *Labor and Industry in Britain*, April, 1947, p. 75.

[65] *Ibid.*, p. 76.

[66] *Ibid.*, p. 76.

[67] New York *Times*, May 3, 1947.

[68] In terms of production, coal stocks, and manpower, the results of the first year's operation of the nationalized coal mining industry were encouraging to the Labor government. The goal was a total output of 200,000,000 tons during 1947, or an average of approximately 4,000,000 tons per week. The 200,000,000-ton target was missed by only 300,000 tons—an achievement few expected during the summer's serious slump in production. Moreover, at the close of the year the weekly production trend was upward. During the last two months of 1947, production was well over the weekly target of 4,000,000 tons and in late December, 1947, reached the highest level since July, 1940. By October, 1947, coal stocks to meet the winter drain on reserves amounted to slightly more than the October target of 15,000,000 tons, as against stocks of only 11,000,000 tons in October, 1946. By December, 1947, coal stocks had increased to 17,000,000, a remarkable achievement which, during the summer strikes, seemed impossible. The manpower target for coal mines was set at 730,000 by the end of 1947, as contrasted with 697,000 workers in the mines in early 1946. This goal also was reached by the end of the year, and it was planned to add another 12,000 workers in coal mining during 1948. The 1948 production target was set at 214,000,000 tons, or 7 per cent more than for 1947, an increase necessary to enable Great Britain to meet its commitments under the Marshall Plan.

agreed that coal is the "test case" for British socialism. The grave condition of the industry when the Labor government took it over, and the future of coal in the British economy, mean that, if nationalization solves the coal problem, British socialism will have acquired prestige and momentum which will carry it far. On the other hand, if failure is the result, British socialism will stand substantially discredited despite its possible achievements in other less difficult and less important areas. Since coal is the test case, it is important for students to keep in mind the specific advantages the British Labor party hopes the British economy will realize from the nationalization of coal as well as the specific pitfalls and dangers the opposition envisages.

Among the hoped-for advantages of nationalization are the following:

1. *The mines can be regrouped and production concentrated in the better mines.* Inefficient mines can be closed and a number of nearby mines consolidated into one operation.[69] Actually there is a tremendous range between the best and the poorest mining areas, and between the least efficient and the most efficient mines within a given area. Of the seven mining areas, the North Midland is the most efficient, mining 18 per cent of the total output with 13 per cent of the total labor force, and showing a production per man-year of 358 tons. In contrast, the important Northern area produces only 19 per cent of the total output with 22 per cent of the total labor force, showing only 228 tons per man-year.[70] If the areas are mapped out on a somewhat narrower basis, 1943 data indicate that the mines in some areas turn out more than twice as much coal per worker as in other areas.[71] Reorganization of the industry on a national basis will permit concentration on the more productive areas and the more efficient pits.

2. *The mechanization and modernization of the mines can proceed with public funds and on a nationally planned basis.* The Nationalization Act provides £150,000,000 ($600,000,000) for mechanization and modernization in the first five years of government operation, and implies that additional funds will be available later. In the best mines, which already were highly mechanized, nearly all coal is cut and conveyed by machines, but in the poorest mines of some areas as little as 10 to 20 per cent of the coal is cut and conveyed mechanically.[72] In 1947 it was reported that of all coal produced, 72 per cent was being cut by machines and 69 per

[69] The government has announced that mine managers and their engineers have been asked to report on "the possibilities of long-term development in their areas, including the possible sinking of new pits." On the basis of these reports the government proposes to draw up a national plan of long-term development, taking into account the comparative costs in different areas." New York *Times*, January 2, 1947.

[70] *Economic Record*, March 21–31, 1947, p. 10.

[71] *Labor and Industry in Britain*, July, 1946, p. 116.

[72] Table indicating the degree of mechanization in various areas: *Labor and Industry in Britain*, July, 1946, p. 116.

cent conveyed mechanically. Apparently the greatest opportunity for mechanization is loading the coal cars at the face. The variations in the seams and the "long-wall" system of mining as contrasted with the "short-wall" or "pillar" type of mining common in the United States, set limits to mechanical loading unless new types of loading machinery can be developed. Nevertheless, the approach to the problem of further mechanization will be from the standpoint of the industry as a whole and free from restraints previously imposed by private financing. It is estimated that a successful program of concentration on the best mines, modernization, and mechanization will require some fifteen to twenty years for completion, and that no significant results will appear before 1949.[73]

3. *Improvements in the mines and the betterment of wages, hours, and working conditions can improve miners' morale and facilitate the recruiting of good mine labor.* Workers in the coal-mining industry declined from 1,000,000 in 1929 to 766,000 in 1939, and to 697,000 in 1946.[74] The tradition that son would follow father into the mines was broken—especially during the War when mine wages and conditions compared unfavorably with those in other war industries. Whereas in 1940 only 35 per cent of the miners were over 40 years of age, this percentage had increased to 44 by 1945.[75] Morale was low and absenteeism excessively high. As indicated above, the National Coal Board already has instituted the five-day week (effective May 5, 1947) to combat absenteeism and increase the attractiveness of mining as an occupation. While early reports on the results of the five-day week were inconclusive, generally they were disappointing. Absenteeism persisted so strongly that the Minister of Fuel and Power in July, 1947, issued an ultimatum to the miners who had "formed the habit of working one, two or three shifts a week." "These men," he said, "will have to make up their minds whether they want to remain in this industry and work the full five shifts, or whether they prefer to go elsewhere." Lord Hyndley, Chairman of the National Coal Board, warned that the miners were "failing to justify the five-day week."[76]

[73] Sir Charles Reid, New York *Times*, January 3, 1947; Trevor Evans, New York *Times*, July 28, 1947. Late in 1947, the chairman of the National Coal Board announced large-scale plans to mechanize coal mines. Accelerated installation of cutters, conveyors, and locomotives was included in the plans as well as better lighting at the face of the mine and mechanized coal-cleaning equipment. In 1946, 677 coal cutters were delivered to the mines, whereas in 1947 approximately 800 were delivered; planned deliveries for 1948 exceeded 1000. In 1946, 1982 conveyors were delivered; in 1947, approximately 2900; 4000 were planned for delivery in 1948. New York *Times*, December 23, 1947.

[74] *Economic Record*, February 1–20, 1947, p. 9.

[75] *Ibid.*, March 21–31, 1947, p. 9.

[76] New York *Times*, July 6, 1947; July 10, 1947; July 31, 1947. To counterbalance these difficulties, the National Coal Board and the Union agreed that miners would work at overtime rates either an extra half-hour each day, Monday through Friday, or an extra Saturday shift every two weeks. Presumably this is a temporary modification of the five-day week, since the agreement was for the period November 1, 1947, to April 30, 1948. New York *Times*, October 11, 1947.

British miners have been more than normally dissatisfied with their wages.[77] Under the new contract with the National Coal Board, improved overtime rates now are time-and-a-half for overtime connected with normal shifts and double time for Saturday afternoon to Sunday night.[78] However, the wage difficulties are basic and the Coal Board has announced negotiations looking to a complete revision of the entire wage structure of the industry.[79] It is the Labor government's hope that improvements in wages and working conditions, together with the miners' knowledge that royalties and profits no longer go to private owners, will boost morale and make possible the recruiting of the needed additional 100,000 miners.[80]

While one member of the House of Commons in debate on the Coal Bill questioned "the wisdom of so wholesale an experiment,"[81] Mr. J. S. C. Reid, former Chairman of the Reid Committee, pointed out that "every party in the House agrees that, for one reason or another, the time has come when extensive reorganization of the coal-mining industry is required. . . . We do not, however, agree about the method to be pursued in achieving that reorganization."[82] Hence the opposition focused on specific provisions and omissions of the Labor government Bill. It was agreed, for instance, that the Bill gave almost no indication of how the coal industry was to be organized or operated after nationalization. Mr. Eden noted that the powers of the National Coal Board are "not anywhere clearly defined," and that even the tenure of Board members is not specified.[83] He asked whether the Board or the Minister would have power to close a pit, implying that, if the power rested in the latter, political rather than industrial motives might dictate the decision. Mr. Eden objected to the Minister holding "extremely wide and extremely vaguely defined power of control over the National Coal Board."[84] He questioned the method of arriving at £150,000,000 for capital expenditures within five years, asking whether the sum had been considered in relation to the avail-

[77] For details see *Labor and Industry in Britain,* August, 1946, p. 123.

[78] *Labor and Industry in Britain,* April, 1947, p. 76.

[79] *Ibid.,* p. 76. In November, 1947, the National Coal Board and the Union agreed upon a wage increase of 15 shillings ($3.00) per week in the minimum wage of underground workers and 10 shillings ($2.00) per week for surface workers, with proportionate increases for the higher wage piece-rate workers. *Economic Record,* November 20, 1947, p. 4.

[80] While technically it is true that royalties and profits no longer go into the pockets of the private owners, the government's compensatory method of acquiring the coal reserves and the coal mines, together with the fact that mine operations are expected to yield most of the carrying charges on the compensation stock, raises the interesting question of whether it is realistic for the miners to believe that private royalties and profits actually have been eliminated.

[81] *Parliamentary Debates,* vol. 418, no. 70; H. M. Stationery Office, London, p. 754.

[82] *Ibid.,* p. 790.

[83] *Ibid.,* p. 722.

[84] *Ibid.,* p. 722.

ability of mining machinery and in conjunction with needs for other capital outlays such as housing construction.[85] He concluded that "what the Bill proposes to do is to set up a State monopoly for the production of coal, and that is all. . . . But there is nothing here to show how the industry is to be run when it is transferred" whereas "that is the essential problem not only for the industry but for the nation."[86]

The Bill was attacked vigorously as giving too much power to the Minister and too little to the Board. Mr. Reid argued that the Bill "makes it possible for the Minister to be the complete dictator of the mining industry. It enables the Minister to use the Board as a mere façade, behind which he can retire when it is convenient."[87] He documented this charge by pointing out that the Minister is empowered to prescribe the form of accounts to be kept, to direct the accumulation of reserves and payments out of reserves, and to direct the amounts to be paid by the Board to the Treasury. With such powers vested in the Minister, it was argued that no one would be able to determine whether a given decision with respect to wages, selling policies, prices, or other matters had been made on "industrial grounds or political grounds."[88] Moreover, he pointed out, the Minister's directions to the Board need not be made public and that only "selected information is to be given to the public" under the power of the Minister to decide what information should be withheld as confidential.[89] He reasoned that "there are two ways of protecting the public interest. One is publicity, the other is competition . . . you must have one or the other."[90] Through the loosely drawn provisions of the Bill, Mr. Reid contended, there would be "at least three methods . . . which would enable the Minister to give a hidden subsidy to coal mining." These he described as follows: "First, . . . by differential prices for selling coal, putting an indirect tax on those who are thought to be able to pay . . . and passing that on as a subsidy to coal mining." Second, by the government taking over "subsidiary undertakings . . . because they were very profitable" and using "those profits . . . to subsidize mining because there is no provision in the Bill for maintaining the separation . . . between mining and subsidiary undertakings." "Thirdly, . . . the Minister can subsidize coal mining by directing in any year a less payment into the Treasury than ought to be paid in if the taxpayer is to be protected against loss."[91]

It was charged that the Bill was unfair to consumers in two respects. First, it contained no clause requiring "strict impartiality in price-fixing,"

[85] *Ibid.*, p. 724.
[86] *Ibid.*, p. 718.
[87] *Ibid.*, p. 798.
[88] *Ibid.*, pp. 798, 799, 800, 802.
[89] *Ibid.*, p. 803.
[90] *Ibid.*, p. 803.
[91] *Ibid.*, p. 802.

leaving the government in a position to affect arbitrarily through its pricing of coal, the costs, profits, and locations of industrial concerns.[92] Second, the Minister is not obligated to make public the recommendations received from the two Consumers' Councils. Hence the consuming public will have no sure way of learning what defects or injustices these Councils have found or what has been done with their suggestions to the Minister.[93]

The Bill's provisions on compensation for owners were criticised by some opposition members of the House of Commons as confiscatory, and by some Laborites as too generous. Mr. Reid argued that the individual mining unit should be valued first, and the sum of these values aggregated to get the "global" compensation. He charged that the government sought to start with the "global" sum in order "to be able to reach a smaller figure of compensation than they would reach if an ordinary straightforward method were adopted."[94] He criticized the details of the compensation formula and questioned the authority of the Mining Association to commit the various mining companies and their shareholders to its acceptance. His line of reasoning was as follows: The Tribunal is obligated to relate the "global" compensation amount to the net maintainable revenue of the industry. To get the latter the losses of unprofitable concerns are deducted from the profits of the profit-making concerns. Hence the "global" sum "cannot be . . . enough to go round among these concerns." Therefore the government's position is "that it is just that a man should get less for his property because his neighbor is making losses"; "that a man who is asking for compensation for his own undertaking should have to suffer a deduction from his compensation because his neighbor has been making losses."[95] The "most objectionable clause of all" in the compensation portions of the Bill Mr. Reid designated as that specifying that payment shall be "in stock which is inalienable except in certain events." He argued that the effect of this provision would be "to hamper people, who have enterprise and initiative, using their capital in the country's interest." Since the stock can be converted into money upon the liquidation of the mining companies, he reasoned that this gives "indirect encouragement to liquidation" and that "you are going to get that money going into the markets for consumption, on an extensive scale which is the very place you do not want it."[96] Mr. Eden also criticized this provision in the Bill, asking whether it is ethical in a "business transaction to give a man a check for his property and then to stop it at the bank."[97]

On the other hand, some of the Labor members of the House vigorously

[92] *Ibid.*, p. 782.
[93] *Ibid.*, pp. 782–783.
[94] *Ibid.*, p. 791.
[95] *Ibid.*, pp. 793–794.
[96] *Ibid.*, pp. 795–796.
[97] *Ibid.*, p. 729.

objected to what they considered the generosity of the government. One member said that it appeared "from the compensation they [the owners] are expecting, that they had been the guardian angels" of the mines whereas "for years they have treated the miner abominably." "Low wages, long hours, miserable compensation, bad conditions, wretched death benefits, and virtual slavery were the lot of the miner." He charged the mining companies with following "a policy of absolute rake off, extracting the good and leaving the bad" so that "tons and tons of coal are lost to the community every day." He concluded: "I am not concerned about how much compensation they are to get. I think in terms of confiscation, and the less the owners get the better I shall like it."[98] Another member referred to the mine owners as desiring "to sell their out-of-date and inefficient plant to the community" when they "know they are unable to make their pits efficient and safe and they are unable to attract labor." He contended that the owners "who have enriched themselves by exploiting the miners and the consumers have reduced the collieries to such a lamentable state of inefficiency that they can no longer expect further profit.... They are selling out while their goods are marketable and before ruin overtakes them." He described his own attitude on compensation as follows: "I marvel at the generosity of His Majesty's Government with regard to their compensation. In fact I am inclined to think the mine owners ought to be penalized for the inefficient manner in which they have administered this national asset, this real wealth of Britain."[99] Still another member put his opinion succinctly: "I hope that we shall not pay . . . a going concern price for a white elephant. Even if it is a white elephant, we must have it, but let us pay a white elephant price for it."[100]

The Fuel and Power Crisis

The nationalization of the coal industry coincided almost precisely with an acute fuel shortage in Britain. The coal industry itself had accumulated the serious weaknesses reviewed above while railroad and steamship facilities for transporting coal had deteriorated during the war.[101] Many electricity-generating plants had been bombed out and others needed overhauling. Meanwhile the drive for reconversion of industry and production for export had increased the industrial demand for power.

The pattern of coal utilization always has been characterized by low stocks of coal at the beginning of the summer, the accumulation of stocks during the summer months, and depletion during the winter months

[98] *Ibid.*, pp. 751–752.
[99] *Ibid.*, pp. 786–787.
[100] *Ibid.*, p. 773.
[101] Much coal is conveyed from the north to the south of England by ocean-going steamships.

when domestic fuel needs are at their peak and mining and transportation are handicapped by winter weather. The following table indicates the degree to which October coal stocks had been declining each year.[102]

	Coal Stocks as of October (million tons)
1944	18.5
1945	13.8
1946	10.9

The coal stocks at the beginning of the 1946–1947 winter were dangerously low and the government appealed for a 10 per cent voluntary reduction in coal use. This was without result. The government, which still held war-time powers of restricting coal consumption, failed to do what hindsight indicates it should have done—impose drastic restrictions on the use of electricity and coal early in the winter. Instead, it assumed that coal production would increase, as it actually did,[103] and that the winter weather would not be unusually severe, whereas it actually was. Meanwhile expanding industrial production further increased the industrial consumption of coal until in December, 1946, the industry was using 300,000 tons a week more than in 1945. The need for coal for electricity-generating plants had been under-estimated so that by January, 1947, actual consumption there was running 150,000 tons a week over the estimates.

The maladjustment between consumption and winter coal stocks was felt in December when sudden shortages occurred in various industrial areas and numerous plants were unable to get their full allocation of coal. The government decided to revise allocations on a realistic basis to become effective on January 20, 1947. The iron and steel industry was to be cut to 80 per cent of its previous coal allocations, and other industries to about 50 per cent, thus allowing electricity-generating companies to receive in full their previous allocations. However, during early January, before the plan became operative, unusually low temperatures prevailed, and with the beginning of February very severe blizzards, ice, and gales had stopped a large portion of the rail and sea transportation of coal and had interfered with coal mining itself.[104]

The already dangerously low stocks of coal disappeared and on February 7 the Minister of Fuel and Power announced to the House of Commons the drastic measures to be taken. After February 9, no electricity was to be supplied to "ordinary industrial consumers in the London, Southeastern,

[102] *Economic Record*, February 1–20, 1947, p. 2.

[103] January, 1947, production exceeded January, 1946, production by 1.25 million tons. Production from October to December, 1946 was considerably more than during the same period in 1945. From May, 1946, through January, 1947, 8 million more tons were mined than during the corresponding period a year earlier. The crisis arose during a period of *increasing* coal production. *Economic Record*, February 1–20, 1947, pp. 1–2.

[104] Coal destined for the London area comes chiefly by sea from the northeast coast. Ocean shipping of coal was practically stopped by the storms.

Midland, and North-western districts," but it was hoped that electricity could be supplied for essential services and continuous industrial processes where interruption would cause serious losses. Domestic users in these areas were to be cut off from electricity between 9 A.M. and 12 noon, and between 2 and 4 P.M. This differentiation among users meant that the electric current could not be shut off altogether and therefore the restrictions would have to be self-imposed. As the weather continued unusually bad and the situation became critical, the government extended the ban on domestic consumption of electricity during the five daytime hours to the whole of Great Britain and made violations of the order legal offenses.

By the middle of February the situation was somewhat improved and on February 19 the industry in the Midland region was given a 30 per cent allocation of coal, but coal supplies elsewhere were only gradually and partially restored. The coal-rationing plan adopted but not put into operation before the crisis was made effective for an indefinite period and the domestic use of fuel was drastically restricted. During the summer of 1947 industry was allocated coal amounting to only about 85 per cent of its needs. For the twelve months beginning May 1, 1947, the regulations banned all home heating, "except when supported by a doctor's certificate," between May and October. The individual householder's coal ration for 1947–48 was set at the same amount as the previous year—about 1.25 tons for the year—while supplementary fuels widely used, such as coke, anthracite, "Welsh dry steam coal," and manufactured fuels were limited to 12.5 tons, which was slightly less than in 1946–1947. Moreover, the government announced that these were not "rations" in the sense that each householder was entitled to the specified amount; the amounts were subject to reduction if delivery of the full amounts became difficult. To further ease the strain on coal and electricity, Britain was on daylight-saving time from March 16 to November 2 and on "double daylight-saving time," two hours in advance of Greenwich Time, from April 13 to August 10. This not only saved electricity directly but also facilitated the staggering of working shifts in factories so as to spread out the peak loads on central electricity-generating plants.

The fuel crisis was excruciating for the Britons. The London *Times* characterized it as "the most drastic restraint of industry ever known in Britain."[105] It seriously slowed down the whole reconversion effort and jeopardized Britain's reestablishment as a heavy exporter of manufactured goods—a position essential to her continued existence as a first-class national power.

The industrial losses from the crisis were tremendous, and continuing, since the original disruption spread in ever-widening waves throughout the economy long after the crisis itself ended. The experience cost Britain

[105] Quoted in *Economic Record*, February 1–20, 1947, p. 4.

895,000 tons of vitally needed coal.[106] More than 15 per cent of Britain's working population, over 2,000,000 workers, was unemployed at the low point in the crisis and in addition many workers were reduced to part-time employment or, though completely idle, were continued on payrolls because of guaranteed-work-week contracts. At least the equivalent of a full month's output of goods was lost just when Britain needed them most. The *Economist* estimated the loss in national income during the emergency as at least £40,000,000 a week.[107] Steel production in February was at an annual rate of 1.74 million tons under the January rate and 2.97 million tons under the November, 1946, rate, and continued low in March. The weekly production of cotton yarn fell to 4.7 million pounds compared with 13.3 million pounds in the last week of January.[108] The production of automobiles during February fell by about 65 per cent compared with January, while cement production was off 60 per cent, seriously affecting the housing program. Consumers' goods such as wool cloth, footwear, furniture, pottery and glassware, and household goods made from steel experienced major declines in production. The export program was seriously disrupted for many months. Sir Stafford Cripps, then President of the Board of Trade, estimated that the total decline in exports attributable to the fuel crisis amounted to £200,000,000, or about $800,000,000.[109]

The events of the 1947 fuel crisis have been reviewed in some detail because they appear to justify several conclusions of importance to British socialism:

1. Neither the nationalization program nor the Labor government was primarily responsible for the crisis and its disastrous consequences. Even though the industry had not been nationalized and the Labor party had not come to power, the sick condition of the coal industry, the poor physical condition of central electricity-generating plants, the increasing demand for fuel and power, and the unusual weather would have created a crisis for whatever government had been in power. The 1947 crisis did not, as some may wish to think, demonstrate the impotence or the ineffectiveness of the nationalization program. Criteria which are broader and deeper than this experience will have to be used in evaluating the Labor party's socialist program for Britain.

2. The crisis demonstrated that when the need arose the Labor government could take a firm grip on economic affairs, institute drastic control measures, and yet retain the support of the bulk of the population. At the height of the crisis the party retained the public's support and confidence

[106] New York *Times*, May 3, 1947.

[107] *Economic Record*, February 1–20, 1947, p. 5.

[108] *Ibid.*, March 21–31, 1947, p. 2; *Labor and Industry in Britain*, May, 1947, p. 89.

[109] New York *Times*, March 22, 1947. This is the equivalent of more than one-fifth of the British loan made by the United States in 1946. For the improvement in coal stocks by the beginning of the 1947–48 winter, see footnote 68, above.

in its ability to lead the nation through the emergency. As consumers, the citizens responded to its call for an extra measure of restraint. As workers, they gave many extra measures of effort to pull through the crisis.

3. The crisis caused no major change in the Labor party's program for the coal industry. It demonstrated that the government had to intensify its efforts to solve the manpower, productivity, and modernization problems of the industry. It forced prolonged restrictions upon the consumption of coal and electricity. It even forced the staggering of work hours in British industry, something very distasteful to the British people. But all these measures were within the framework of a nationalized coal industry. There is no indication that the Labor government has modified its basic principle that the coal problem can be solved only through the efficient operation of the industry by the government.

4. The fuel crisis drove home the lesson that the government must not neglect the careful planning of the nationalized portion of the industrial system; that it must not substitute the taking of chances, as it took a chance on the 1946–47 winter weather, for planning plus controls necessary to effectuate the plans. The excuse of Emanuel Shinwell, then Minister of Fuel and Power, that the bad weather was the "worst blizzard since 1894" may be acceptable once but it is not an adequate substitute for planned measures to meet all contingencies. The government should profit from the summary criticism made during the crisis by Winston Churchill, leader of the opposition in the House of Commons: "First, they didn't adopt the right allocation plan in good time, and, secondly, they didn't get a carefully worked-out scheme which could be put into operation by a simple order for effective rationing of electric current throughout twenty-four hours. They're all so busy with doctrinaire nationalization and so ardently involved in class war that they've no time or strength or brains for making an ordinary administrative arrangement which common prudence demands."[110]

Nationalization of Civil Aviation

The Bill nationalizing civil aviation was introduced into Parliament in April and passed in August, 1946. Nationalization was the culmination of a marked trend toward heavier governmental subsidies to, stricter control over, and participation in, the industry.

The early development of civil aviation had been along competitive private enterprise lines. Dissatisfaction with service and the need for subsidies led to the establishment in 1924 of Imperial Airways which consolidated some of the lines, particularly those serving overseas routes. It was granted a £1,000,000 government subsidy to be used over a ten-year period. While routes were extended and the passenger-miles flown increased greatly, just prior to the war there was continued complaint about

[110] New York *Times*, February 11, 1947.

"uncertainty" and "inadequacy" of service, and a realization that public subsidies still were not large enough to permit the industry to do "the big and extensive job that was required to be done."[111] Some of the companies "creamed" the most profitable traffic, and neglected the development of needed but less profitable routes. Airports had not been well planned, and the airlines relied upon inadequate airport facilities supplied by local communities. There had been at least five official investigating commissions,[112] some with conclusions highly critical of private operation. The Cadman Report of 1938 has been referred to as "the most slashing indictment of a privately owned industry since Elijah chastized the prophets of Baal."[113] To improve the situation the British Overseas Airways Corporation was organized in 1939. It was owned entirely by the government and took over the operations of Imperial Airways and British Airways, the latter operating routes to many points in Europe. Hence, at the beginning of the War the government was deeply interested in civil aviation through controls, subsidies, and its ownership of the predominant British undertaking.

The war-time coalition government realized that major changes in civil aviation had to come at the end of the War. Hence, under the aegis of the Ministry of Civil Aviation[114] it had formulated a detailed reorganization plan retaining substantial elements of private operation under strict governmental control. BOAC was to be retained and private British steamship lines were to operate the South American service, while railway, shipping, and travel companies were to participate in the operation of European and domestic routes. The plan was defended on the ground that it provided integration of long-distance transfer facilities, retained free enterprise in a young and dynamic industry so that comparison of efficiency could be made among the various companies, and yet protected the public interest through government regulation. When the Labor party came to power there was expectation in some quarters that this plan would be accepted and enacted into law by the new government. The rank and file of the party members rejected this on the ground that heavy government subsidies would be inevitable and that "it is easier, more constructive and a more certain way of getting results to hand them to a public concern" rather than give them to a private concern under "the suspicion that they are buttressing up some monopolistic organization of a profit-making nature."[115] In any event, the Labor party considered the 1945 election results a mandate to nationalize key industries and the very nature

[111] Mr. Herbert Morrison, defending the Civil Aviation Bill in Parliament. *Parliamentary Debates,* vol. 422, no. 132, p. 597.

[112] The Londonderry Report in 1921, the Hambling Report in 1923, the Gorell Report in 1934, the Maybury Report in 1937, and the Cadman Report in 1938.

[113] *Parliamentary Debates,* vol. 422, no. 132, p. 645.

[114] Established in 1943.

[115] *Parliamentary Debates,* vol. 422, no. 132, p. 603.

of civil aviation unquestionably placed it in this category. Consequently the new government proceeded to nationalize completely all British domestic and international airlines offering scheduled transportation.

The Nationalization Act created two new corporations, the British European Airways Corporation and the British South American Airways Corporation, and continued the existence of the British Overseas Airways Corporation. It vested in these corporations sole power to operate British scheduled air transportation and discretionary power to enter the field of chartered aircraft service.[116] Private companies are not excluded from the latter type of business.[117] The BOAC was made responsible for operating routes to the various parts of the Commonwealth and across the North Atlantic; the BEAC for services within the United Kingdom and between Britain and European nations; and the BSAAC for routes between Britain and South America. In performing these services the corporations are given power to "do anything which is calculated to facilitate the discharge of their functions . . . or is incidental or conducive to the discharge of any such functions."[118] The corporations are obligated "to secure that the air services which they may provide are developed to the best advantage, and, in particular, to exercise those powers so as to secure that the services provided by the corporation are provided at reasonable charges."[119] The Act provides that the corporations are not authorized to manufacture air frames, motors, or propellers unless the Minister specifically issues a public order to that effect.[120]

Each corporation is to have a chairman, deputy chairman, and from three to nine members, as the Minister of Civil Aviation determines, and all are to be appointed by the Minister. The general policies of the corporations are to be laid down by the Minister, thereby being kept subject to parliamentary determination from time to time. On this point the Act specifically provides that "the Minister may, after consultation with any of the three corporations, give to that corporation directions of a general character as to the exercise and performance by that corporation of their functions in relation to matters appearing to the Minister to affect the national interest; and the corporation concerned shall give effect to any such directions."[121] The board of each corporation is responsible for the day-to-day operation of each respective line and for planning exten-

[116] Specifically, the Act provides that "it shall not be lawful for any person other than the three corporations and their associates, to carry passengers or goods by air for hire or reward upon any scheduled journey between two places of which at least one is in the United Kingdom." Sec. 23.

[117] It was reported, for instance, that Shipping Airlines, Ltd., owned by some steamship companies, intended to develop extensive chartered aircraft services, especially in the field of merchandise transportation. *Business Week,* November 17, 1945.

[118] *Civil Aviation Act,* H. M. Stationery Office, London, 1946, sec. 2.

[119] *Ibid.,* sec. 2.

[120] *Ibid.,* sec. 2.

[121] *Ibid.,* sec. 4.

sions and improvements of the services, subject to final approval by the Minister.

The Act provides for an Air Transport Advisory Council consisting of persons not connected with the three corporations, "to consider any representation from any person with respect to the adequacy of the facilities provided by any of the three corporations, or with respect to the charges for any such facilities" and to consider questions referred to it by the Minister.[122] The Council reports its recommendations back to the Minister and makes an annual report to the Minister, which must be transmitted by him to Parliament.

While their financial resources may come partly from private sources, no private interests will exercise any control over the operations of these corporations since their boards are appointed entirely by the government. Under the supervision of the Treasury, each corporation may borrow funds and may issue stock, the latter being issuable either for cash or for properties taken over from other undertakings. The Minister, with approval of the Treasury, sets the terms and regulations under which such stock is dealt in or redeemed. The Treasury is empowered to guarantee the principal and interest on stock issued or temporary loans made. The BEAC is limited to a total capital, including loans, of £20,000,000; the BSSAC is limited to £10,000,000; and the BAAC to £50,000,000. The Minister, with the consent of the Treasury, is authorized to make initial advances of funds to the corporations and to continue to make further grants until 1956 to carry out expansion programs which will not immediately repay their costs. These grants are not to exceed £10,000,000 during each of the first two years nor £8,000,000 during each of the other eight years. Other portions of the Act provide for reserve funds, pensions to employees, the auditing of accounts, the negotiations of wages and working conditions, and the supplying of annual reports and other information to the Minister and Parliament.

The Minister is given extensive powers to "purchase land compulsorily for any purpose connected with the discharge of his functions." This contemplates governmentally owned airports and other ground facilities adequate to care for all operations. The Minister may close off or divert highways, and may require "the total or partial demolition of any building or structure within the area," restrict the heights of trees or cut down trees, and may restrict cable and other installations near airports.

In this case of nationalization the problem of compensation was not a difficult one. BOAC was already entirely government-owned. The three corporations were empowered to exchange their stocks for properties acquired—presumably at prices agreeable to the sellers. While the government acquisition of privately owned airlines might be considered a forced sale, since the Act gave the government a monopoly of scheduled opera-

[122] *Ibid.*, sec. 36.

tions, privately owned facilities could be converted to chartered aircraft operations if the owners so desired. In any event, the early nationalization measures were not niggardly in their compensation to private owners and the absence of criticism indicates that the owners received a fair price in this case. Only in the case of airports and land for their expansion and for new airport and ground installations would the problem of compensation be important. The Act provided that the amount of compensation for land compulsorily taken should be determined in accordance with the British statutes controlling the condemnation of land for public use.[123] It was estimated that the compensation for airports taken over under the Act would amount to £20,000,000.[124]

The three corporations began active operations in 1946. By the end of the year, BOAC was flying routes totalling 72,000 miles and had a fleet of over 220 planes. It established service to the North American continent, to Hong Kong, and to Australia in conjunction with an Australian government-controlled airline. BEA took over the routes to the continent, extending its services as far as Scandinavia, Czechoslovakia, Italy, and Greece. By October its routes covered nearly 10,000 miles. During the year the BSAA started operations to Brazil and Argentina.

The basic argument for the nationalization of civil aviation was put as follows in the House of Commons: "It is inconsistent with a belief in democracy to allow a monopoly to be held by private people who are not responsible to those who gave them the monopoly. Since civil aviation is essentially a monopoly, and since it is essential . . . that the monopoly be subsidised by the people, it is unfair and inconsistent that the people should not own the monopoly which they are compelled to subsidise. They rightly desire to subsidise it, and therefore they should also own it."[125]

It was further pointed out by the defenders of the nationalization measure that competition could not be tolerated because it would cause "wastage of manpower, technical skill and capital," while private owners could not meet costs and safety would be jeopardized.[126] In any event, it was held, the state has a vital interest in military aviation which is closely related to civil aviation, and in aviation research which is related to both.[127] The government must provide certain ground installations such as route markers, and the national government should own the airports to assure that they are "adequate in numbers" and placed "where we want them" in a "planned network."[128] The reliance upon "local authorities" for airports was condemned in the following words: "If ever there was a service which is not fit for municipal enterprise, it is the provision of airports. It

[123] *Ibid.*, sec. 26.
[124] *Labor and Industry in Britain*, December, 1946, p. 215.
[125] *Parliamentary Debates*, vol. 422, no. 132, p. 661.
[126] *Ibid.*, pp. 589, 599, 600.
[127] *Ibid.*, pp. 601, 608, 631.
[128] *Ibid.*, pp. 601, 607, 608.

is not the business of local and municipal owners. It is the business of a national transportation system . . ."[129] It was pointed out that there are "nineteen countries which have nationalized scheduled air services, and . . . twenty-three countries which have partially nationalized services."[130] The public-corporation type of organization was declared one which permits the directors to exercise freedom and initiative and yet places on them a sense of "public responsibility."[131] The division of the industry into three corporations was expected to "create flexibility in meeting current conditions of international competition," develop "different methods of approach to the technique of airline transportation," and create "a pool of knowledge and experience."[132] Powers granted the Minister of Civil Aviation in the Bill were defended as necessary in order to assure Parliament the proper control over the operational and expansion policies of the industry.[133] Finally, the Laborites contended that: "Everyone knows that in British Civil aviation between the two wars there was one long sad tale of muddle and incompetence, which, on several successive occasions, led the industry to the verge of bankruptcy from which it was rescued only by hasty, successive doses of government subsidies" and that "even if the most gloomy forecasts of the opposition came to pass, the result could not possibly be any worse. . . ."[134]

While the opposition accepted the nationalization of the industry as a foregone conclusion, it made numerous references to the advantages of the plan the coalition government had formulated,[135] expressed admiration for the regulated private civil aviation industry of the United States, and expressed fear that nationalization would handicap the British industry in competition with it.[136] The opposition's fire was directed chiefly at what they regarded as excessive powers the Bill vested in the Minister of Civil Aviation, and at the bureaucratic crushing of initiative and efficiency they feared would result. Many references were made to the wording of the Bill which "vests all real control of operation and finance in the Minister," empowers him to "order the corporation to undertake or stop anything which the corporation has the power to do," and makes the Minister "the absolute dictator of the future of our civil aviation industry.[137] The boards were described as "a smokescreen behind which he [the Minister] can hide when he so desires" and fear was expressed that political considerations would govern his decisions and thus dominate

[129] *Ibid.*, p. 598.
[130] *Ibid.*, p. 602.
[131] *Ibid.*, p. 605.
[132] *Ibid.*, p. 708.
[133] *Ibid.*, p. 647.
[134] *Ibid.*, p. 645.
[135] See p. 376. See, for instance, *Parliamentary Debates*, vol. 422, no. 132, pp. 620–622.
[136] *Ibid.*, p. 642.
[137] *Ibid.*, pp. 621, 626, 665.

the board's actions.[138] It was charged that the Bill left no "spur whatever to efficiency" and "no yardstick by which cost can be measured," that there would be no chance for "vigor, initiative, and the readiness to take risks," that research would "suffer," and that the net result would be "standardization, which at the present stage of the development of this industry is the thing to be most feared."[139] It was held that, by provisions permitting deficits to be met by the Treasury, the Bill encourages operation at a loss, whereas under the coalition government's plan "there were air operators who were perfectly prepared to operate these services without subsidy."[140] The government's contention that through these corporations there would be some competition was branded "pure eyewash" and the Bill was declared simply to create a state monopoly which would enter into price cartels with foreign operators.[141] It was charged that even though chartered aircraft service was left open to private operations, the subsidized government monopoly would unfairly compete with such private lines or, after chartered lines had pioneered and developed business, would establish scheduled lines to take over.[142]

These pro and con arguments are reviewed here because they indicate both the advantages the government hopes to gain for Britain from nationalization, and the particular operational aspects of the nationalized industry which the opposition expects to be weak or unworkable. The validity of the various contentions can be assessed only as the government gains experience over the years with a nationalized civil aviation industry.

QUESTIONS FOR CLASS DISCUSSION

1. How many times has the Labor party been in power in Great Britain? How does its current régime differ from those preceding it?
2. Is the program of the Labor government truly a socialist program? What evidence can you cite to support your answer?
3. Why was the Bank of England one of the first segments of the British economy to be nationalized?
4. What means has the Labor government used to control the flow of investment funds? Are these measures more or less important than the nationalization of the Bank of England?
5. Would it be logical to say that the Labor government had no choice of policy other than to nationalize the coal mines?
6. How were the former owners of coal mines compensated when the government took over the mines? Is this method of compensation in accord with socialist principles?
7. Why was the Minister of Fuel and Power given so much control over the operation of the coal mines?

[138] *Ibid.*, pp. 710, 643–644.
[139] *Ibid.*, pp. 620, 621, 676, 710.
[140] *Ibid.*, p. 673.
[141] *Ibid.*, p. 656.
[142] *Ibid.*, pp. 627, 658.

8. What advantages does the Labor government expect the British economy to derive from the nationalization of the coal mines? Is there any evidence to date that these advantages are being realized?
9. Would it be sound to argue that the fuel and power crisis in Great Britain in the winter of 1946–47 demonstrated the unsoundness of socialism?
10. What was the relation between subsidies and the nationalization of British civil aviation?
11. There was little opposition to the nationalization of civil aviation. Why? Does this show that the people of Great Britain are anxious to have their economy completely nationalized?
12. What are the goals the Labor government hopes to achieve by 1950?
13. What aspects of the British Labor party's program mark it as an *evolutionary* socialist party?

Chapter 20

COMMUNICATIONS, TRANSPORTATION, ELECTRICITY, LAND, AGRICULTURE

Nationalization of Cable and Radio Communications

While in Great Britain domestic telephone and telegraph systems and international telephone circuits have been owned and operated practically since their origin by the Post Office Department of the government, cable and radio communications with points outside Britain were owned and operated privately prior to January 1, 1947. The latter are called the "external telecommunications services" of the British Commonwealth since they form a network of international communications throughout the Empire. In 1928 the external communications facilities of the nine then existing companies were consolidated into one company known as Cable and Wireless, Ltd. It operated as a semi-public utility, with two of its directors appointed by the government, and under the requirement that on policy questions it had to consult with an advisory committee, the Imperial Communications Advisory Committee. Half of any net earnings over a specified amount had to be used for the reduction of rates or for whatever other purposes the advisory committee recommended. The operations of Cable and Wireless, Ltd., were further extended when, in 1938, some beam radio communications facilities were turned over to it by their previous operator, the British Post Office. In exchange for these facilities the government acquired 2,600,000 of the 30,000,000 company shares.

In recent years there was dissatisfaction over the control of vital telecommunications by a company primarily responsible to private owners. There was a growing feeling that Empire communications needed coordination and development beyond those feasible under private ownership. The war-time coalition government entered discussions with the dominion governments concerning the telecommunications problem. Finally, in 1945 certain recommendations were laid before the Commonwealth Telecommunications Conference which met just after the Labor party election victory. The Conference unanimously agreed that the owner-

ship of the overseas telecommunications services of the United Kingdom, the dominions, and India should be acquired by the respective governments and that a Commonwealth Communications Board should be created with power to determine the policies and rates of the respective nationalized systems, to require the coordination and development of cable and radio communications throughout the Commonwealth, to coordinate telecommunications with Commonwealth defence, to promote research, to negotiate with foreign telecommunication interests if so requested by the respective Commonwealth governments, and to work out the details of an arrangement for pooling the net revenues of the respective systems. The Commonwealth governments approved these recommendations designed to develop the telecommunications of the Commonwealth as a whole and to make possible the most advantageous use of both cable and radio facilities. To effectuate its part of the agreement the British government announced in Parliament in 1945 that it would propose full nationalization of the services operated by Cable and Wireless, Ltd.

Other events strengthened this trend toward government ownership and operation of telecommunications. During the War numerous additional radio communication circuits were established throughout the world, particularly under the aegis of the United States. At the close of the War the existence of these facilities created a threat of ruinous competition in rates for communications service. An International Telecommunications Conference was held in Bermuda late in 1945 to consider this problem. A program of reduced but stabilized rates was agreed upon. Since these reduced rates would affect substantially the net revenues of Cable and Wireless, Ltd., the Bermuda agreement constituted still another compelling reason for the company's nationalization.

The Act effecting the nationalization of Cable and Wireless, Ltd., on January 1, 1947, was brief and simple, since it merely provided for the government's acquisition of the remaining 27,400,000 shares of the company's stock.[1] It provided for the transfer of these shares to the British Treasury and for compensation to the former owners[2] in government stock (bonds) equal in value to the shares acquired by the government "having due regard to market values of other government securities existing at such date."[3] No restrictions were placed on the government stock's negotiability. The Act provided for interim interest to be paid to former owners pending final settlement for the shares. In the event of disagreement be-

[1] When the Nationalization Bill was offered in Parliament the physical properties of the company included 155,000 nautical miles of submarine cable, five cable ships, five radio communication stations in the United Kingdom, and some 200 offices, cable, and radio communication stations scattered over many nations, forty of which were located in Empire countries. The company operated 140 radio communication circuits. Hugh Dalton, *Parliamentary Debates*, vol. 423, no. 143. H. M. Stationery Office, London, p. 201.

[2] For details of intercorporate relationships in this industry, see *Parliamentary Debates*, vol. 423, no. 143, pp. 205–206.

[3] *Cable and Wireless Act*, H. M. Stationery Office, London, 1946, sec. 1.

tween the Treasury and the former owners on the details of compensation, the Act provided a tribunal, consisting of a Superior Court Judge, an accountant, and a business man, to determine the worth of the undertaking "if sold in the open market . . . as a going concern by a willing seller to a willing buyer." The tribunal was to base its determination on the "net maintainable revenue; and the number of years' purchase to be applied thereto."[4] In determining the former it was instructed to leave out of account the effect of nationalization on the affairs of the company and the effect of the Bermuda agreement (since that had been entered after the British government had decided to nationalize the company), but to take into account "any circumstances which might reasonably be expected to have affected that revenue apart from this Act and the Bermuda agreement."[5] The Act further provided for the former directors to vacate their offices, for the powers of the former shareholders to be exercised by the Treasury, and for dividends paid by Cable and Wireless, Ltd., to go to the Exchequer.[6] Provision was made for meeting deficits from the British Treasury and the Treasury was empowered to determine the rate of interest on, and the conditions of redemption of, the government stock issued as compensation.

The Parliamentary debate on the Bill was listless, since the opposition announced its intention not to vote against its passage. The opposition accepted the government's argument that members of the British Commonwealth were insistent upon a stronger network of telecommunications throughout the Empire, that Britain was committed to the nationalization of Cable and Wireless, Ltd., as a means to this end, and that the Bermuda agreement was the final event making continued private ownership impossible. Labor members developed in some detail their hope that nationalization would lead to complete unification of telecommunications throughout the Empire and the avoidance of the previous "artificial routing of traffic" to protect private vested interests. Some of them joined certain opposition members in urging the government to vest the operation of telecommunications in the Post Office Department so that all British domestic and international telephone, telegraph, cable, and radio communications could be integrated throughout the Empire. The government refused to commit itself on this point, asking for time to determine the best plan of operation, meanwhile vesting interim management in

[4] *Ibid.*, sec. 2.

[5] *Ibid.*, sec. 2. The intent of these provisions clearly is to leave the former shareholders in an unchanged condition so far as their incomes from the industry are concerned. Some clue as to the amount of compensation which will be awarded may be found in the fact that in 1946 a 5 per cent dividend was paid on the £30,000,000 par value of the shares of Cable and Wireless, Ltd. Philadelphia *Record*, January 31, 1947. In presenting the Nationalization Bill to Parliament, the government's representative, Hugh Dalton, said that "We are paying a good price." *Parliamentary Debates*, vol. 423, no. 143, p. 206.

[6] *Ibid.*, sec. 3.

a small temporary board appointed by the government. Some laborites asserted that Cable and Wireless, Ltd., had been dilatory in promoting research and in utilizing improved techniques and that nationalization would correct these deficiencies.

Although the opposition had declined to vote against the measure, some individual members decried this position. They contended that the government had offered no substantial reason for nationalization, and, especially, that there had been no serious charge of inefficiency as there had been in the case of coal mining. The usual fears of bureaucracy were expressed, the Bill being referred to as "one of the thirty-nine steps to perdition which the government are taking."[7] It was feared that the goal would become stability rather than progress and that the quality of telecommunications service would decline. Some concern was expressed over the effect of the measure on the compensation of employees of Cable and Wireless, Ltd. Wages had been supplemented by an employee profit-sharing arrangement and the Bermuda agreement would admittedly reduce the company's profits. The government was roundly criticized for offering a nationalization bill which contained not even a suggestion of how the industry would be organized—whether by another public corporation or under the Post Office. A number of opposition speakers expressed grave concern over the international complications of the Bill. Cable and Wireless, Ltd., owned various installations in foreign nations and the question was whether the concessions granted by foreign governments to this private company would be continued after the installations became government property. It was suggested that foreign governments might insist upon acquiring these properties themselves, thus placing in the hands of foreign governments the ownership of facilities vital to Empire communications. These arguments led to the conclusion that, while the nationalization of external telecommunications was accepted by all as inevitable, the act of nationalization transferred the old problems to the government for solution and, indeed, may have created some new ones.

Nationalization of Inland Transportation

As in other industries, an intricate history of increasingly stringent controls preceded the Labor party's proposal to nationalize the rail, highway, and inland waterway transportation facilities of Great Britain. Early railroad construction in Great Britain was planless and without any conception of the relation of railway facilities to the national welfare. It was characterized by speculation, construction of disconnected lines, inflated capital values, and exorbitant payments for rights of way. Economic factors forced many amalgamations of lines just before and just after the turn

[7] *Parliamentary Debates*, vol. 423, no. 143, p. 253.

of the century. Finally, under the Railway Act of 1921, 121 enterprises were consolidated into four companies set up on a geographical basis. While a measure of integration occurred, each company met its own rolling stock needs separately in accordance with its own specifications, and the separate corporate entities entailed independent financing, while the pooling of traffic to avoid competitive waste was limited.

After the First World War highway motor transportation offered the railways increasing competition. In 1928 the Railway Road Transportation Act gave railways the right to operate highway passenger and freight transportation facilities. While the railways acquired interests in these fields the purpose usually was to protect railway traffic and coordination of rail and highway transportation systems did not occur. Motor highway transportation companies could select their traffic and shunt the less profitable business to the railways; they needed no expensive rights of way, signal systems, or terminal facilities; and they were free of the heavy fixed costs typical of railways. These factors, coupled with flexible rates for motor transportation, drove the railways to attempt a solution for the competitive problem. In 1938 their "Square Deal" proposals recommended that railway rates should be freed from statutory regulation and included a proposed agreement with the motor transportation companies looking toward stabilization of rates. The outbreak of war in 1939 prevented any action on these proposals. The country entered the War with the various types of transportation wastefully competing for business, the chief result of which was deterioration of railway capital equipment.

During the War the government assumed complete control over transportation—railways, canals, docks, and motor transportation. Further deterioration of railway equipment occurred. While the facilities were used to their limit, repair and replacement of railway and motor transportation equipment did not have priority equal to that of supplies for the armed forces. Moreover, much equipment was severely damaged by enemy action. As reported by the Minister of Transport: "The result is that the nation is facing very large sums of capital expenditure, if our transport services are to be brought up to any standard of efficiency."[8] As the problem of transportation shaped up during the War, a growing body of public opinion supported a post-war program of "complete coordination" as the self-evident protection against "open competition" which was "too costly to contemplate and . . . likely to lead to the breakdown of the public services."[9] The rapid reconversion of British industry and the production drive of the immediate post-war period prolonged the strain on transportation facilities. This, together with the 1945 victory of the Labor

[8] *Parliamentary Debates*, vol. 431, no. 25, p. 1620.

[9] Portions of quotations from the *Financial Times* and the *Economist*. *Labor and Industry in Britain*, February, 1947, p. 38.

party, whose platform had included the nationalization of inland transportation, made inevitable the introduction of a Nationalization Bill in Parliament.

The Bill to nationalize inland transportation was submitted to Parliament in 1946. In discussing it, the Minister of Transport characterized it as "the largest and most extensive socialization measure ever presented to a free Parliament."[10] He pointed out that £1,065,000,000 ($4,260,000,000), a sum nearly seven times as large as the total compensation for the coal mines, probably would be required to purchase just the railways, canals, and the properties of the London Passenger Transport Board.[11] Additional sums would be required to purchase the motor transportation facilities, docks, and various ancillary properties. A million and a quarter of the 18 million persons employed in British industry would be affected by the Bill, while, of these, some 750,000 would become government employees when it became effective. Approximately sixty corporations would be taken over, including canal, hotel, and dockyard operations. The government would become the owner of 52,000 miles of railroad track, nearly 600,000 freight cars, 53,000 buses, and 150,000 trucks.[13] The degree of operating efficiency achieved by the government and the rate structure imposed by it would determine major items of cost for practically all commodities produced for domestic consumption or export. These facts indicate that this is one of the most important of all the nationalization measures.

The Bill to nationalize inland transportation was enacted into law late in 1947, to become effective January 1, 1948. Since the final draft of the Act as passed was not available in the United States, the following description of this nationalization measure refers to it as a Bill. However, the final Act differs in no important detail from the provisions of the Bill as debated in Parliament. Although the portions of the Act nationalizing highway transportation facilities were left to be carried out later, the other portions became effective on January 1, 1948. On that date the Labor government became the owner and operator of the greatest unified railway system in the world. The railways then were employing 635,000 persons and producing annually 373,000,000 car-miles of freight and passenger service. Some 50,000 houses, 70 hotels, 100 steamships, and 18 canals and inland waterways have been nationalized; and, in addition, the gigantic public transportation system of London with its subways, buses,

[10] *Parliamentary Debates*, vol. 431, no. 25, p. 1617.

[11] *Ibid.*, p. 1617. The London Passenger Transport Board was already publicly owned by a local transport authority. It operated the buses, subways, and street cars of the London area.

[12] *Ibid.*, p. 1621.

[13] Philadelphia *Record*, December 19, 1946. This number of trucks was reduced to about 20,000 by changes in the Bill during its consideration by Parliament.

street cars, and all auxiliary facilities has been taken over by the national government.[14]

The stated purpose of the Bill is the securing of "an efficient, adequate, economical and properly integrated system of public inland transport and port facilities within Great Britain for passengers and goods and . . . extending and improving the transport and port facilities within Great Britain in such manner as to provide most efficiently and conveniently for the needs of the public, agriculture, commerce and industry."[15] To operate the industry, the Bill establishes the British Transport Commission of up to eight members[16] appointed by the Minister of Transport and "appearing to him to be persons who have had wide experience and shown capacity in transport, industrial, commercial or financial matters, in administration, or in the organization of workers."[17] No member of the House of Commons is eligible for appointment and the Minister must "satisfy himself" that no Commission member has any financial interest in inland transportation which "is likely to affect him in the discharge of his functions."[18] The Commission is authorized to operate rail, highway, and inland waterway transportation, to provide port facilities, to store and consign goods in transit, to provide hotels for passengers "and other persons," and to furnish ancillary facilities "as it may appear to them requisite or expedient."[19] The Commission's powers are to include the production, purchase, and repair of equipment, the training of employees, research, the purchase or leasing of land, the acquisition of undertakings wholly or mainly connected with inland transportation, the negotiation and extension of agreements, and lending money to or acquiring the securities of related undertakings.[20] The Commission is expressly

[14] H. L. Matthews, New York *Times*, January 1, 1948.

[15] *Transportation Bill*, H. M. Stationery Office, London, 1946, sec. 3. Transportation by air is specifically excepted since that is covered by another nationalization measure. Differences between the House of Commons and the House of Lords over certain provisions in the Bill, as well as the Labor government's fear that similar differences may impede the nationalization of the steel industry, led to the introduction into the House of Commons of a Bill to modify the legislative powers of the House of Lords. This Bill provides that in the future a bill will become law, even though it is not passed by the House of Lords, if it has been passed by the House of Commons in *two* successive sessions (instead of *three*, as at present) and if at least *one* year (instead of *two*, as at present) has elapsed between the first introduction of the bill into, and its second passage by, the House of Commons. This would reduce from a maximum of *two* years to a maximum of *one* year the final enactment of any bill which the House of Commons favors but the House of Lords opposes. The Bill was passed overwhelmingly by the House of Commons, but, in accordance with present law, its effective date may be delayed as much as two years by the House of Lords. New York *Times*, November 1, 1947; December 11, 1947.

[16] The original Bill provided for only five members.

[17] *Transportation Bill*, sec. 1.

[18] *Ibid.*, sec. 1.

[19] *Ibid.*, sec. 2.

[20] *Ibid.*, sec. 2.

prohibited from building ships, except small lighters and barges, and from manufacturing chassis for motor vehicles, except for experimentation or research.[21] All activities of the Commission are "to form one undertaking" and charges for transport and other services are to be adequate to meet operating expenses as an average over the years.[22]

The Minister of Transport may, after consultation with the Commission, give it "directions of a general character . . . in relation to matters which appear to him to affect the national interest," and the Commission must "give effect to any such directions."[23] The Minister is given power to pass finally upon programs involving capital outlays, training, and research, and certain types of financial commitments. Further, the Minister, after consultation with the Commission, may direct the Commission to "discontinue any of their activities, dispose of any part of their undertaking, and rearrange certain financial aspects of their operations. The Commission must make available to the Minister information he desires and render to him an annual report which he lays before Parliament.

Five Executives, appointed by the Minister, are to hold delegated power to manage inland transportation services under the Commission. While these later may be modified by the Minister, originally they are to be: (1) the Railway Executive; (2) the Docks and Inland Waterways Executive; (3) the Road Transportation Executive; (4) the Hotels Executive; and (5) the London Transport Executive.[24] A Central Transport Consultative Committee for the nation as a whole, and such area Transport Users Consultative Committees as the Minister may direct, are to consider complaints and suggestions coming from shippers and passengers. The Minister is empowered to give the Commission directions, even though they "may be of a specific character," based upon recommendations of the Central Transport Consultative Committee.[25]

The Bill provided that on January 1, 1948, all railway and canal undertakings, including all operations of the London Passenger Transport Board, were to be transferred to the ownership of the British Transport Commission which was to assume the rights and liabilities of these undertakings.[26] All privately owned railway cars were to be turned over to the Commission.[27] All highway motor transportation companies hauling goods for compensation and for relatively long distances were required to turn over to the Commission their trucks and equipment used in such opera-

[21] *Ibid.*, sec. 2.
[22] *Ibid.*, sec. 3.
[23] *Ibid.*, sec. 3.
[24] *Ibid.*, sec. 5, as modified during Parliamentary debate.
[25] *Ibid.*, sec. 6.
[26] *Ibid.*, secs. 12, 13.
[27] *Ibid.*, sec. 35.

tions.[28] Trucks, not offered for hire, were exempted from these provisions,[29] as are trucks for carrying liquids in bulk in tanks, meat, livestock, heavy indivisible loads, and furniture.

To coordinate passenger transportation, the Bill provides for the Commission, after consultation with local interests, to prepare "area schemes" for "adequate, suitable and efficient passenger road transport services to meet the needs of an area."[30] To this end the Commission may designate certain undertakings to operate selected facilities, order undertakings to provide additional facilities or to abandon certain operations, or set up new bodies to operate facilities under its own administration.[31] The same type of provision is made for "area schemes" to develop, coordinate, and operate harbor facilities connected with inland transportation.[32] A coastal shipping advisory committee is established to correlate private coastal shipping interests with the operations of the Commission.[33]

British Transport stock, issued by the Commission, and guaranteed by the Treasury, is to be given in exchange for physical properties or undertakings transferred to the Commission's ownership. Such stock is to be given in such amounts as, in the Treasury's opinion, would have value on the date of its issue equal to the value of the property taken by the Commission. If the amount due a motor transportation undertaking, or the owner of a private railway car, does not exceed £20,000, a *cash* payment of £2000 may be made as a part of the compensation.[34] The amounts of compensation due for nationalized properties are to be determined as follows:

1. Railway and canal undertakings: The average value of the undertaking's securities as reported on the London Stock Exchange for the dates of November 1, 4, 5, 6, 7, 8, 1946, or, as an alternative if it yields a higher value, the average over the following dates: February 15, March 15, April 16, May 15, June 15, July 16, 1945.[35]

2. Highway motor transportation undertakings: For vehicles taken over by the Commission, the cost of replacing the vehicle with a new vehicle

[28] The Bill's provisions defining long-distance motor haulage operations are too intricate to be reviewed here. Their net effect is to transfer to the Commission those types of motor truck transportation which have offered "ruinous" competition to railways in the past. See *ibid.*, secs. 40–45, as modified while the Bill was before Parliament. As indicated above, this portion of the Act did not become effective on January 1, 1948.

[29] *Ibid.*, secs. 56–58, as modified while the Bill was before Parliament.

[30] *Ibid.*, sec. 67.

[31] *Ibid.*, sec. 67.

[32] *Ibid.*, sec. 70.

[33] *Ibid.*, secs. 73, 74.

[34] *Ibid.*, secs. 16, 34, 49.

[35] *Ibid.*, sec. 17. While the November, 1946, quotations were generally favorable to the owners, the purpose of providing alternative dates was to avoid the charge that the value of the securities of these undertakings was being determined after they had been influenced by the electorate's approval of the Labor party's nationalization program in the 1945 election.

adjusted for depreciation at a rate of 20 per cent per year; for other property, the estimated amount it would bring "if sold in the open market," and, for losses due to the "cessation of business," a "just" sum not less than twice nor more than five times the average net annual profit.[36]

3. Local authorities' undertakings (such as, for instance, municipally owned docks): Annual compensation sufficient to meet the future sinking fund and interest payments on securities which previously had been issued to pay for such facilities, or, by agreement with the respective local authorities, amounts of British Transport stock sufficient to enable the local authority to meet future liabilities under securities previously issued in connection with such undertakings.[37]

4. Privately-owned railway cars: The original cost of the car adjusted for its age and condition at the transfer date, but not less than 10 per cent of the original cost.[38]

The Bill creates a Transport Arbitration Tribunal, consisting of four persons with experience in law, business, and finance, to have "sole jurisdiction to determine any dispute to which the Commission is a party as to . . . what sum is payable to any person . . . in respect of the transfer to the Commission . . . of an undertaking, a part of an undertaking, any property or any hire purchase agreement."[39]

The Commission is authorized to issue stock as the means of borrowing funds for capital purposes, the total not to exceed £250,000,000, and it may borrow temporarily an amount not exceeding £25,000,000. Such stock and loans may be guaranteed by the Treasury.[40]

The Bill vests jurisdiction over transportation rates in the Transport Tribunal—the old Railway Rates Tribunal renamed. The British Transport Commission must submit schedules of rates for confirmation by the Tribunal, while the latter may alter rates upon request of interested parties, and the Minister may order the Tribunal to review rate schedules.[41] The Commission is required to establish a reserve to be used partially for preventing fluctuations in schedules of rates.[42]

The principal arguments of the government in defense of the Bill were that it would permit unification of inland transportation and assure the availability of funds needed for capital improvements. The Minister of Transport summarized the case for unification as follows:

> Road, rail and water transport services should not be mutually destructive elements; they should be complementary to each other, each serving the nation in its own way and in its own time. One should not destroy the capital and the livelihood

[36] *Ibid.*, sec. 49.
[37] *Ibid.*, sec. 27.
[38] *Ibid.*, sec. 31.
[39] *Ibid.*, sec. 108–112.
[40] *Ibid.*, secs. 92, 93, 94.
[41] *Ibid.*, secs. 79, 86, 88.
[42] *Ibid.*, sec. 96.

of persons in another. This is essentially an industry in which finance, annual revenue, annual expenses and annual receipts, should be pooled. If there are unprofitable parts of the country which do not pay their way, and if citizens are living there performing some national purpose, they should still have the advantage of a modern nationalized system at their service, and that is impossible until all have been unified into one complete system.[43]

He added optimistically: "Give this labor government five years of power in this field of transport services, and the people of this country will see more progress than would be made in 500 years of Tory rule."[44] It was argued that, in view of the great need for, and the small supply of, capital funds in Great Britain, competition for these funds among separate ownerships in the transportation field could not be tolerated because it would "waste again a good deal of capital, as has been experienced in the past."[45] It was pointed out that the rolling stock of the railways had deteriorated before and especially during the War, that there was need for rebuilding many railway stations, and that, even in the case of canals, a sum of about £20 million would be required for their restoration and widening.[46] The privately owned railway cars used by British railways, characterized as an "anachronism," had to be replaced by standard governmentally owned cars. Over 20 per cent of the cars, it was reported, must be scrapped, while half of them were over 35 years old.[47]

Private operation of the railways was criticized for failing to coordinate their operations with highway transportation, a step which would "double the effectiveness of the carriage of goods."[48] While long-distance passenger trains admittedly were excellent, local train service was declared "inadequate and ill fitted out."[49] The railways were accused of being "subservient to profits" and neglecting "public needs."[50] It was charged that "financiers have always been only drawbacks to an efficiently organized railway transport system, and land and property owners, to put it mildly, were also a considerable handicap."[51] Local passenger bus service, at least in some areas, was described as inefficient, inadequate and uncoordinated with railway passenger service.[52] In support of nationalization it was further argued that the existing "jungle" of "40 to 50 million different rates" in the transportation industry would be simplified "on a common sense basis."[53] It was pointed out that throughout the world "45 per cent

[43] *Parliamentary Debates,* vol. 431, no. 25, p. 1637.
[44] *Ibid.,* pp. 1637–1638.
[45] *Ibid.,* p. 1620.
[46] *Ibid.,* p. 1660.
[47] *Ibid.,* p. 1629.
[48] *Ibid.,* pp.1648–1649.
[49] *Ibid., pp.* 1649–1650.
[50] *Ibid.,* p. 1693.
[51] *Ibid.,* p. 1713.
[52] *Ibid.,* pp. 1704–1705.
[53] *Ibid.* pp. 1633, 1635.

of the world's rail transport is already publicly-owned or state-owned,"[54] and that since no "constructive or concrete proposals as an alternative" had been presented, there was no other choice than nationalization.[55]

Anthony Eden, leader of the opposition, said that passage of the Bill would be a "major, national disaster" and that the Bill was "ill-conceived, ill-considered, and ill-timed."[56] Other opponents characterized the Bill as "the greatest disservice . . . so far . . . done to the trade and industry of the nation,"[57] as laying out a "wildly irresponsible course" diverting "every operator from his ordinary work of serving industry into looking at what will be, and must be, his position under the nationalization proposals,"[58] as meaning that "consumer choice of transport must disappear at the earliest possible moment,"[59] and as "unjust and unfair, because it is not calculated in any way to increase the trade, commerce and general well-being of this country."[60] Many of the points made against the Bill were those made against other nationalization measures. Bureaucracy, with a "loss of enterprise and initiative," was forecast as the result.[61] Private operation was defended as having been reasonably efficient. The Bill was criticized as making the Minister of Transport, whose decision it was charged would be primarily political, the dictator of the industry, leaving the various boards, and particularly the consultative committees, as merely "a useful camouflage of complete Ministerial control."[62] It was argued that "all over the world there are precedents for the failure of nationalization in rail transport,"[63] that only Germany and Russia offered examples of "complete monopoly of all transport,"[64] and that Britain's war-time experience in the control of transportation had demonstrated the government's inability to create efficiency.[65]

The government was accused of not "explaining how integration will be reflected in economy of transport, which alone can give to industry the benefits it needs."[66] The Bill was declared deficient in that it "does not contain a word of guidance" as to how rate schedules are to be constructed.[67] Pleas were made for a complete public inquiry before the nationalization measure was passed.[68] The government, it was charged, had failed

[54] *Ibid.*, p. 1622.
[55] *Ibid.*, p. 1681.
[56] Philadelphia *Record*, December 19, 1946.
[57] *Parliamentary Debates*, vol. 431, no. 25, p. 1638.
[58] *Ibid.*, p. 1640.
[59] *Ibid.*, p. 1641.
[60] *Ibid.*, p. 1673.
[61] *Ibid.*, p. 1647.
[62] *Ibid.*, p. 1641; see also pp. 1644, 1647, 1670–1672, 1691, 1708.
[63] *Ibid.*, p. 1708.
[64] *Ibid.*, p. 1717.
[65] *Ibid.*, p. 1639.
[66] *Ibid.*, p. 1639.
[67] *Ibid.*, p. 1645.
[68] *Ibid.*, pp. 1640, 1669.

to recognize plans the railways themselves had made for post-war capital improvements.[69] Indeed, the railway companies and the Road Haulage Association jointly had submitted to the Minister of Transport a memorandum of suggestions for integrating rail and highway transportation under private ownership. The recommendations had been approved by the associations of freight shippers, and by the canal companies and coastal shipping interests. Its suggestions, which followed those of the "Square Deal" proposals submitted just prior to the war, provided that motor highway carriers would accept increased obligations to carry freight rather than merely select what they desired to carry, that rates would be fixed by a road-rail rates tribunal, and that an advisory body would promote the coordination of all forms of transportation. The memorandum offered detailed suggestions for coordination of road-rail services.[70]

The Transportation Bill was the first nationalization measure to encounter really stiff opposition in Parliament on the ground that its provisions for compensation were unfair to the private owners. By specifying the compensation amounts for railways in the Bill itself, rather than submitting the matter to a tribunal as was done in the case of coal[71] the government was charged with being "similar to a thief acting as counsel for the prosecution, judge, jury, court of appeal and executioner in a sort of crazy people's court."[72] The provisions, it was charged "amount to a confiscation of income and a confiscation of livelihood."[73] It was pointed out that the widely spread holdings of railway securities, particularly among railway employees, made the question of compensation in this case doubly important, and that the Bill's proposal would "cause unnecessary suffering to thousands of people."[74] Illustrations were cited to show that holders of railway securities would experience a decrease in income when British Transport Stock was substituted for railway securities. One opponent estimated that the average over-all reduction in return to holders of railway securities would be over 45 per cent.[75] Aggressive attacks were also made on the compensation provisions applying to the acquisition of trucks, privately owned railway cars, and harbor facilities. Outside Parliament the criticism was equally severe and a wave of selling caused the stock market prices of railway shares to decline.[76]

[69] *Ibid.*, p. 1638.

[70] *Economic Record*, July 15–21, 1946, pp. 6–7.

[71] The compensation was fixed in the Bill by the fact that security values on selected dates were to be taken as indicating the values of various undertakings for compensation purposes. While compensation for the owners of Bank of England stock had been specified in that Nationalization Act, the generosity of the compensation forestalled the type of criticism which arose in the case of the railways.

[72] *Parliamentary Debates*, vol. 431, no. 25, p. 1646.

[73] *Ibid.*, p. 1646.

[74] *Ibid.*, pp. 1679, 1700.

[75] W. S. Morrison, in parliamentary debate, New York *Times*, December 18, 1946.

[76] 1947 *Britannica Book of the Year*, p. 724.

The government defended the compensation plan for railways as "a simple, easy, and fair method that gets equitable compensation and avoids considerable difficulties which we would have encountered if we had followed other [tribunal] method."[77] The Minister of Transport argued that it cannot be justly claimed "when the state is taking over a service of this kind, that we have to continue in perpetuity the interest income of the persons involved. A nationalized public service is quite entitled to have the advantage of public credit."[78] The plan would result in the former owner receiving British Transport stock worth as much at the time of its issue as the amount of compensation due. This, the Minister felt, "disposes of any suggestion that the terms of compensation impose loss of capital. Any such loss must have occurred before nationalization had been announced, because the prices used are in no case less than those ruling shortly before the election."[79] He further pointed out that the resultant compensation "represents about 25 years' purchase of the average prewar net revenue during the three years; 1935, 1936, and 1937."[80]

The government plan for compensation was defended further as permitting recipients of the British Transport stock to turn it into cash immediately if they so desired. Hence, "the capital price is there" and, it was argued, no one shall expect the state to be concerned over "whether the people who receive the equivalent of cash cannot get the cash they receive to produce as much income as they received in the past."[81] It was suggested that if each former owner were to receive enough British Transport stock to prevent a decline in his income from that source, the nationalized railways would be saddled with an "insupportable burden of interest charges."[82] Other arguments adduced in defense of the government plan were: (1) that the security values on the valuation dates reflected the favorable war-time earnings positions of the railways under arrangements with the government and that there was no reason for assuming these favorable conditions could continue under private peace-time operations;[83] (2) that if the former owners were to get enough British Transport stock to assure them of undiminished income the railway undertakings would have to be paid for at about 80 per cent above their value as represented by post-war stock market valuations of railway securities, "when the persons who have had their property requisitioned or destroyed during the war have to take compensation at prewar values"[84]; and (3) that the former owners are given the "absolute security of a government stock" to

[77] The Minister of Transport, *Parliamentary Debates*, vol. 431, no. 25, p. 1627.
[78] *Ibid.*, p. 1627.
[79] *Ibid.*, pp. 1627–1628.
[80] *Ibid.*, p. 1628.
[81] *Ibid.*, p. 1654.
[82] *Ibid.*, p. 1654–1655.
[83] *Ibid.*, pp.1701, 1703.
[84] *Ibid.*, p. 1702.

replace the risk of private investments and that a reduction in income normally accompanies such an exchange.[85]

The provisions on compensation were primarily responsible for the comparatively weak support the Bill received upon its second reading in the House of Commons. The vote was 360 for and 230 against the Bill. This was the first time since the Labor party came to power that the opposition vote exceeded 200.[86] Continued opposition within and outside of Parliament forced some minor liberalization of compensation provisions while the Bill was in Parliament.

By January 1, 1948, the date on which inland transportation facilities (except for highway transportation) were taken over by the government, long-term interest yields on the best British industrial securities were at about a three per cent level. The government recognized this by giving the private shareholders of British railway, canal, inland waterway, hotel, dock, and London Passenger Transport stocks new British Transport three per cent guaranteed stock (bonds). Par value of this stock was exchanged for the old stocks whose exchange values in pounds sterling were determined in accordance with the provisions of the Transportation Bill. The British Transport stock matures at par on dates running from 1978 to 1988, except for that given in exchange for London Passenger Transport stock, which matures from 1967 to 1972. Transactions in transportation stocks on the London stock market had discounted precisely the details of the exchange which occurred on January 1, 1948. Apparently there was only minor dissatisfaction with the final terms of the transfer. The General Secretary of the British Railway Stockholders Union stated that the terms were those which had been expected and were "distinctly better than we anticipated when the Bill came out." Since the total par value of the British Transport three per cent stock given in exchange for private transportation stocks was about £1,000,000,000 ($4,000,000,000), the annual return to the owners is about £30,000,000 ($120,000,000). The total annual return on the former privately owned transportation securities had been about £43,000,000 ($172,000,000), a return which could not have been maintained because of the deteriorated condition of transportation equipment.[87]

Nationalization of Electric Power

As in the case of the railways, the dual need for integration and heavy capital investment constitutes the background for the nationalization of electric power. The government's first attempt at integration came in the Electricity Act of 1919. A Board of Electricity Commissioners was created to promote mergers and reorganizations in the industry. The Commission-

[85] *Ibid.*, p. 1703.
[86] Philadelphia *Record*, December 19, 1946.
[87] H. L. Matthews, New York *Times*, January 2, 1948; January 3, 1948.

ers were authorized to bring about the interconnection of power lines by establishing electricity districts. Within each district the Commissioners were to formulate a scheme for the integration of power facilities or to pass upon a scheme submitted by local private and governmental distributors of power. Little was accomplished because the plan depended upon cooperation which was not forthcoming from the private and public producers and distributors of electricity.

A further step was taken in the Electricity Act of 1926 which gave a Central Electricity Board power to carry out integration schemes. The Board was authorized to sell stock, guaranteed by the Treasury, and to finance the construction of high-tension lines and other equipment for linking together selected power stations within each district. The Board was empowered to generate or purchase electricity and resell it in bulk to authorized distributing utilities. Its members were appointed by the Minister of Fuel and Power but possessed important independent powers. Under the Board's jurisdiction, power generation was centralized in a number of selected stations owned and operated either by private interests or by local governments. The Board exercised supervision over these generating plants, purchased the output of each, and sold it at wholesale to municipal and private operators of local distributing systems. It has operated the "national grid," a system of interconnections of high-tension power lines, and has injected considerable planning and integration into the generation and distribution of electric power throughout Great Britain.

Despite this progress, still more integration was needed. In 1936, the McGowan Committee, an official investigating body, criticized the waste accompanying power generation by a multiplicity of small plants, the great variety of voltages—which ranged from 100 to 480 volts, the diversity of rate schedules, and the lack of electric power facilities in rural areas.[88] The Committee made suggestions for the coordination and improvement which it said "must be effected," and concluded that "the schemes for reorganization should make provision for the possibility of ultimate public ownership of all undertakings, including those not at present subject to purchase by the local authorities."[89]

The War brought a severe strain on the electric power facilities of Britain. Equipment deteriorated and the need for funds for expansion and replacement was evident in the immediate post-war period.[90] Heavy invest-

[88] *Labor and Industry in Britain,* February 1947, p. 28.

[89] *Ibid.,* p. 28.

[90] In response to a question in the House of Commons, the Minister of Fuel and Power on October 29, 1946, estimated that, allowing for "plant unavailable owing to breakdowns, overhaul, etc.," the maximum generating capacity of plants under the control of the Central Electricity Board would be 8,738,000 kilowatts during the winter of 1946-47. He estimated that the "maximum simultaneous demand" during this period would be about 10,000,000 kilowatts. He explained the expected shortage as "due to the absence of adequate plants."

ment of public funds in the industry was inevitable and the Labor government considered this impracticable so long as the Central Electricity Board possessed independent powers and so many important generating plants were not controlled by the national government.[91]

The purpose of the Electricity Act passed by Parliament on July 31, 1947, is the complete coordination under government ownership of the electric power industry of Great Britain. It was described by Prime Minister Attlee as "a further step forward to . . . complete some of the work begun in 1926.[92] The Act created the British Electricity Authority, appointed by the Minister of Fuel and Power, and authorized it to "generate or acquire supplies of electricity," to "provide bulk supplies of electricity" for local distributing systems, to "coordinate the distribution of electricity," to sell electricity directly to large users in some cases, and to generally control the industry, all these powers to be used to "develop and maintain an efficient, coordinated and economical system of electricity supply for all parts of Great Britain."[93] On the basis of geographical, sociological, administrative, and technical" factors, the country was divided into fourteen "electricity supply areas,"[94] and an Area Board created for each to purchase from the British Electricity Authority bulk supplies of electricity and redistribute them throughout each respective area. Just as the Authority is expected to integrate and develop the national power facilities, so each Area Board is obligated to integrate and develop the local distribution lines.

The nationalization measure need not be reviewed in detail for it follows closely the Bill nationalizing inland transportation. There is a system of "consultative councils" to represent local users of electricity in matters of rates, services, and developmental plans. The Authority is responsible for the national planning of electric power, but is subject to "directions" from the Minister of Fuel and Power on matters the Minister considers of national interest. All private electricity companies' securities are to be transferred to the Authority and the Area Boards. Compensation will be made in the form of British Electricity Authority stock (guaranteed by the Treasury) equal in value on the date of transfer to the value of the respective companies' securities on the London Stock Exchange on certain dates corresponding to those used for the valuation of railway securities.[95] The Authority will compensate local governments for facilities taken over

[91] In 1945, 197 generating plants were owned by local governments and 149 were privately owned. *Business Week*, December 14, 1946.

[92] In debate on the King's speech, *British Speeches of the Day*, December, 1946, pp. 697–698.

[93] *Electricity Bill*, H. M. Stationery Office, London, 1947, sec. 1. An area of the North of Scotland was exempted or especially provided for throughout the Bill because of large public hydro-electric projects already established there.

[94] See *Electricity Supply Areas, as Presented by the Minister of Fuel and Power to Parliament in January, 1947*. H. M. Stationery Office, London, 1947.

[95] See p. 391.

from them by assuming responsibility for the interest and sinking fund charges on debt incurred in connection with the previous purchasing or construction of such facilities. The total amount of compensation to be paid for the privately owned companies is estimated at about £350,000,000 ($1,400,000,000).[96]

The ownership of generating stations and main transmission lines is to be vested in the Authority, while the Area Boards will become the owners of local distribution facilities. The Authority, however, will hold power to give Area Boards such directions as it believes necessary for the efficient coordination of distribution facilities. The combined revenues of the Authority and the Area Boards must be maintained at a level adequate to cover operating expenses on an average over a period of years. Authority stock up to a maximum of £700,000,000 ($2,800,000,000) may be issued to obtain new funds for capital development. Reserve funds must be established and used, among other purposes, for preventing frequent fluctuations in electricity rates. The usual administrative details concerning reports, negotiation with employees, pensions, and so on, are included in the Act. Finally, all the property and remaining functions of the Electricity Commissioners (under the 1919 Act) and the Central Electricity Board (under the 1926 Act) are turned over to the British Electricity Authority. Some 570 power production and distribution undertakings are transferred to government ownership under the Authority and the Area Boards. Of these, about 400 already were owned by public bodies, chiefly municipalities.[97] In July, 1947, the Ministry of Works announced a construction program for electric power totaling £75,000,000 ($300,000,000) for the years 1947–1949.[98]

Development Areas

Among the troublesome problems the Labor government inherited is that of the "depressed" or "special" areas, now referred to as "development areas." These are the industrial regions, each usually being dependent upon a single industry, where unemployment was most severe during the depression of the 1930's and where recovery in the immediate pre-war years was non-existent or meagre. In attempting to cope with these areas under its "full employment" program, the Labor government has merely broadened and intensified government plans and efforts antedating its assumption of office.

In this program the government relies upon the Trading Estates and the Distribution of Industry Act. The present form of Trading Estates originated during the 1930's as a means of alleviating unemployment in depressed areas. They were created because the lack of suitable buildings

[96] Philadelphia *Record*, January 11, 1947.
[97] New York *Times*, January 11, 1947.
[98] New York *Times*, July 16, 1947.

was preventing new light manufacturing plants from locating in depressed areas and there was no indication that private enterprise would supply such buildings. In each of the four areas chosen at that time, non-profit Trading Estates companies were organized under government aegis, but with the control vested in independent company boards comprised of prominent public-spirited citizens. In each case the government supplied funds on which the company agreed to pay interest. With these funds the companies purchased and developed selected industrial sites and built factories to be leased to private manufacturers. This arrangement permitted a private undertaking to start operations in an advantageous location without purchasing land, investing in buildings, or negotiating with local utilities or governments. The Trading Estates companies made provision for rail and road facilities and supplies of power and water. During the War some of the new factory facilities were built through Trading Estates companies while others were constructed by government departments. In both types of cases the coalition government sought to locate new plants in formerly depressed areas or in areas where heavy industries, expanded during war-time, might experience serious post-war slumps.

The Distribution of Industry Act became effective in June, 1945, before the Labor government took office. It increased the government's power to participate directly in financing industrial projects in the depressed areas which, with this Act, came to be called Development Areas. The Treasury was authorized to grant funds for the construction of plant facilities proposed for such areas and for undertakings by local governments or non-profit companies to develop communications, power, water, health, housing, and other services important to industry. The government department known as the Board of Trade was given a key position in the scheme. The Trading Estates companies were placed under it, while the Board of Trade itself was empowered to acquire and clear land in these areas and to assist local governments or non-profit companies in so doing.[99] Under these powers the Board of Trade has set up "reserves of land suitable for clearance and future development."[100] It has worked at special industrial development plans for the Development Areas as well as other regions, has created a planning center in its Location Planning Room in London, and through its eleven regional offices "advises industrialists on building or extensions, coordinates inquiries that may effect other government departments or local authorities, and acts directly to overcome delays and bottlenecks."[101]

By combining the Trading Estates with the opportunities opened under the Distribution of Industry Act, the Labor government is promoting a dual program of building up industry in the Development Areas. First, a

[99] The Board of Trade corresponds roughly to our Department of Commerce.
[100] *Labor and Industry in Britain*, February 1947, p. 41.
[101] *Labor and Industry in Britain*, August, 1946, p. 118.

large amount of purely private industrial construction is attracted into the Areas by improved facilities and the planned industrial utilization of land offered by the Development Area program. Secondly, through Trading Estates companies new firms may rent plant facilities already constructed with Trading Estates funds, or to be constructed on sites chosen by the undertakings involved. Moreover, Trading Estates companies now act as agents of the Government in converting and leasing war-time plants owned by the government. In selecting industrial tenants and in providing new facilities for constructing industrial buildings the government insists upon priority for undertakings of national importance, in the sense that they produce essential civilian goods, have manpower needs particularly advantageous to the area, produce goods for export, or otherwise occupy some vital place in creating a well-balanced industrial structure in the Development Area involved.

While the Development Area program is primarily long-run, concrete results already attained warrant the conclusion that "what was in the nature of an experiment only a relatively short time ago has now been tried and tested and is today an accepted and important part of the country's industrial economy."[102] In mid-1947 it was reported that new buildings already approved for Development Areas would house factory operations requiring some 219,000 employees when completed. These factory buildings involved about £60,000,000 ($240,000,000) of construction cost, of which the government supplied about one-half. It is estimated that the Development Areas, with one-seventh of Britain's population, will get three-fifths of the factories built under the Distribution of Industry Act.[103]

Other aspects of the Development Area program are closely related to those described above. Some development areas will be assisted by the program of modernization in coal mining while others will be helped by plans to stabilize shipbuilding operations. Many water supply, sewage, and sewage disposal schemes for local areas have been approved by the Ministry of Health, with grants up to 85 per cent of their cost from the Treasury under the Distribution of Industry Act.[104] Road, bridge, and tunnel construction is being pushed in the Development Areas. Demolition and clearance of air-raid shelters has offered interim employment in some. The Minister of Labor is operating a Temporary Transfer Scheme to move labor out of the Development Areas voluntarily. Those who leave such Areas temporarily are promised employment opportunities equal to those who stay when new employment becomes available. The return of requisitioned factories to private owners has been hastened in the Development Areas. In locations such as the London area, the government is discourag-

[102] Quoted from the *Board of Trade Journal. Labor and Industry in Britain,* April, 1946, p. 65.

[103] New York *Times,* June 30, 1947.

[104] *Labor and Industry in Britain,* February, 1947, p. 42.

ing further industrial expansion, hoping to shunt new factories to the Development Areas. Early in 1947 the government announced a scheme for establishing government offices employing some 40,000 persons outside London for the purpose of "spreading the opportunity of clerical service throughout the country and especially in those areas which lack non-manual employment."[105] The government has established many labor training centers integrated with the needs of Development Areas.

Town and Country Planning

A Town and Country Planning Act, 1932, has controlled urban and rural community planning in Great Britain. Under it local governments were given planning powers, and joint planning authorities covering wider areas were provided for. The latter, however, were never effective because the Act lacked machinery to coordinate them. The result was that 1441 planning authorities existed in Great Britain, each dominated by local considerations of keeping down taxes and developing local trade and industry but influenced slightly, if at all, by the needs of other communities and the nation. Moreover, high land values hampered even these local planning efforts. This was true especially in urban areas where public authorities needed to acquire land to shift its use into more socially important channels. This "atomized planning" was not significantly affected by the creation in 1943 of a Ministry of Town and Country Planning with limited powers to "frame and execute a national policy for the use of land in Britain."[106] Finally, the destruction of buildings and utility installations during the War prepared the way for a comprehensive revision of urban and rural planning at the close of the War.

The Town and Country Planning Bill passed by Parliament in 1947[107] substantially followed the recommendations of one royal commission and two committees of experts which reported in 1937 and 1942.[108] The Bill places the ultimate control over the utilization of all kinds of land in the national government, with powers retained by local authorities to work out local planning within these limits. While the Bill does not nationalize the ownership of land, it does nationalize value increments resulting from the development or improvement of land. Its effects upon the private ownership and utilization of land are "almost revolutionary," in the words of the Minister of Town and Country Planning. He pointed out that "what is

[105] *Economic Record,* March 1, 1947, p. 10.

[106] *Labor and Industry in Britain,* December, 1946, p. 186.

[107] This is referred to as a "Bill," despite the fact that it has been enacted, because the text of the final Act is not available. However, no essential changes were made before enactment.

[108] The Report of the Royal Commission on the Geographical Distribution of the Industrial Population, 1937; Report of the Expert Committee on Compensation and Betterment, 1942; and Report of the Committee on Land Utilization in Rural Areas, 1942.

left to the owner is merely the right to continue to use his land for its existing purpose," and even this is subject to the broad powers of the government to acquire land compulsorily.[109] A British White Paper explains that the Bill sets up a new planning system "which for the first time makes practical such projects as the reconstruction of and redevelopment of old towns, the preservation of green belts, provision of open spaces in overcrowded areas, the allocation of land for factories, etc."[110]

While the Bill is a maze of intricate provisions, its main features may be summarized briefly. The 1441 planning agencies are reduced to some 145 county and county borough planning councils which, however, may delegate some of their work to lesser bodies. Control over planning is vested in a Central Land Board to which local planning agencies, within three years, must submit comprehensive plans for the development of their respective areas. These plans are subject to revision every five years. Under the Bill an owner has no right to build on his land unless the government grants him permission on the ground that his project conforms to the planned utilization of that particular land.

The Bill gives the government the right, when the owner receives permission to build, to levy a "development charge," thereby capturing for the public treasury the land value increment accompanying the new and more remunerative use of the land. Such "development value" would arise, for instance, in cases where farm land was to be used for a housing project or where houses were replaced by business buildings. The Bill permits the "development charge" to be equal to the full expected increment in land value. However, the Minister of Town and Country Planning has indicated that, since the government wishes to retain some private initiative and enterprise in building and land development, "development charges" probably would be only 75 to 80 per cent of the anticipated value increment.[111] While the Bill is based on the principle that with its enactment, the landowner thereby immediately loses all potential development increases in land value, it recognizes that universal application of this principle may cause hardship in some cases. Hence, it provides £300,000,000 ($1,200,000,000) to pay proven hardship claims of landowners. The government expects that the aggregate "development charges" collected will cover this compensatory fund over a period of years. The Minister of Town and Country Planning has estimated that about 15 per cent of British landowners, especially those owning rural land near towns, will be affected by the "development charges" provided for in the Bill.[112]

[109] New York *Times*, January 8, 1947.
[110] *Ibid.*
[111] *Ibid.*
[112] *Ibid.*

The Bill gives local authorities enlarged powers to acquire and develop land in accordance with the planned uses thereof. Whereas the Bill originally provided that in cases of compulsory acquisition of land, the compensation must be based on 1939 land values, this was changed by the House of Commons to provide for compulsory acquisition at January, 1947, market values.[113] Local governments are given the following liberalized grants by the national government. The latter will cover up to 90 per cent of local expenditures for developing areas damaged by the War, up to 80 per cent for redeveloping "areas of bad layout and obsolete development," and up to 60 per cent in other cases."[114] The Bill also imposes new controls on outdoor advertising and gives governmental bodies enlarged powers to preserve trees and historic buildings.

Several other measures are closely interrelated with the Town and Country Planning Bill. The Acquisition of Land Act, 1947, reestablishes powers previously possessed by local authorities to occupy privately owned land selected for public purposes. In the case of land needed for public housing projects, local authorities may take possession upon fourteen days' notice, with compensation left to be settled later. It provides that before exercising these powers, the local authorities must consult the Ministry of Town and Country Planning and the Ministry of Agriculture.[115]

The New Towns Act, passed in 1946, is designed to effectuate the recommendations of a New Towns Committee appointed in 1945 by the Minister of Town and Country Planning. The Committee recommended that, despite its cost in terms of temporarily disrupted economic and social relationships, the building of entirely new towns is preferable to the enlargement of old ones. The Act provided £50,000,000 ($200,000,000) to found some twenty entirely new communities, each being started by a governmentally appointed Development Corporation. Each would be "scientifically planned for work and living in beautiful surroundings with every modern amenity." These would be so located as to decentralize congested urban areas and would be limited to 60,000 population each. Under the Greater London Plan some ten of these new communities have been planned for the London area, removing over a half million persons and some industries to areas separated from London by a "green belt."[116]

[113] *Economic Record,* May 6, 1947, p. 1. This liberalization of compensation provisions, as well as the liberalization of the original compensation provisions in the Bill nationalizing inland transportation, are interesting examples of compromise on what all parties must consider a fundamental issue in the socialization of private property.

[114] *Labor and Industry in Britain,* February, 1947, p. 29.

[115] The latter, because local authorities have been accused of not properly recognizing the relationship between food shortages and taking good agricultural land for public housing and other projects.

[116] *Labor and Industry in Britain,* May, 1946, pp. 76–77.

HOUSING

Bombs destroyed 460,000 houses and damaged another 3,500,000 during the War.[117] Since during the six war years there was no new housing construction, post-war Britain needed at least 5,000,000 new houses. Under the Labor government an interim program, a program for temporary housing, and a permanent housing program have been prosecuted.

The interim program began on an extensive scale in 1945, with the repair of bomb damage. Large amounts of labor and materials were used during 1945 and 1946 to repair war-damaged houses and to convert large houses into apartments, since such efforts yielded the most housing in the shortest time. Up to March, 1947, the war damage to 812,000 houses had been repaired and 42,000 had been converted to multi-family occupancy.[118] This temporary housing program was administered by the Minister of Works. The government supervised and financed the production of temporary prefabricated houses. These have been allocated to local governments which assume responsibility for acquiring and preparing sites and for renting and managing the houses. From the end of the war to November, 1947, 132,051 temporary houses had been completed and at that time an additional 6800 were under construction.[119]

The long-term housing program of the Labor government is of greater significance. The basic policy is that labor and materials available for housing construction should be used almost exclusively for low-cost housing, chiefly to be rented rather than owned by the occupants, with government subsidies keeping rents at working-class levels. Since housing is only one of the many vital needs for labor and materials, allocation of these is necessary. The Minister of Works makes the over-all allocation for housing as well as for other purposes, and is responsible for seeing that materials actually are available in these allocated amounts. The Minister of Health, working toward the goals stated above, sets minimum standards for housing and establishes regulations under which either local governments or private contractors are permitted to engage in housing construction in the local communities. Most of the actual building is undertaken by local governments which let contracts to private construction companies for building rental houses which the local government then owns and manages. Private concerns are licensed to build houses for sale only if the proposed housing is within a certain maximum cost per house,[120] and is otherwise in line with the government's housing goals. Local authorities may make loans to purchasers of new houses, and special

[117] *Ibid.*, p. 75.

[118] *Economic Record*, May 16, 1947, p. 6.

[119] *Economic Record*, December 10, 1947, p. 6.

[120] In May, 1946, private construction for sale was limited to houses selling for no more than £1,300 ($5,200) in London and £1,200 ($4,800) elsewhere. *Labor and Industry in Britain*, May, 1946, p. 76.

measures are taken to prevent their speculative resale. Local authorities must adhere to the rule that four rental houses are to be constructed for every house built for sale.

Low-cost housing has been subsidized by the British government for many years. Prior to the war, "the subsidy was £8.5s. ($33) a year for 40 years, a capital value of £187.105 ($750) of which two-thirds was paid by the State and one-third by the Local authority."[121] Beginning in 1946, the standard subsidy became "£22 ($88) a year for 60 years, a capital value of £594 ($2,376), of which three-quarters is paid by the State and one-quarter by the local authority" with "higher subsidies . . . for agricultural dwellings, houses in poor areas, apartment houses on very expensive land, and houses built experimentally by non-traditional methods."[122]

Shortages of labor and materials, especially steel, brick, and lumber, have hampered the governments' housing efforts while the costs of construction have soared.[123] These factors, coupled with the fuel and power crisis in the winter of 1946–47, caused the government to abandon its original "target" of 240,000 houses to be built in 1947 and "to complete as many as possible" of the 218,000 houses under construction in May.[124] During the two and a half years of the post-war housing drive 164,873 permanent houses had been completed.[125] At the 1947 Labor party Conference, the government was criticized severely for not being able to report more completed houses. However, the Minister of Health rejected the suggestion that the building industry be nationalized, claimed that "there is no nation in the world that is making the same progress with housing as ourselves," cited house rents in the United States as over four times their level in Britain,[126] promised "a satisfactory number of new houses" by the next general election in 1950, and won overwhelming support of the party for continuation of the government's housing program.[127] Despite these optimistic statements it appeared in late 1947 that the government's plan to divert all possible materials into the production of exports to dollar-exchange countries would affect adversely the construction of housing.

Working Parties

This portion of the Labor government's program for industry pertains to those industries not scheduled for immediate nationalization. The

[121] *Labor and Industry in Britain,* May, 1946, p. 76.

[122] *Ibid.*

[123] It was estimated in 1945 that a workingman's house, which before the war could be built for about $1,800, would then cost at least $4,000.

[124] New York *Times,* May 9, 1947.

[125] *Economic Record,* December 10, 1947, p. 6.

[126] The war-time rent controls in Great Britain have been continued, and extended to cover furnished quarters.

[127] New York *Times,* May 31, 1947.

government's goal for such industries is to achieve the most efficient organization and operation of each important privately owned industry in order to increase its productivity, reduce its production costs, permit expanding domestic consumption of its product, and stimulate its exports.

To this end Working Parties have been established in the following industries: Cotton textiles, pottery, hosiery, furniture, boots and shoes, linoleum, carpets, jute, wool, china, clay, jewelry and silverware, cutlery, lace, clothing, glassware, light clothing, and rubber-proofed garments.[128] In each case the Working Party consists of twelve members in addition to the chairman, all appointed by the President of the Board of Trade[129] after consultation with the industry and the trade unions concerned. Four members represent the management of the industry, four represent its labor, and four represent the public. The latter are persons who have no direct interests in the industry but who possess technical qualifications for appointment, as would economists, accountants, engineers, architects, designers, and so on. The chairman is from outside the industry. Each Working Party is expected to make a thorough survey of its industry, covering organization, production, distribution, and relationships to other industries. It is obligated to reveal all potential means of increasing the industry's efficiency. To this end it studies particularly the most efficient firms in the industry, seeking reasons why its methods are not used by all firms, and even may send representatives to study foreign plants in the same industry. Each Working Party finally issues a formal report describing the organization and practices of the industry and recommending measures which could be undertaken by the industry itself, its labor government, or related industries to increase efficiency.

The Working Party Reports which have been published[130] are of high caliber and offer practical recommendations for betterment. The Working Parties have shown a remarkable unanimity in their respective recommendations, despite their tripartite composition, and many of their recommendations have been put into effect. A number of reports suggested new types of permanent bodies to execute recommendations and to provide central facilities for services which the larger firms can provide for themselves but which the smaller firms cannot afford. Illustrations are scientific research, statistics, personnel training, development of accounting and selling methods, and market research. To meet this need the Industrial Organization Act, passed in 1947, permits (but does not require) the President of the Board of Trade[131] to establish in an industry a tripartite Development Council as a central body empowered to undertake improvement

[128] All were established in 1945 or 1946, except the last two which were created in 1947.

[129] A government department similar to our Department of Commerce.

[130] Such as cotton textiles, wool, hosiery, boots and shoes, jewelry, silverware, pottery, and linoleum.

[131] A Cabinet member.

measures along the lines suggested above. In short, the Act was "designed to produce the organizational structure for industry which would best accommodate the recommendations of most of the Working Parties and to reinforce and strengthen private enterprise industries." The specific functions of Development Councils would be worked out "according to the desires and needs of the particular industry."[132] In addition to the provisions of the Industrial Organization Act, the government can recognize Working Committee recommendations in exercising its many controls in the field of credit and in allocations of materials and machinery to various industries, the power of allocation having been extended from the war period.

In December, 1947, the President of the Board of Trade announced the government's intention of establishing the first Development Councils in the cotton, pottery, wool, hosiery, furniture, and jewelry and silverware industries, with the clothing and shoe industries to follow soon thereafter. He emphasized that, while the government appoints the members, the Councils are "in no sense . . . branches of the government." Their chief purpose is that of "stimulating forward thinking for their industries, seeing that the problems of the future were not lost sight of among current problems and giving a lead where necessary for common activities, such as research." Orders establishing the Councils will empower them to raise funds by charging limited levies on sales. The Councils will have power to require government agencies to supply them with certain information and to require firms in each respective industry to register with the proper Council. However, no Council may refuse to register any firm making application, nor may it impose any conditions upon the entrance of a new firm into an industry.[133]

The Working Committee Report and its results in the cotton textile industry illustrate the type of improvement the government hopes to make in other industries through this device coupled with Development Councils. The industry came out of the War with a manpower problem, with much antiquated machinery, with financial resources inadequate for its development, and yet facing potentially keen competition in domestic and foreign markets. The Working Party Report (June, 1946) was geared to these circumstances. It recommended the reequipment of spinning mills at a cost of £38,000,000 and of weaving operations at a cost of £29,400,000. The majority proposed financing these expenditures by a compulsory levy on the industry for a three-year period and recommended an "equipment board" to allocate the expenditure of the funds. A tripartite Development Council and a new Central Marketing Company were recommended. Some amalgamation of plants was advised and for the immediate future a two-shift day, each on a forty-hour week, was suggested. The report charged

[132] *Economic Record,* March 1–8, 1947, pp. 2–3.
[133] New York *Times,* December 20, 1947.

that Textile Machinery Makers, Ltd., the principal source of the industry's equipment, was almost a complete monopoly and, as such, restricted the industry's ability to reequip itself.[134]

In December, 1946, the government, through the President of the Board of Trade, offered to provide £15,000,000 ($60,000,000) to reequip spinning mills if the industry permitted mills to be grouped into larger and more efficient units, provided the unions would agree to work on a two-shift working day basis. Both the industry and the unions accepted the offer and this plan, "the first concrete result of a working party survey," became effective on May 1, 1947.[135] A later concrete result of the report was the government's announcement that a government committee had investigated the charge of monopoly made against Textile Machinery Makers, Ltd., and had "absolved the company of abusing its monopoly by deliberately overcharging customers."[136] The committee did find that the company's monopolistic position had freed it from the "need for strict economy . . . and maximum efficiency which active competition would have compelled" and recommended that its products henceforth be sold under a "price-fixing system based on cost estimates and a rate of profit approved by the Ministry of Supply."[137]

Agriculture

Britain's 400,000 farming units long have been accustomed to government assistance and regulation. During the period between the wars world economic conditions brought government subsidies for the production of sugar, wheat, milk, cattle, oats, and barley, as well as cooperative marketing schemes under government aegis for hops, milk, bacon, hogs, and potatoes. While agriculture was Britain's largest industry in 1939, it was unbalanced in the sense that cattle, sheep, hogs, and poultry were raised in quantities necessitating the importation of one-third of the animal feedstuffs consumed.

The Second World War, curtailing foreign supplies of human foods and animal feedstuffs, brought drastic controls over the consumption of food and an all-out effort to expand domestic agricultural production. The government subsidized milk production to expand output of this top-priority food item. It set guaranteed prices for other agricultural products so as to encourage compliance with a desirable war-time agricultural pattern. War Agricultural Committees were set up in all counties, and, under these, 478 District Committees helped individual farmers to conform to national needs and plans. Many agricultural colleges were

[134] Most of the above is taken from a summary of the report appearing in *Foreign Policy Reports*, Foreign Policy Association, Inc., January 15, 1947, p. 260.

[135] *Economic Record*, May 16, 1947, p. 5.

[136] New York *Times*, May 31, 1947.

[137] *Ibid.*

closed down and their teaching and research staffs were attached to the County Committees to stimulate production. A national minimum wage for agricultural workers was set to attract manpower to farms and agricultural laborers were "frozen" into their jobs. Women and children were organized to help farmers. The County Committees established machinery pools and depots where farmers could lease machinery. Land improvement schemes were undertaken with the government bearing half of the cost, the use of fertilizers was encouraged by subsidies, and farmers were paid a bonus for plowing up grassland. The cultivated land area increased over 60 per cent and the production of such basic crops as wheat, barley, and potatoes quickly doubled, while many other crops increased substantially.

The post-war food shortage was particularly serious for Britain, the nation most dependent upon imported food. Hence she retained rigid war-time food rationing and imposed bread rationing for the first time in her history. War-time controls in agriculture were continued and every effort was made to preserve the government-farmer relationships which had developed during the War. A national agricultural advisory service with eight regional centers was created and the County Committees, now known as County Agricultural Executive Committees, were retained with their staffs of experts.

The agricultural program of the Labor government is an adaptation of war-time controls to long-run peace-time goals. The Agricultural Act[138] was described in the American press as "the most comprehensive and far-reaching agricultural bill ever presented in Britain,"[139] and yet it contains little to which the British farmer was not already accustomed. By retaining minimum wage laws for agricultural workers, guaranteed prices and assured markets for farm products, and vesting in the government compulsory powers to assure the proper use of farm land, the Act seeks to stabilize agriculture and increase its efficiency. Its purpose is to expand domestic consumption without jeopardizing the living standards of farmers or farm labor, or the adequate return on agricultural capital investments.

The stabilization features of the Act are in its provisions for guaranteed prices. The Act recognizes that efficient farming involves knowing well in advance what price and market conditions will prevail when given products are for sale. The Act provides that, on the basis of periodic "price reviews," the government will fix prices of crops, such as wheat, barley, oats, rye, potatoes, and sugar beets in the *year before* the harvesting of these crops. Thus the farmer will know these prices about eighteen months before harvest. The prices of cattle, sheep, hogs, milk, and eggs are so set and announced that farmers will know their *actual* prices one year ahead,

[138] Enacted in 1947.

[139] New York *Times*, June 10, 1947.

while, for these commodities, the government announces *minimum* prices and any suggested limitations on quantity of output for two to four years ahead. This system of fore-pricing is designed to align the farmers' decisions as to what to plan to produce, and in what quantities, with the government's estimates of the nation's needs for the respective products. The individual farmer is left to make his own decisions, with the government wielding the powerful fore-pricing device, supplemented by the advisory suggestions it spreads through county and district committees.

The following description of price-setting in 1946–7 indicates concretely how fore-pricing works.[140] In February, 1946, the Ministry of Agriculture, reviewed prices of agricultural products and in March announced new prices effective for *crops* with the 1947 harvest, and for *other* products such as cattle, sheep, hogs, milk, and eggs, for one year beginning July 1, 1946. In July, 1946, the minimum wage for agricultural workers was raised. Because of resultant increased costs, the Ministry made a special "price review" and on July 12, 1946, announced specific price increases applying to the next year's (1947) crops and to other products immediately. Farmers, through the National Farmers' Union, protested the July revision, claiming that the announced increases failed by at least £1,500,000 ($6,000,000) to compensate them for their increased labor costs. The Minister replied that the government had never promised automatic price adjustments corresponding to increased costs. He contended that expected increases in farm efficiency over the period of a year to eighteen months covered by the new price announcement would reduce costs, while the National Farmers' Union claimed that the anticipated increase in efficiency had already been considered in the February "price review." The Minister denied the request of the Union for the establishment of an independent tribunal to adjust the matter. Threats by the farmers to withhold food supplies and to boycott the County Committees were withdrawn when the Union and the Minister in August reached an agreement that the July-announced prices would stand, but the Minister and the Union jointly would investigate "defects or anomalies which have come to light in the course of the three price reviews which have so far taken place."[141] While these price settings for 1946–47 soon were outdated, they illustrate the pricing principles which the Labor government will follow and indicate what sort of pushing and pulling will occur among the interested parties in the practical application of these measures. In August, 1947, the government announced higher guaranteed

[140] Similar pricing practices were followed by the government in 1945–6 under its war-time powers.

[141] *Economic Record*, August 5–9, 1946, p. 2. For further details of these price actions see this publication. In March, 1947, further slight price revisions to become effective April 1, 1947, were announced. See New York *Times*, March 7, 1947.

prices as part of its plan to increase food production 20 per cent by 1951–52. This was part of its plan to reduce imports and thereby decrease the need for dollar exchange.

For the assistance and stability the Act offers, it imposes upon farmers the obligation to use land efficiently and in conformance with advice handed down by the government agencies. Under the Act, the extreme sanction of dispossession is vested in the government.[142] Under this procedure, a farmer who allegedly misuses land is first given a chance to explain his actions. The Minister may then place his farm under the supervision of the local County Agricultural Executive Committee which issues specific instructions as to what the farmer is to do. Again, the recipient of such instructions may state his case and, if the instructions order a landlord owner to provide capital costing more than the annual rental of the farm, he may appeal his case to the Agricultural Land Tribunal, whose decision is final.[143] If these steps have not brought satisfactory compliance on the part of the farmer, the government can dispossess him on twelve months' notice. If the dispossessed farmer is a tenant, his lease is thereby terminated and the owner of the farm is expected to lease it to a better tenant. If the owner himself is dispossessed, the government purchases the farm compulsorily. The Act provides for an Agricultural Land Commission to manage land thus acquired, as well as land which the government acquires because it cannot be developed without extensive capital investment, or because of its threatened private diversion to some less desirable non-agricultural use.[144] The Act protects tenant farmers against being penalized for negligence on the part of their landlords, as well as against losses for improvements tenants have made on leased land. It provides government loans to assist competent tenants to become farm owners. The Act also provides for the expansion of agricultural research and

[142] In defense of the vesting of such extreme power in the government, the Minister of Agriculture is quoted as stating that the government would not be "engaged upon a mission to dispossess farmers—but you cannot expect society to guarantee prices and markets if you have not a guarantee of efficiency in some form or other. The fewer people who are stubborn or unreasonable, the better we shall like it." New York *Times*, December 20, 1946.

[143] "This is an independent court of appeal, consisting of one legally qualified chairman appointed by the Lord Chancellor and two other members, a farmer and a landowner, appointed by the Minister of Agriculture from panels provided by their respective organizations. It will be assisted by two independent assessors with professional qualifications and its decisions will be final and binding on the Minister, who is thus prevented from acting arbitrarily without fear of challenge by an independent authority." *Labor and Industry in Britain*, February, 1947, p. 34.

[144] It is expected that this Commission eventually will come to operate scattered agricultural land holdings of the government. Hence, it may afford the government means of setting standards whereby to judge the efficiency of private farming, establishing model farms, and leasing land to private tenant farmers under conditions specified by the government. In no sense is it considered a transitional device to achieve extensive nationalization of the ownership of farm land.

furthering the technical advice supplied farmers. The cost to the government of carrying out the program embodied in the Act has been estimated at £23,300,000 ($93,200,000) annually.[145]

The Case of Steel

The British iron and steel industry merits special consideration for it demonstrates how opposition from private owners and unforeseen technical difficulties may modify an evolutionary socialist program.

Upon taking office, the Labor government believed that it held a mandate from the British electorate to nationalize the iron and steel industry. The party's 1945 campaign platform contained the following statement: "The Labor party submits to the nation the following industrial program: (1) Public ownership of the fuel and power industries. (2) Public ownership of inland transport. (3) Public ownership of iron and steel."[146] As the Minister of Supply pointed out to the House of Commons, "this question was put squarely before the electors at the general election. It was debated during the course of the election. . . . This question of mandate is important. It goes to the very root of our democratic system. . . ."[147]

On November 19, 1945, the Labor government announced in Parliament that "the Coalition government [the predecessor of the Labor government] had invited the iron and steel industry to submit a report on the improvements required to put the industry on an efficient operating basis" and that the Labor "government proposed to await this report before taking final decisions on the future organization of the iron and steel industry."[148] The report was prepared by the British Iron and Steel Federation and presented to the government in December, 1945. On April 17, 1946, the Minister of Supply announced in the House of Commons that "after full consideration the government have reached the conclusion that the position of the industry and its importance in the national economy necessitate a large measure of public ownership and that legislation for this purpose should be prepared." Pending nationalization, he stated, the government proposed to establish a Control Board which would be responsible to the Minister for getting under way some of the modernization schemes proposed in the report, for "general control and supervision of the industry," and for advice "on questions arising in the preparation of the scheme of nationalization, including the definition of the sections of the industry to be taken into public ownership."[149] Some members asked that the re-

[145] New York *Times*, December 20, 1946.

[146] "Let Us Face the Future," the party's basic campaign document, as quoted by the Minister of Supply, *Parliamentary Debates*, vol. 423, no. 147, p. 843.

[147] *Ibid.*

[148] *Parliamentary Debates*, vol. 421, no. 126, p. 2697.

[149] *Ibid.*, pp. 2697–2698.

port be published by the government, after which a full debate on nationalization of iron and steel should occur. The government agreed to publish the report if the Federation so permitted.

The Report by the British Iron and Steel Federation to the Minister of Supply on the Iron and Steel Industry, including a report by the "Joint Iron Council" on the iron foundry industry,[150] was published and presented to Parliament in May, 1946. It constituted an elaborate survey of the industry together with proposals for its modernization and reorganization, all to be carried out, of course, under private ownership. The report estimated that in 1950 to 1955 the domestic demand for steel would average 13,000,000 tons a year and the export demand would add another 3,000,000 tons. It proposed a seven-year program of expansion and modernization to reach 16,000,000 tons of capacity and to reduce production costs by building new plants in which basic steel products could be produced at a total per ton cost as much as 16 per cent under the prime costs alone in one-fifth of the then existing plants. The report included detailed specifications and proposed locations for new blast furnaces with 4,750,000 tons capacity and for new steel ingot capacity of 6,000,000 tons annually. It proposed the scrapping of 3,000,000 tons of obsolete blast furnace capacity and 4,000,000 tons of obsolete ingot capacity. It recommended the purchase of new equipment in the United States to avoid building up British facilities for providing rolling mill equipment. The report indicated that £168,000,000 ($672,000,000) of capital investment would be needed to carry out the plan and estimated that only about half of this could be met from the industry's existing financial resources. The steel industry's leaders felt the report demonstrated that no radical change in ownership or control was needed, and proved that the industry was no longer following the restrictive policies with which it often had been charged.[151]

On May 27, 1946, the Minister of Supply offered in the House of Commons a motion, which carried overwhelmingly, that "this House approves the decision of His Majesty's government to bring forward proposals for transferring to the ownership of the nation appropriate sections of the iron and steel industry with a view to its efficient organization in the public interest."[152] In defense of his motion he reviewed the history of the industry and emphasized its present importance as "the base of the whole of our industrial life."[153] He pointed out that it then employed 300,000 workers and, since it furnishes raw material entering directly or indirectly into the production of practically every commodity of peacetime

[150] Cmd. 6811, H. M. Stationery Office, London, 1946.
[151] New York *Times,* May 8, 1946.
[152] *Parliamentary Debates,* vol. 423, no. 147, p. 842.
[153] *Ibid.,* p. 845.

or wartime importance, it is "as much the lifeblood of the nation as its coal."[154] He cited price and profit statistics to prove that the industry was a private monopoly. "The issue," he argued, "is not between competitive private enterprise and public enterprise. The steel industry abandoned methods of competition twelve years ago. It exhibits neither the characteristic virtues nor the defects of competitive enterprise."

The Minister offered three principal reasons for the government's decision to nationalize: (1) The government would have to provide a large portion of the funds to carry out the Federation's plan for modernization which the government agreed was necessary; (2) The Federation's plan presupposed a central authority in the industry which could make decisions on the kinds and locations of new plant capacity and on what specific plants were to be scrapped, and no privately constituted agency could successfully override the interests of individual companies on such matters; (3) The industry report assumed a continuation of tariff protection and of price-fixing by some central authority which, combined, would create monopolistic control too powerful to be permitted to reside in private hands. The Minister described the portions of the industry to be nationalized as the mining of iron ore, coke oven operations (which were omitted from coal nationalization because of their close connection with steel works), the production of pig iron and of steel ingots, and the primary or heavy rolling sections of the industry since they operate as a continuation of smelting. Beyond these, he pointed out, are the finishing operations, which would be nationalized in those cases where they are so closely integrated with iron and steel making that there is virtually one process. Where finishing processes are separated from the production of iron and steel, the case of each firm would be reviewed before the boundaries of nationalization would be established. The Minister again proposed a Control Board, including representatives of management and workers, to see that the industry carried on efficiently and proceeded with modernization pending nationalization.

Following the House of Commons' action approving in principle the nationalization of steel, the Minister attempted to constitute the Control Board but encountered stiff opposition from the industry. Reflecting the resistance to nationalization, representatives of the industry refused to join any board which would have anything to do with smoothing the way for nationalization. A compromise finally was agreed upon and an Iron and Steel Board was appointed on September 8, 1946. It comprised an independent chairman, two other independent members, two representing management, and two representing the iron and steel unions. It was announced that the Board would not deal with matters related to nationaliza-

[154] *Ibid.*

tion[155] and that its duties would be: (1) "To review and supervise modernization and development schemes"; (2) "To continue such supervision as is necessary over the provision of raw materials and to administer, under powers delegated by the Minister, such direct control as may be required over the production, distribution, and import of iron and steel products"; and (3) "To advise on a general price policy for the industry and on the fixing of prices for controlled products."[156]

The British press differed in its interpretation of the compromise. The Conservative press took the move to represent an important shift in the government's original nationalization program and, in some cases, even speculated upon the possibility that the Labor government never would nationalize steel as it had coal. It was suggested that some hybrid type of organization might be devised under which the owners would continue to hold large blocks of shares in steel companies, with the government imposing some over-all pattern of control. The Labor press, however, held that the government would achieve public ownership of sections of the industry during the life of the present Parliament, that is, before 1950.[157] A report circulated in the United States that the government would permit the industry to continue under private ownership with government control, and that the government gradually would buy up steel company shares until it attained controlling equities.[158]

On April 28, 1947, the Minister of Supply announced in the House of Commons that the government would not introduce during the "present session" legislation nationalizing the steel industry. However, some newspapers were still predicting that a bill would be introduced before the expiration of the present Parliament in 1950.[159] Meanwhile, the Iron and Steel Board accepted the Federation's plans for modernization of the industry and, during its first six months of operation, approved the details of projects calling for capital expenditures of some £65,000,000 ($260,000,000).[160] The concentration of attention on the crisis growing out of the dollar exchange shortage in mid–1947 made it almost certain that the nationalization of steel would be postponed.

Meanwhile the steel industry slightly more than met its production

[155] The press reported unofficially that, as a condition of joining the Board, the industry exacted a promise that its Board representatives "would be under no obligation, collectively or individually, to advise on nationalization." Before agreeing to this, the government was reported to be asking that, while the Board would not participate in "designing the pattern of nationalization," the industry representatives "would give the government the benefit of their technical and industrial advice in their individual capacities." New York *Times*, August 16, 1946.

[156] *Economic Record*, August 26–September 9, 1946, p. 4.

[157] *Ibid.*, August 5, 1946, p. 5.

[158] *Business Week*, November 9, 1946.

[159] *Economic Record*, May 6, 1947.

[160] *Ibid.*, p. 8.

"target" of a total of 12,500,000 tons for 1947 by a remarkable expansion of output from the low level of 200,000 tons per week in March to an all-time high of 263,000 tons per week during early December. At the close of 1947 the production trend was upward and the industry was producing at an annual rate of substantially over 14,000,000 tons, although this figure earlier had been set as the 1948 production goal.[161] The planned 16,000,000 tons of capacity by the end of the seven-year modernization program seemed attainable.

QUESTIONS FOR CLASS DISCUSSION

1. What non-economic considerations were involved in the nationalization of telecommunications?
2. One of the advantages of socialism is alleged to be industrial integration. Does the nationalization of inland transportation afford any illustrations of this?
3. Would it be fair to say that the nationalization of inland transportation is merely the continuation of a trend?
4. Outline the organization through which inland transportation will be managed. Are the workers represented in this management? The consumers?
5. Why was there so much controversy over compensation for inland transportation properties? Is this compensation plan more or less in line with socialist principles than is the compensation plan for the coal industry?
6. What are the chief reasons the Labor government gives for nationalizing electric power? Will nationalization of this industry give the government increased control over non-nationalized industries?
7. What special problems has the Labor government faced relative to depressed industrial areas? What means have been used to attack these problems?
8. What does the Town and Country Planning Bill do about increments in land value? Does this destroy the last vestiges of private property in Great Britain?
9. In what sense does the housing program illustrate decentralized socialism? What are the advantages and disadvantages of this?
10. Has the Labor government accepted responsibility for increasing the efficiency of non-nationalized industries? How has this problem been attacked?
11. Fore-pricing is an essential part of the agricultural program of the Labor government. Explain how this works. Is it in line with socialist principles?
12. Why does the government reserve to itself the right to dispossess farmers? Is this necessary?
13. What shift in policy did the Labor government make with reference to the iron and steel industry? Why? Was this shift a cowardly move on the part of socialists?

[161] New York *Times*, December 27, 1947.

Chapter 21

THE PROBLEMS OF LABOR, LIVING STANDARDS, TRADE, ECONOMIC PLANNING

LABOR

DESPITE industry's serious manpower shortage the new Labor government lost no time in announcing that war-time controls over labor would be removed as speedily as was consistent with orderly transition to peace-time conditions, "so that individual workers shall have complete liberty to earn their livelihood in the way they prefer."[1] During the War, Essential Work Orders had "frozen" over half of Britain's 16 million workers in their jobs. These controls were removed gradually through the government's consultation with the respective industries and unions until on January 1, 1947, only 232,000 workers were still subject to Orders. Of these the majority were in building and civil engineering and were scheduled to be freed from Orders in a few months. This would have left only a few employees in several building material industries, and the employees of county Agricultural Executive Committees, controlled by Orders. While coal miners had been freed, they were still subject to a Control-of-Employment Order preventing them from taking employment outside coal mining, but permitting them to shift from one colliery to another.[2] In August, 1947, as part of its program to increase production for export in order to get dollar exchange, the government announced its intention to reimpose limited controls over labor to assure its flow from unessential industries into production for export.

Average weekly money earnings (before income tax and social insurance deductions) for non-clerical personnel in manufacturing industries have increased substantially over their pre-war level. For male employees the average increase from October, 1938, to October, 1946, was 75 per cent, while for female employees it was 101 per cent. In railways and coal

[1] Quoted from the Minister of Labor's announcement, *Labor and Industry in Britain,* December, 1946, p. 207.

[2] *Labor and Industry in Britain,* February, 1947, pp. 26-27.

mining (excluded from the above data) the increases were 77 per cent and 123 per cent, respectively.[3] While the loss of overtime hours caused weekly earnings immediately after the War to fall substantially below their war-time peaks, increases in wage *rates* had restored weekly earnings to approximately their war-time levels by October, 1946. Weekly hours worked in October, 1946, averaged about two less than during the War. While at the close of 1946 as compared with October, 1938, all industrial workers received an average of about 90 per cent more money per week for approximately the same number of hours worked, this should not be taken to indicate a rise in *real* earnings. The official cost-of-living index rose over 30 per cent. This index was generally considered defective[4] and the actual increase in living costs probably was 50 per cent.[5] Moreover, living costs were kept down by paying the producers of basic necessities heavy subsidies which eventually come from taxes. The British Income and Surtax Bill paid by citizens in 1946–47, was £1,232,000,000, or about 350 per cent of that in 1937–38. Coupled with increases in living costs and heavy taxes, strict rationing kept living standards well below pre-war levels despite rising money wages.

The Labor government has no definitive wage policy. However, its attitudes and actions indicate that the following elements comprise a *de facto* policy: (1) The government continues its efforts, chiefly by subsidies, to keep the official cost-of-living index from rising, and, thereby, to prevent rising money wages and labor costs from contributing to an inflationary spiral. (2) It relies upon normal collective bargaining, usually on an industry-wide basis in Britain, to produce contractual wage rates and working conditions fair to all parties. (3) While it prefers to take no direct part in wage negotiations, the government has at hand facilities for mediation, conciliation, and arbitration which parties in dispute over wages are urged to accept, and practically always do, following the war-time tradition of arbitration when collective bargaining fails. In important wage disputes, settlement facilities especially adapted to the individual case are set up under the aegis of the government.[6] (4) The government has refrained from granting wage increases when an industry is nationalized. It has insisted that the mere act of nationalization is not a legitimate reason for increases and that improved wages can be agreed to by the government only with rising efficiency and productivity per man-hour in the industry concerned. The government's attitude toward nationalized industries is reflected in negotiations in other industries as well. (5) The government accepts long-run responsibility for seeing that workers get "a proper and

[3] *Ibid.*, June, 1947, p. 116.

[4] For a discussion of these defects and plans for a new cost of living index see *Economic Record*, March 21–31, 1947, pp. 12–15.

[5] *Labor and Industry in Britain*, December, 1946, p. 208.

[6] For illustrations from cotton spinning and dock workers, see *ibid.*, April, 1946, p. 67.

adequate share" of increasing production. Employers, unions, and Parliament, it is planned, will be supplied with "fuller information" pertinent to this matter so that "indisputable facts" may facilitate wage negotiations and guide whatever parliamentary control is necessary.[7] In this connection, Mr. Herbert Morrison has pointed out that the 90 per cent of the population in the lower income categories in 1947 were getting 67 per cent of the total national purchasing power, as compared with the 55 per cent they received before the War.[8] He added significantly: "From now on, what we get in social benefits and higher wages we shall, broadly speaking, have to earn by higher production.[9]

In August, 1947, the government asked local union leaders to refrain from demanding wage increases so as to avoid rising costs which might interfere with the expansion of exports and add to inflationary forces. When opposition was encountered, the government appealed to the Trades Union Council. Its reply in December was a firm stand against wage controls, although it recommended that unions use discretion in their wage demands. Faced with widespread requests for wage increases, the Labor government in February, 1948, made its wage policy somewhat more concrete than it had been. In a statement to the House of Commons, Prime Minister Attlee said that the government would consider "unjustified" any general wage increase not accompanied by an increase in production. He branded as "equally objectionable" any rise in profits, rents, or other incomes, and announced that, if necessary, the Cabinet would take formal action to implement this policy.[10]

In their negotiations the unions have pressed for the "guaranteed week." The war-time Essential Work Orders guaranteed each worker frozen to his job receipt of a minimum *weekly* wage, equal to average normal full-time earnings, even though work was not available for him, provided he made himself available for work and was willing to do any job within reason. While representatives of the government have expressed hope that similar provisions will be negotiated into post-war contracts, nothing has been done to force such a provision on industry. Some form of "guaranteed week," or guaranteed minimum number of hours per week, has been negotiated in portions of the following industries: construction, railways, civil engineering, docks, laundries, electric cable making, boots and shoes, woolen textiles, cotton, and metal trades.[11]

In only one case has the government violated its hands-off policy in this matter. Under the Dock Workers (Regulation of Employment) Act which became effective in February, 1946, the war-time "decasualization" schemes

[7] Herbert Morrison, *Labor and Industry in Britain*, April, 1946, p. 68.
[8] *Economic Record*, June 5, 1947, p. 3.
[9] *Ibid.*
[10] New York *Times*, February 5, 1948.
[11] *Labor and Industry in Britain*, July, 1946, pp. 103–104; December, 1946, p. 207.

for dock labor were continued and given the force of law. The Act provided that, under plans to be worked out jointly by employers and unions for each port or group of ports, registration would limit the number of dock workers seeking work at each port to the number needed. Each registered worker then would be guaranteed a minimum weekly wage whether or not work was available.[12] By July, 1947, the government had set up schemes covering all the ports. Under them dock workers receive a guaranteed minimum weekly take-home wage. If in any week the worker earns less than this the difference is made up to him.

Unions also have been pressing for a five-day, 40-hour week, which did not generally prevail in pre-war British industry. While some firms have granted this in negotiations, the government has not acceded to the union's request for legislation permitting the Minister of Labor to make it mandatory by a certain date in industries where it does not then prevail. Industry resists the move on the ground that reducing hours without reducing wages will increase labor costs and handicap the drive for exports. Labor replies that costs will not necessarily increase, particularly if a two-shift day accompanies the reduction in weekly hours. The government has taken no position on the long-run issue other than to grant a five-day week in the coal industry. There, however, certain conditions to increase productivty were attached.[13] However, the government announced in August, 1947, that as an emergency measure it would ask for a lengthening of hours of work where such would increase production and thereby assist in meeting the economic crisis.

Trade Unions

Only one major legal change directly affecting trade unions has been made by the Labor government. The Trade Disputes and Trade Unions Act of 1927 was repealed by Parliament in 1946. This Act, passed after the 1926 general strike in support of demands made by the coal miners, carried the following provisions: It prohibited sympathetic strikes outside the industry where the original dispute arose if such strike were directed to coercing the government by bringing hardship upon the community; it prohibited other strikes not connected with disputes over hours, wages, or other conditions of employment, if they were directed to coercing the government by bringing hardship upon the public; it imposed criminal liability upon union officers down as far as shop stewards and strike committees for, and permitted unions to be sued for damages arising from, strikes declared illegal by the Act; it prohibited government employees from joining trade unions other than those admitting only government servants and unaffiliated with any outside political organizations; it lim-

[12] *Ibid.*, February, 1946, p. 24; May, 1946, p. 79.
[13] See p. 365.

ited the right to picket; and it denied unions the right to use funds for political purposes unless the contributor specifically designated them for such purposes. Two very important effects of repeal of the Act are that government employees may now join unions affiliated with other unions and pursuing political objectives, and trade unions may use for political purposes funds collected from members, unless the contributor specifically denies the union that right.

The fundamental problem for British unions is the question of whether they can preserve their freedom and independence in representing their 8,000,000 members despite their constituent relationship to the Labor party and, thereby, their ties to the Labor government. Moreover, the appointment of union officers to boards of nationalized industries has linked unions to the management of such basic industries as coal, electricity, transport, and communications. Do these connections bind the unions to accept without question decisions of the Labor government or of the management boards of nationalized industries? If so, unions have lost a large measure of their freedom and independence of action through their assimilation into broader bodies representing more diverse interests than merely those of unions. On the other hand, should unions reserve the right to take whatever independent action they choose to promote their own interests as such, despite governmental policies and lines of action laid down by the management boards of nationalized industries? If so, a union may tie up a basic industry by rejecting some policy or decision in the making of which organized labor has participated. In such a case, a union may be hampering a government or a nationalized industry which, in turn, is working to serve the interests of the masses of workers.

Apparently British unions are steering a middle course between these extremes. They have declared their independence of the government and of the employer—whether he be a private owner or a government board. They intend to represent the sellers of labor service, getting for them the best wages and conditions they can through traditional collective-bargaining procedures. While union officials may serve on governing boards of nationalized industries, their unions require them to give up their union posts while doing so. The unions intend to preserve unimpaired the right to strike. While unions reserve full freedom of action, union officials recognize that with a Labor government pursuing a nationalization program, unions are obligated to lift their sights and conform their actions to goals more distant than short-run partisan objectives. Union leaders have backed fully the government's efforts to increase labor productivity and to expand exports. In the case of coal, for instance, the union has bound itself contractually to avoid restrictions on labor productivity.[14] Union leaders have held in check union wage demands to assist the government in warding off harmful inflation. They have promoted

[14] See p. 365.

public acceptance of the drastic consumption controls the government has imposed. All this is evidence that, by and large, the unions are making an attempt to adapt their policies and actions to the realities and problems of an evolutionary socialism.

Unions anticipate that the current government will ease their problem by assuring workers their fair share of the social product. Nationalization of an industry creates certainty that extensive facilities will exist for negotiating contracts and settling grievances and misunderstandings under those contracts. In such cases, unions will not be forced to fight for adequate collective bargaining as they sometimes have had to do in private industry. Indeed, nationalization may bring true collective bargaining for the first time in some industries. Private ownership resistance to collective-bargaining encroachment upon management "prerogatives" and "functions" is expected to diminish or disappear in nationalized industries while the union's attitude toward piece work and scientific management surely will change. The reluctance of a private employer to discuss profits or other matters considered confidential in a competitive situation presumably will be absent under nationalization. While the right of strike will be preserved, unionists feel it should become almost "theoretical" under nationalization. It is admitted that frequent strikes are an anachronism in a successful socialist economy.

These changes in the position and functions of trade unions were summarized as follows by Mr. Charles Dukes, President of the Trades Unions Congress in October, 1946:

> I will not pretend that this readjustment of the trade union point of view is going to be easy. There are strong conservative instincts in the trade unions. The notion that there is an inconceivable conflict between the employing authority and the worker will die hard. It will not be easy for the workers in a nationalized industry to see that their claims for improved conditions, better wages, and shorter hours of work must be balanced in a consideration of general social interests.
>
> In the transitional stages of the change that is taking place in our economic life today, we as trade unionists will be called upon to exercise much patience in negotiations and to make real sacrifices, even where legitimate claims are in question. . . . We shall have to assume responsibilities in connection with the control and management of industry that we have considered to be hitherto beyond our province; and we shall have to adapt the machinery of our unions, the training of our officers and the education of our membership in regard not only to the management of industrial enterprise but to the other tasks of our organized movement.[15]

The Labor government's program is being carried forward without serious labor disputes in industry. During the War, unions and employers arbitrated differences not resolvable through collective bargaining. The parties agreed to extend the arrangement for the time being into the post-war period. Just as a similar war-time pledge in the United States failed to

[15] *Labor and Industry in Britain,* December, 1946, pp. 210–211.

eliminate all war-time strikes and lockouts, there were war-time strikes in Britain. In 1944, for instance, 3,715,000 working days were lost in labor disputes.[16] During 1945, the year the War ended and the Labor government came into office, 2,734,000 working days were lost through strikes.[17] In 1946, the working days lost were still fewer—2,160,000. From V-E Day through November, 1947, the aggregate working days lost through disputes were about 6,500,000, as compared with 89,500,000 lost during the corresponding period after the 1914–1918 war.[18]

The only serious strike occurring under the Labor government up to the end of 1946 was the unauthorized strike of dock workers in September–November, 1945, during which about 1,000,000 working days were lost. In 1947 there occurred a wave of strikes, some of which were closely linked to measures taken by the Labor government. In January, some 15,000 motor truck employees caused great public inconvenience, including a food shortage in London, by a twelve-day strike over the terms of a wage tribunal's award. The strike was unauthorized by the union and the government used troops to move food shipments. In February–May, a thousand London street cleaners struck in protest against the promotion of a private policeman reputed to be an anti-unionist. The strike was unauthorized by the union and the men went back to work because of intense public resentment at this "act of utter irresponsibility."[19]

The strikes directly attributable to the Labor government's program also were unauthorized by the unions. One, which lasted from March 24 to May 5, 1947, was the strike of Glasgow dock workers. Under the government's plan to decasualize dock labor,[20] a committee in which the union had participated agreed that no more than 800 workers should be registered for and guaranteed steady dock work labor in Glasgow. After further negotiations with the union the Regional Port Director dismissed an excess of 500 dock laborers, about half being selected for dismissal on the basis of seniority and the other half on the basis of their working records. A protest strike occurred in Glasgow and, despite pressure from union officials, some dock workers in London struck in sympathy. The Minister of Labor condemned the strike as in complete disregard of the national well-being and in violation of machinery legally established to regularize employment.

Several strikes were connected with the beginning of the five-day week in coal mining.[21] Several hundred "winders" in the coal mines struck, claiming that their weekly take-home pay would be reduced under the

[16] 1946 *Britannica Book of the Year*, p. 703.

[17] 1947 *Britannica Book of the Year*, p. 727.

[18] *Labor and Industry in Britain*, April, 1947, p. 88; New York *Times*, November 26, 1947.

[19] So characterized by the Minister of Health, speaking in the House of Commons. New York *Times*, May 9, 1947.

[20] See pp. 421–422.

[21] See p. 365.

five-day week plan of mine operation. While the strike was small in numbers, "winders" are key employees and their strike caused 11,000 miners to be idle. In this case the union authorized its members employed in other capacities in the mines to perform the work of the winders.[22]

Another more serious strike in the coal industry was the Yorkshire miners' strike in August and September, 1947. When the National Coal Board and the Union agreed to reduce the six-day to a five-day week with no reduction in weekly pay, they also agreed that the stints (the actual tasks considered to comprise a full day's work) in the various mines would be revised so that weekly production per worker would not decline. Although many miners had accepted and were working increased stints in their mines, 140 coal face workers in the Grimethorpe mines refused to comply when their daily stint was increased from working 21 feet of the coal face to working 23 feet. Despite condemnation of the strike by local and national leaders of the Union, the Grimethorpe miners refused to return to work and, indeed, they were joined by some 40,000 sympathetic strikers in 54 other Yorkshire mines. The strike lasted five weeks and cost Britain some 600,000 tons of badly needed coal. The strike ended only when the National Coal Board agreed that the Grimethorpe miners would work the old 21-foot stint pending a report by an investigating committee on the fairness and practicability of the increase in their daily stint.

The facts of the Glasgow strike and the coal mine strikes are significant for two reasons: (1) They indicate that, while union leaders have fully supported the Labor government program, dissident union elements can cause serious trouble to a nation as necessitous as is post-war Britain. Labor union leaders have recognized that they must gain the confidence of, and control over, union elements which engage in unauthorized and (from the broad viewpoint) unwarranted work stoppages. Labor government officials have condemned these unofficial strikes as "disgraceful folly,"[23] and the Cabinet is reported to have authorized the Minister of Labor to study the outlaw strike problem and recommend remedial measures.[24] (2) These strikes illustrate the type of problem which arises from attempts at betterment on a national scale. Decasualizing dock labor and instituting

[22] A similar situation arose during the two-day strike of 4,000 clerical workers at 270 Welsh mines in June, 1947. The National Mine Workers Union, with which the clerical workers were not affiliated, asked its members to "undertake any occupation at the colleries that might be vacated by clerical workers." This action was defended on the ground that the clerks' own union had not authorized the strike. New York *Times*, June 24, 1947.

[23] Attorney General Sir Henry Shawcross, New York *Times*, May 5, 1947.

[24] *Ibid.* On July 6, 1947, just as the Annual Conference of the National Union of Mineworkers was convening, the National Coal Board notified the union that unauthorized strikes in the coal industry thenceforth would be prosecuted as violations of contract. Lord Hyndley, Chairman of the National Coal Board, stated that, during the first six months of 1947, unofficial strikes accounted for the loss of 500,000 tons of coal. New York *Times*, July 10, 1947.

a five-day week in coal mining were undertaken fundamentally to improve conditions of labor, and yet they ran counter to the narrower interests of specific local labor groups. The solution of such problems can occur only through socializing the thinking and incentives of labor at the local level, or through more stringent centralized control vested in national officials of unions, or through both. In any event, it constitutes one of the problems facing unions which hope to perserve their independence of action during the evolutionary development of a sound socialist economy.

Social Security and Health Service

While they merely climax trends occurring in Great Britain for many years, a number of measures in the field of social security and health should be considered in connection with the Labor government's program.

The Family Allowance Act of 1945, which was passed just before the Labor government came into power, became effective on August 6, 1946. It provides a weekly allowance of five shillings ($1.00) for each child, except the first, until the child reaches fifteen years of age, the limit of compulsory school attendance. The allowance continues for another year if the child remains in school. Every British family of two or more children is eligible for this allowance and by its effective date four-fifths of the estimated 2,500,000 eligible families had filed their claims. The cost is paid from the general funds of the Treasury and will amount to about £1,000,000 ($4,000,000) weekly.

In 1942 the "Beveridge Report" recommended extensions and liberalizations of British social insurance schemes to provide each person the assurance of a minimum standard of living "from the cradle to the grave." The war-time coalition government in 1944 issued a detailed report on measures required to effectuate the Beveridge proposals. The National Insurance Act, passed by Parliament in August, 1946, put into operation the main proposals of the Beveridge Report and in some matters even exceeds them. The various provisions of the Act became effective on various dates up to 1948. The government insurance is on a compulsory basis with benefits to the insured and his dependents covering unemployment, sickness, maternity, widowhood, orphanhood, old age, and death. The following old age pensions, for instance, are provided: For men, single women, and widows, $5.20 per week; for married women, $3.20 per week, making the pension $8.40 for a married couple. The cost is met by the government, employers, and the insured, the latter paying a single weekly premium to cover all forms of protection. The maximum premiums payable by the insured are 80 cents per week for men and 50 cents per week for women. For those unable to bear the weekly premium, the government assumes the cost. Under the related National Insurance, (Industrial Injuries) Act, passed at the same time, all employed persons pay an additional com-

pulsory weekly premium to provide temporary benefits or permanent pensions in case of injury suffered while employed.

The National Health Service Act was passed in October, 1946, with its provisions becoming fully operative by April 1, 1948. With funds derived partly from the National Insurance Fund and partly from the Treasury, everyone in Britain is assured of unlimited medical, dental, specialist, and hospital services at no cost to himself. Consultation and treatment may be received at public health centers, at home, or at the physician's office. Physicians may choose whether or not to enter the health service for a government stipend and, if they enter, they are free to take private patients at hours other than those paid for by the government. The person seeking medical attention may choose any physician in the service or he may employ his private physician on a fee basis outside the scheme. All hospitals, except those where medical teaching is done, are taken over by the Ministry of Health and operated by regional boards. After passage of the Act there was substantial opposition from physicians. Their fears were at least partially allayed when the Minister of Health assured them that they would not be made "civil servants," would not be forced to "go anywhere or do any thing," and that placing them on government salaries "was intended only as a benefit to the doctors."[25]

Public Finance

The Labor government's program is intimately interrelated with public revenues and expenditures. Hugh Dalton, then Chancellor of the Exchequer, has estimated that when the social security, health, and family allowance program becomes fully operative it will absorb £700,000,000 ($2,800,000,000) annually of government funds. Subsidies to food producers to keep the cost-of-living index down temporarily cost the government some £300,000,000 ($1,200,000,000) per year, while housing construction subsidies apparently will add another £130,000,000 ($520,000,000) annually for the next twenty years. It is estimated that the total cost of all the social services to which the government is committed will level off at about £1,000,000,000 ($4,000,000,000) by 1965–1970.[26] The cost to the government of nationalizing industries is difficult to estimate. The costs will be insignificant if the nationalized industries are efficient and bring in receipts adequate to cover operating costs, plus capital charges on stock issued to compensate former owners. However, nationalization has necessitated large issues of new securities, the return on which is guaranteed by the government.

In meeting these obligations the government has indicated its intention to follow orthodox principles of public finance. The Chancellor of the

[25] New York *Times*, January 10, 1947.
[26] *Ibid.*, April 14, 1947.

Exchequer has said that, while the government's budget need not be balanced mechanically every year, it must be in balance over a period of years, with surpluses of revenues when inflation threatens and deficits to forestall injurious deflation. The budget for the fiscal year 1947–48, the second under the Labor government, is in balance. In fact, if a non-recurring receipt of the £292,000,000 of unexpended appropriations being returned to the Treasury is counted, there is a prospective budgetary surplus of approximately that amount. This balance is achieved despite substantial increases in the government's expenditures for such items as education, housing, school meals, higher old age pensions, family allowances, socialized medical services, cost-of-living subsidies, and development area work. The halving of defense expenditures materially assisted in balancing the budget.

On the revenue side, income taxes account for a third of total revenues in 1947–48, while customs and excise levies constitute another third. Changes in income taxes benefit lower income receivers but it is difficult to assess their importance because indirect taxes, such as excises, are increased. While increased excises fall potentially on luxury goods, this is not exclusively the case. The tax on tobacco is increased by 50 per cent, raising the price of a package of cigarettes, including the tax, from 47 cents to 67 cents. This change, however, is not for revenue reasons. It is expected to decrease tobacco consumption, thus decreasing tobacco imports from the United States and thereby saving dollar exchange for other purposes. Inheritance taxes were substantially raised, after the 1946–1947 budget had revised them to reduce the burden on smaller estates and increase it on larger estates. The total tax burden amounts to almost one-third of the combined personal incomes of all individuals as compared with 22 per cent of the national income taken in taxes in 1938.

Increased expenditures on social services, coupled with tax relief for low-income receivers and increases in inheritance taxes, indicate the Labor government's general inclination to utilize public expenditures and receipts to achieve a moderate degree of redistribution of real income.

An interim budget applicable to the remainder of the 1947–48 fiscal year was announced by the Chancellor of the Exchequer on November 12, 1947. It was designed to absorb some of the surplus spending power which otherwise would strengthen the forces tending to create price inflation. New taxes and increases in the rates of old taxes were designed to yield £48,000,000 ($192,000,000) during the remainder of the fiscal year, or £208,000,000 ($832,000,000) during a full fiscal year. The tax rate on profits was doubled, amounting to 25 per cent on distributed and 10 per cent on undistributed profits. The purchase tax rates, except for automobiles, were substantially increased. These taxes, levied on an extensive variety of consumer goods, now stand at from 33⅓ per cent to 125 per cent of the wholesale price, whereas previously they had ranged from 16⅔ per

cent to 100 per cent. A tax of 10 per cent was placed upon all wagers on the "pari-mutuels" and on all money paid into football pools. Taxes on liquors were increased, but the tobacco tax, already very heavy, was left unchanged. Although the basic income tax rate of 45 per cent was not changed, all unpaid taxes above £1000 were to cost the delinquent taxpayer 3 per cent per year.[27]

The Opposition

One aspect of the opposition to the Labor government program can be viewed through the reactions of the London Stock Exchange. Share prices generally have not been depressed by the nationalization program. Based upon July 1, 1935, as 100, the *Financial Times* index for thirty industrial shares stood at 115 in February, 1946, and at 141 in January, 1947. Share prices, however, have reflected the economic crises which the Labor government has faced from time to time. For instance the bleak outlook for solving the balance-of-trade problem, and the imminent exhaustion of the dollar exchange borrowed in the United States, pulled share prices down from an index of 134.7 in late June to 119 in early August, 1947. In January, 1948, the index was 125.

From the political viewpoint, the Liberal party has become completely passive. The Conservative party, however, has attacked vigorously some of the nationalization measures in the House of Commons. In 1947 the Conservative party presented the British public with a full-dress formal statement of its current position on the Labor government and the nationalization program. This forty-page document, *The Industrial Charter—A Statement of Conservative Industrial Policy,* was drawn up by a party committee created for that purpose by the October, 1946, party Conference.[29] In general, *The Industrial Charter* charged the Labor government with crushing individual initiative by excessive government controls and burdensome income taxation. It held that the "basic aim of socialism is to plan everything from the center and to execute every central decision by orders piped down from Whitehall."[30] The *Charter* opposed "nationalization as a principle upon which all industries should be organized" and condemned the concentration of "all political and economic power in the hands of Ministers."[31] Refraining from advocating the denationalization of the coal industry, the *Charter* said "we would examine and modify the methods by which the socialists have tried to run it."[32] In this connection, the party recognized that "the industrial recovery of this country might be indefinitely delayed if every change in the majority in

[27] *Labor and Industry in Britain,* November-December, 1947, pp. 237–238.
[28] Index published regularly in the New York *Times.*
[29] Published by the Conservative and Unionist Central Office, London, May, 1947.
[30] *Ibid.,* p. 11.
[31] *Ibid.,* pp. 24–25.
[32] *Ibid.,* p. 25.

the House of Commons was followed by a complete reorganization in certain of the basic industries."[33] The nationalization of the Bank of England was characterized as "an unnecessary concession to theory where the practice was already the envy of every trading nation of the world." The party's position is that "we would not repeal the whole of the Bank of England Act, but we should re-examine the powers of the Bank to give directives to commercial banks."[34] The party opposes the nationalization of long-distance road haulage as "without justification as a practical measure for improving transport services."[35] A wide measure of freedom "should be restored to certain parts of Civil Aviation."[36] The party stands "firmly opposed to the nationalization of Iron and Steel."[37] It urges a "review" of the "scope of the nationalized industries," citing the fact that the National Coal Board has become a "large landowner and farmer" and can "open shops and run places of entertainment," while the proposed British Transport Authority "will be in the hotel business."[38] The *Charter* promises to curb the "opportunities for political pressure and jobbery" the nationalization measures create for the respective Ministers, "strengthen the safeguards of the consumer," and prohibit discrimination "between like consumers."[39] Parliament's powers "to watch the affairs of these undertakings" is to be strengthened by making more information available, improving the accounts of nationalized industries, and, "if necessary," establishing "a special committee of the House for this purpose."[40] These brief excerpts from *The Industrial Charter* reflect the Conservative party's current refusal to advocate repeal of the principal nationalization measures of the Labor government.

Living Standards, Modernization, Manpower, and Productivity

The Labor government faces a number of serious economic problems the solutions of which are basic to the success of evolutionary socialism in Britain. While all these problems were aggravated by the War, most of them have roots going deeper than the War. The problem of exports and the problem of economic planning will be treated separately. A number of other interrelated problems will be summarized briefly.

The problem which encompasses all others is that of raising the standard of living. This problem has existed in Great Britain for a long time. The world economic depression of the thirties led directly into the war period, with its diversion of productive resources from civilian to war

[33] *Ibid.*
[34] *Ibid.*
[35] *Ibid.*
[36] *Ibid.*
[37] *Ibid.*, p. 26.
[38] *Ibid.*
[39] *Ibid.*
[40] *Ibid.*, pp. 26–27.

goods. The war-time scarcities were particularly serious in Great Britain because of her permanent dependence upon imported food. After the War came world shortages of foodstuffs and raw materials, deteriorated plants, and manpower shortages, which placed Britain on "threadbare" living standards.

The austerity of Britain's immediate post-war existence was particularly marked by shortages of all the ordinary consumption goods, such as clothing, soap, furniture, and all other household furnishings, in addition to housing which was discussed above. The food situation is a matter of great controversy. There were broad charges that the tightly rationed food supplies were inadequate to maintain health. Some facts, however, throw considerable doubt on this allegation. The actual situation appears to have been one in which the average diet was less varied than desired and made up principally of items normally consumed in much smaller volume, but the total quantity of food intake did not drop substantially below the pre-war level. A report in Parliament in the spring of 1947 indicated that an average of 2900 calories per person was being consumed by the total population as against a "strictly comparable" pre-war figure of 3000 calories per day.[41] The consumption of meat was down 9 per cent, fats 29 per cent, sugar 26 per cent, and eggs 14 per cent, but the consumption of dairy produce, especially milk, was up 30 per cent over pre-war consumption, while fish had increased 28 per cent and flour 10 per cent. The actual rations amounted to an average of 1600 calories per day exclusive of certain bonus rations of sugar and preserves and nonrationed meals eaten outside the home. Fish, potatoes, vegetables, and fruit were unrationed.[42] John Strachey, Minister of Food, reported in May, 1947, that in the year past the nutriment value of the average Briton's diet was only 4 per cent less than in pre-war years. He claimed that in 1946, all consumers taken together had available an average of 2890 calories per person daily and that the food was much more evenly distributed over the population than it was before the war.[43]

However, the imminent exhaustion of Britain's dollar exchange forced further cuts in food imports in the fall of 1947. Consequently, food rations were reduced. The bacon ration was lowered from two ounces to one ounce per week per person. The over-all meat ration was reduced from 24 cents to 20 cents' worth per week per person. Milk rations for invalids and children were cut, but the basic allowance for the entire population remained at two pints per person per week. Sugar was cut by 20 per cent, to eight ounces per week. Rationing of potatoes, the last unrationed major food item, was begun. The combined ration of dried and shell eggs was reduced, the latter standing at five per month per person. These cuts

[41] *Economic Record,* June 5, 1947, p. 4.
[42] *Ibid.*
[43] New York *Times,* May 13, 1947.

in food rations reduced the average daily calory intake to about 2700 per person, a level which the government admitted was dangerously low. In addition, the basic gasoline ration was eliminated, thus stopping all pleasure motoring, and vacation allotments of foreign exchange for travel in non-sterling countries were restricted. The importation of American films was curtailed and newspapers were reduced in size to cut down on dollar payments for foreign films and newsprint.

People were able to spend only a part of the income they would have spent on consumer goods had such been available. Some surplus funds were diverted into gambling. It was reported that each week 17,000,000 people participated in chance soccer pools and that many thousands of persons were engaged in printing, mailing, and checking the forms on which the soccer bets were placed. Dog-racing tracks, horse races, and bookmakers were reported to be doing thriving businesses.

Regardless of whether rations do or do not support health, and irrespective of how long the Britons can cling to existence on their post-war austerity basis, the Labor government must show prospects of raising living standards. In addition to the drive to expand exports which is discussed below, three attacks on the problem have been essayed: Modernization, increasing manpower, and raising industrial productivity per man-hour. Much has been said about modernization in such nationalized industries as coal, electricity, and transportation. In privately owned industries Working Party reports, projects set up under the Industrial Organization Act,[44] and government financial assistance are relied upon to reequip British industry with modern efficient machinery. Considerable modernization has occurred in the machine building, pottery, and automobile industries, but the task remaining to be done is tremendous and is closely linked with the problem of developing exports, since so many of the essentials of modernization must be imported.

The necessity for immediate expansion of production in the export industries forced the government late in 1947 to order a curtailment of Britain's capital expenditures program. Whereas it had been anticipated that capital expenditures, including industrial repairs and maintenance, would amount to a total of £1,600,000,000 ($6,400,000,000) in 1948, this was cut back to a total of £1,550,000,000 ($6,200,000,000). By the end of 1948, it was planned to have capital expenditures down to an annual level of £1,320,000,000 ($5,280,000,000), or nearly one billion dollars per year under the level prevailing in mid-1947.[45] These cuts in capital expenditures do not apply to the coal industry or to agriculture.

The manpower problem is a baffling complex of the demobilization of the armed services, the departure from industry of women, older men, and children who had taken war-time jobs, a raising of the compulsory school

[44] See pp. 408–409.

[45] *Economic Record*, December 10, 1947, pp. 1–2.

age to 15 years (with an estimated loss of 390,000 workers), and the unwillingness of many former service personnel to return to their pre-war tasks in such industries as coal mining. Despite the demobilization of 4,300,000 personnel from the armed services at the end of 1946, the total employed manpower had fallen off by 1,500,000 from its war-time peak of 21,500,000. In the spring of 1947, the government estimated that, compared with 1939, certain basic and key industries were short 600,000 workers.[46] The Prime Minister appealed for the cooperation of citizens to solve the manpower problem, asking them to leave "better paid but quite useless work" and return to the basic industries.[47]

The Essential Work Orders of war-time had been dropped almost entirely and the Labor government held that no compulsory direction into jobs could or should be tried during peace-time. At the Labor party Conference in 1947, a leftist group urged more drastic controls over labor distribution, including the absolute prohibition of entrance into the less essential industries. The party rejected the proposal, but passed a resolution calling upon the government to adopt the policy of equalizing women's pay scales with those of men as a means of inducing women to return to industrial jobs. This the government has steadfastly refused to do because it would cost £30,000,000 ($1,200,000,000) to carry it out in the government service alone. This proposal, as well as the use of wage increases to attract workers to specific industries, was feared because of the inflationary influence that would stem from resultant higher unit labor costs. The government relied upon voluntary devices. It organized a network of Resettlement Advice Offices to inform veterans of job opportunities as well as vocational training and rehabilitation facilities for veterans. It set up production plants adapted to the capacities of permanently partially disabled veterans. An organized campaign was directed to induce many of the 500,000 women who had left industry during the first year of peace to return to work at least temporarily. This drive was handicapped by the heavy taxes on a married woman's wage earnings when added to those of her husband, and by the difficulty of using added wages to buy desired consumer goods. The government planned to retain some 130,000 German prisoners of war on the farms on a civilian basis, with the prospect that after five years they could apply for British citizenship. A few "displaced persons" were being brought in to work in selected industries.

However, by the summer of 1947 it became clear that more compulsion was needed to shift labor into jobs vital to the national interest. The government reluctantly announced its intention of adopting temporary measures to this end. On October 6, 1947, the government's Control of Engagement Order, issued under its wartime powers, became effective. It requires, with certain exceptions, that employers obtain all new employees, and

[46] New York *Times*, March 20, 1947.

[47] *Ibid.*, March 19, 1947.

workers changing employment obtain new jobs, exclusively through local employment offices of the Ministry of Labor or through an approved employment agency. Persons applying to such offices for jobs are given "as wide a choice as possible of available jobs on essential work." If an applicant refuses to take any work at all, or insists upon taking unessential work, he is "directed" to take the "most important suitable employment available" in an essential industry. If the applicant complies with the "direction," it remains in effect for six months, after which the worker is free to leave his employment unless the "direction" is renewed. An applicant who is "directed" to a job against his will may appeal against the "direction" to a local appeal board. Failure to obey a valid "direction" is punishable by a fine of £100 or three months in jail. Certain wartime regulations still in effect assure the worker that any job to which he is "directed" pays not less than the usual rate for that job. Agricultural workers may move freely between jobs in agriculture, but cannot be hired for any non-agricultural job except through an employment office. The same rule applies to coal miners. Any person employed in any other industry is free to accept any job in either agriculture or coal mining without going through an employment office. During the first three weeks after the Order became effective 321,000 persons were placed in jobs through the employment exchanges. In only ten cases were workers "directed" into jobs against their wishes and none of these appealed the "direction." This measure was supplemented by a government order, effective December 8, 1947, requiring each able-bodied man between 18 and 51 years of age and each woman between 18 and 41 years who is unemployed, or is employed in a non-essential activity as described in the order, to register for work. The penalty for failure to register is a £500 fine or two years' imprisonment. Compulsory registrants are given a choice of essential jobs, or will be "directed" into jobs, in the same manner as voluntary registrants.[48]

The problem of labor productivity is in part the problem of modernization and manpower. With better equipment and with full staffs in raw material industries such as coal, labor productivity doubtless would increase materially throughout industry. Just as is true in the United States, the question of comparative labor productivity in the post-war and the pre-war periods is a highly controversial subject. There is a general impression in Great Britain that production per man-hour has declined in many industries.[49] The Secretary of the British Industrial Management

[48] *Economic Record*, September 15, 1947, pp. 7-8; New York *Times*, September 19, 1947, November 12, 1947, November 30, 1947, December 22, 1947.

[49] It should be noted carefully that "labor productivity" or "product per man-hour," is not something related solely to the skill and diligence of the worker. "Product per man-hour" is simply a way of viewing the over-all efficiency of an industry or an industrial plant relative to the amount of labor it utilizes. There are numerous factors outside the control of workers themselves which may cause the product per man-hour to change in a plant or throughout an industry.

Research Association, for instance, out of his wide contacts with managers, cost accountants, and time study men, concluded that "output per worker, covering all direct and indirect workers in factories, is of the order of 70 per cent of pre-war. . . . The comparison is based on similar jobs with people of the same sex, similar training and experience."[50] Concrete data to substantiate this or any other quantitative estimate are sparse and it is well known that labor productivity varies greatly from industry to industry, and plant to plant, in Great Britain. The poor record of current labor productivity in coal has been cited. The report of the Cotton Industry Working Party indicates that during the last half of 1946 productivity per man-hour was only 78.9 per cent of the 1937 level.[51] In the iron and steel industry there is an "impression" that in some sections of the industry output per man-hour in 1946 was running at 90 to 95 per cent of the 1939 level.[52] In the construction industry the common impression is that the total number of man-hours now required to build a house of a given size and kind has increased by almost one-third.[53] Small sample studies in building materials industries suggest decline in labor productivity there also.[54]

Some of the adverse factors affecting man-hour productivity are the following : (1) War weariness from the long hours and gruelling personal experiences of the war period; (2) A let-down due to the loss of high war-time earnings; (3) The shortage of consumer goods which dulls the incentive to earn additional wages and courts absenteeism; (4) Lack of proper housing and the resultant family difficulties which, in turn, affect workers' morale; (5) The continuation of labor's restrictive attitude toward labor-saving machinery and new techniques; (6) The high labor turnover in industry—over a third of the labor force has shifted jobs since the War ended;[55] (7) The need for plant repairs and renewals, the lack of which decreases productive efficiency and discourages worker effort; (8) The fact that some peace-time skills were lost through disuse during the War and now have to be recovered; (9) Irregular flows of materials, making it difficult to plan production schedules to get "long runs" of the same product without resetting machines; (10) Interruption of electric power due to the undercapacity of generating plants and the fuel crises; (11) The increase in the average age of trained industrial workers; (12) The general disinclination to use incentive wage schemes. The mere enumeration of these factors indicates the complexity of the problem with which the Labor government must struggle.

In the light of the nature of the problem of labor productivity, the

[50] Quoted in *Planning*, Political and Economic Planning, London, January 3, 1947, p. 6.

[51] *Planning*, Political and Economic Planning, London, January 3, 1947, p. 7.

[52] *Ibid.*, p. 7.

[53] *Ibid.*, p. 8.

[54] *Ibid.*, p. 9.

[55] *Ibid.*, p. 10.

efforts to cope with it appear quite inadequate. During 1947 the government launched a production drive under the slogan "We Work or Want." Labor leaders have given lip service at least to the need for promoting rather than retarding labor-saving devices and techniques. One important union, the National Federation of Building Operatives, speaking for some 1,250,000 construction workers, agreed to use incentive wages to increase productivity.[56] The government has established a Personnel Management Section within the Ministry of Labor to advise employers on the development of personnel departments and personnel policies to improve labor utilization. Employers and unions have been urged to use all the available facilities for conciliation and arbitration to improve labor relations. Modification of the income tax may affect slightly workers' incentives to increase their incomes by working harder. It was decided to speed up demobilization of the armed services.

Clearly such measures attack only the periphery of the problem. Irregular material flows, fuel shortages, the lack of consumers' goods to purchase with wages earned, and labor's traditional fear of the "speed-up" or "stretch-out," constitute the hard core of a problem whose solution can come only through the long-range integration of all parts of the economy.

The Problem of Trade Balance

Britain's 48,000,000 people live on 94,000 square miles of land, an area slightly smaller than that of the state of Oregon. In contrast, the 45,000,000 population of our five most populous states live on 350,000 square miles of land. By intensive agriculture Britain, prior to the War, raised 40 per cent of her food, leaving 60 per cent to be imported. Besides food, she imported large amounts of raw materials, semi-finished goods, and machinery. For many years British citizens had invested heavily abroad, and the $1,000,000,000 income (1938) from these foreign investments helped pay for her commodity imports. In addition, British banking, insurance, and shipping services rendered other nations yielded annually another $675,000,000 of foreign currencies to pay for British imports. Of still greater importance, British exports of manufactured goods in 1938 sold for $2,600,000,000 worth of foreign currencies. With the foreign purchasing power accruing from these various transactions, Britain in 1938 purchased abroad $4,500,000,000 worth of food, raw materials, semi-finished goods, and machinery. Her foreign purchases constituted over one-fifth of the total exports of all countries in the immediate pre-war years. Purchases were made in over thirty nations inside and outside the Empire, her imports from the United States constituting over one-seventh of the total.

During the early war period, Britain bought war materials abroad on a "cash and carry" basis. To pay for these and to continue imports of essential civilian goods, the government acquired from British citizens their holdings of foreign securities and sold them in other countries, chiefly the

[56] New York *Times*, July 29, 1947.

United States, thereby acquiring foreign currencies. To help pay for imports of war materials, she decreased her imports of civilian goods, making up for this by increasing the land under cultivation in Britain by 50 per cent and by increasing total farm output by 70 per cent. By the middle years of the War Britain was importing only 30 per cent, instead of the pre-war 60 per cent, of her food. By 1941 her gold and her supply of American dollars had been used up to pay for war-time imports. Under the Lend-Lease Act of April, 1941, the United States made it possible for Britain to continue to buy essential civilian and war goods from the United States without cash payments therefor. This enabled Britain to de-emphasize the exportation of goods. Exports fell to one-third their pre-war level and labor was thereby freed to go into the armed services and war industries. Britain's merchant marine, whose services had helped pay for imports, was diverted to shipping war goods and carrying troops, while her net loss (after replacements) of merchant ships in the War was almost one ship out of every three.

In order to pay for essential imports, by 1945, Britain had sold over $5,000,000,000 worth of the investments her citizens had held in other countries, and she had accumulated (outside of lend-lease obligations) debts to other countries amounting to $13,500,000,000. Victory had cost Britain heavy depletion of her foreign investments, serious losses in merchant shipping, a drastic reduction of exports, and enormously increased foreign debts. Her pre-war means of paying for imports had faded away. To restore her pre-war standard of living under these new circumstances, Britain needed post-war exports 50 per cent above their pre-war level. To raise her standard of living, Britain's post-war objective became a 75 per cent increase in exports over their pre-war volume. Her situation was aptly put as follows: "Britain must *export or die* simply because she must *import to live.*"[57]

The Labor government inherited this gigantic trade balance problem from the War. Heavy importations of food were still essential. Imported machinery to modernize Britain's industrial plant was badly needed and foreign raw materials were vital components of goods manufactured for export. Britain's pre-war means of paying for a large volume of imports were gone. Her overseas investments had disappeared; her banking and insurance services abroad had seriously declined; much merchant shipping had been destroyed by the War; and her volume of merchandise exports was at a very low level.

Some means had to be found to pay for a large surplus of imports over an interim period of three to five years during which, it was felt, Britain could return to full and efficient production and restore exports to a level

[57] "How 'the World's Biggest Customer' Earns Her Living," *British Information Services, New York,* March, 1946, p. 42. This description of the shift in Britain's international economic position is based upon other portions of this booklet.

covering her imports, plus her new financial obligations abroad. It was estimated that funds were needed to cover a deficit of at least $5,000,000,000 in her balance of international payments during a three- to five-year period. A loan from the United States of $3,750,000,000, and a Canadian loan of $1,250,000,000 were negotiated in 1946. The Anglo-American Loan Agreement provided a governmentally supplied line of American credit upon which Britain could draw as she saw fit up to 1951. Britain agreed to repay the principal in fifty annual payments beginning in 1951, and to pay interest at 2 per cent starting in that year.

As a part of the Anglo-American Credit Agreement, Britain undertook certain measures which would assist in restoring multilateral trade throughout the world. She agreed to lift immediately all exchange controls on current transactions between herself and the United States and, by July 15, 1947, to permit all pounds sterling earned by current sales of foreign goods on British markets thenceforth to be freely convertible into American dollars. She also agreed that import quotas imposed to reduce her purchases from foreign countries would be non-discriminatory.[58] She agreed to negotiate early settlements of the pounds sterling credits, not then convertible into other currencies, which foreign countries held in British banks as payments for goods supplied to Britain during the War. These blocked sterling credits were to be either released at once, thereby making them convertible into other currencies (particularly dollars), or released gradually after 1951, or scaled down by negotiation with the respective creditor countries.

Britain's continued need for heavy imports from the United States, the increased prices she had to pay in the United States for goods purchased here (which cut the anticipated purchasing power of the loan by some 40 per cent), the unavailability of goods in other parts of the world where Britain currently earned exchange, the fuel crisis in the winter of 1946–47, and the failure to achieve the planned expansion in British exports to the United States, caused the $3,750,000,000 of United States credit to be used up much more rapidly than was anticipated. United States Treasury officials originally estimated that Britain would draw $1,500,000,000 during the first year and that the rate of withdrawal thereafter would decrease, permitting use of the loan to cover a period up to 1950 or 1951. Actually, nearly twice the estimated amount was withdrawn during the first year and by January, 1948, the loan was practically exhausted, only $200,000,000 (one-nineteenth of the original sum) being left. The Canadian credits similarly were being used up much more rapidly than anticipated.[59]

[58] The United States later agreed to a modification of this to permit Britain to conserve her dollar credits by favoring her colonies in some cases. See New York *Times*, July 23, 1947; August 7, 1947.

[59] The Chancellor of the Exchequer reported that the American loan was spent for

Meanwhile Great Britain negotiated agreements whereby sterling credits earned by other nations' current exports to Great Britain would be fully convertible into dollars after July 15, 1947. Difficulties arose in effectuating this provision of the Anglo-American Credit Agreement. Its operation increased the speed with which the American credits were used up and the United States agreed to its modification. Serious problems arose in negotiating settlements of the war-time accumulations of blocked sterling credits held by countries such as India and Egypt.[60] Much of the total of $13,500,000,000, Britons felt, was due to Britain's defense of the very countries to which the funds were now owed. The Labor government held that the creditor countries were morally obligated to scale down the amounts "very substantially," as indicated by the Chancellor of the Exchequer. He summarized the situation as follows: "Britain is strong, but one sign of her strength must be refusal to take on fantastic commitments which are beyond her strength and beyond all limits of good sense and fair play."[61]

The core of the Labor government's international economic program is a drastic limitation of imports, permitting only those absolutely essential to Britain's economy, and a substantial expansion of exports, particularly to countries where dollar exchange can be received for them. An encouraging expansion of exports occurred between the end of the War and December, 1946. For 1946 as a whole, exports, measured in physical volume, were at about their 1938 level. However, the trend was upward, and at the end of the year, they were running at 110 to 115 per cent of the 1938 volume. Nevertheless, exports fell far short of paying for imports which for 1946 as a whole were 69 per cent of their 1938 volume. The government's "target," to be reached by the end of 1948, was 160 per cent of the 1938 volume of exports.

The seriousness of the trade balance problem was enhanced by the unfortunate geographical distribution of Britain's foreign trade in the immediate post-war period. Much of her exportation was to countries which

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the following purposes: Raw materials, including oil, 28 per cent; food, 20 per cent; machinery, 15 per cent; Germany (foodstuffs and other expenditures for the British zone), 13 per cent; tobacco, 10 per cent; ships, 7 per cent; films, 4 per cent. New York *Times*, October 25, 1947.

[60] These sterling balances were the accumulated foreign debts of Britain at the end of the War referred to on page 438. They totaled almost $13,500,000,000, of which the credits of India, Burma, and the Middle East amounted to $7,000,000,000. The largest individual creditors were: India, $4,800,000,000; Egypt $1,900,000,000; Australia, $700,000,000; Palestine$600,000,000; Argentina$500,000,000; Brazil $220,000,000. *Labor and Industry in Britain*, June, 1947, p. 110, note.

[61] *Labor and Industry in Britain*, June, 1947, p. 110.

could not pay in "hard currencies," that is, in dollars or their equivalent, or in goods Britain needed, while much of her importation was from those "hard currency" countries where Britain had to pay in dollars or their equivalent. For instance, in early 1947, Britain was purchasing about 43 per cent of her total imports from Western Hemisphere ("hard currency") nations, but was selling them only 16 per cent of her exports.[62]

The government continued constructive action on the periphery of the export problem. A three-year trade pact with Poland assuring Britain of certain imports, including 250,000 tons of coal within 12 months, was signed. An Anglo-Russian pact provided for the exchange of Soviet grain for British transportation and power equipment and specialized machinery. An agreement with Hungary yielded bacon, eggs, lard, fruits, and vegetables for the British. Long-term contracts were entered with Denmark for supplies of butter, bacon, and eggs. Negotiators completed contracts with Canada for beef, bacon, eggs, and cheese, and with Australia for wheat; and an agreement with Sweden made possible increased British imports of wood pulp, raw materials, and semi-manufactured goods in exchange for coal, steel, chemicals, and textiles. Other similar pacts were under negotiation or contemplated.

The government announced further financial support for a British Export Trade Research Organization to explore and promote foreign markets for British industrialists. In November, 1947, the Overseas Resources Development Bill was passed, providing for two government corporations authorized to borrow £165,000,000 ($660,000,000) to finance production overseas. Under this Act, the Colonial Development Corporation undertakes the development of colonial resources for supplying Britain with coal and other minerals and a variety of other products, while the Overseas Food Corporation takes over the government's large peanut growing project on the east coast of Africa. The latter corporation, it is planned, will enter the fish canning industry in the Indian Ocean and the growing of rice in Borneo, and possibly the large-scale production of beef and peanuts in Australia.[63]

The government realizes that its partial success in expanding exports is related to the existence of sellers' markets during the post-war period. Before the market situation changes it is hoped that multilateral trade agreements will have started a world-wide expansion of international trade in which Britain will share. To this end, the British are participating in the International Monetary Fund and the proposed International Trade Organization. They hope that an understanding of the importance of their foreign purchases as stabilizing factors in the economies of other nations will stimulate them to create conditions conducive to multilateral trade.

[62] For details see *Economic Record*, May 6, 1947, p. 5; March 21–31, 1947, pp. 3–4.
[63] New York *Times*, November 7, 1947.

In the summer of 1947, the government made further cuts in imports to help solve the trade dilemma. Tobacco imports from the United States were reduced drastically and American films were restricted.[64] Only 25 per cent of the payments for American films was allowed to be converted into dollars, with 75 per cent held in "blocked sterling." Reductions in imports of newsprint and petroleum products were effected and raw material and food imports still further reduced. In August, 1947, the drastic Supplies and Services (Transitional Powers) Act was passed. It provided for "assuring generally that the whole resources of the community are available for use and are used in the manner best calculated to serve the interests of the community."[65] The Act revived wartime powers which enabled the government to take steps to direct labor into essential jobs, further curb imports, and use priority orders to direct supplies of materials to export industries.

At the beginning of 1948, the American loan had been practically exhausted. Britain's adverse balance of payments was currently running at a minimum of $200,000,000 per month, or $2,400,000,000 per year, despite the fact that imports had been cut and exports were about one-fifth higher than in 1938. She had sold approximately $500,000,000 of her gold stocks during the last four months of 1947, and during the same period had drawn $240,000,000 (or about two-thirds of the total to which she is entitled) from the International Monetary Fund to meet claims payable in dollars. As Britain entered 1948, her total reserves of dollars to meet future trade balances was $2,300,000,000, about half of which the government had earmarked as "unexpendable" because it constituted the minimum working fund necessary to carry on foreign trade. Thus Britain had in hand enough dollars to finance her adverse trade balance for about six months.[66]

These developments, coupled with the fact that Britain's economic recovery is linked closely with that of other European nations, make it completely evident that only a further extension of dollar assistance to Britain through, or correlated with, the European Recovery Plan will give the Labor government the opportunity to achieve the level of production and trade Britons believe possible of attainment by 1950.[67] Sir Stafford Cripps

[64] In 1946, tobacco was the most important single import from the United States, accounting for 23 per cent of the total. Rentals on American films accounted for 7 per cent of the total. There was considerable criticism in Britain over paying out so many scarce dollars for such things. A Labor party leader is reported to have replied to this criticism as follows: "Certainly they are opiates for social unrest . . . . But was there ever a country in greater need of something to take people's minds off their troubles?"

[65] Quoted from the Act. New York *Times*, August 9, 1947.

[66] New York *Times*, January 6, 1948.

[67] For an excellent summary of the importance of the European Recovery Plan to Britain, and the key importance of Britain to the success of the Plan. see M. L. Hoffman, New York *Times*, January 7, 1948.

early in 1948 pointed out that, if the European Recovery Plan should not be successfully instituted, Britain would enter upon a "declining spiral" of fewer imported materials, lower production, and reduced exports; that she would be driven to a policy of "immediate self-preservation" in which she could contribute nothing to European recovery as a whole. The British government announced that any aid received under the plan would be used entirely for "restoring and improving the country's productive capacity" and none would go toward alleviating prevailing austerity living standards. The United States State Department estimated that, under the European Recovery Plan, over five billion dollars should be allotted to Great Britain.[68]

Economic Planning and Individual Freedom

No meaningful evaluation of socialism in Great Britain can be made at its present stage. It is even too early to list the strengths and weaknesses of the nationalization program, as is possible, for instance, for American capitalism or the socialized system of the Soviet Union.

Eventually, if the program of the Labor government is not reversed, the British experiment will have to be judged by criteria which, on the one hand, measure the efficiency and success of economic planning, and, on the other hand, the effect of socialist planning and administration upon those freedoms and privileges the individual considers inviolate or essential to his happiness. Although economic planning is the essence of socialism, individuals treasure their freedom to govern their own actions, even in the economic sphere. Here are the two opposing forces to be harmonized or meshed in a successful socialist system. How cognizant and respectful can economic planning be of individual freedom and yet remain effective enough to constitute successful socialism? How much reduction of his freedom of action will the individual consider a just price for the prospective group economic wellbeing in which he may share? Which freedoms does the individual value most highly and cling to most tenaciously and which are those of little consequence to him? Need socialist economic planning and administration cut into individual liberties beyond those the individual under the existing circumstances considers inconsequential?

These are the basic issues British socialism must face eventually. It behooves the American student to watch the experiment with these considerations in mind. In this respect at least, the British experiment is much more significant than is the socialist system being tried in the Soviet Union. American ideas and ideals of individual freedom correspond closely with

[68] New York *Times*, January 8, 10, 11, 1948.

the British, whereas there is little tradition of individual freedom in Russia.

The Labor government apparently has not given economic planning the foremost position customarily accorded it in socialist proposals. It has issued comprehensive reports on British economic conditions and has indicated the measures by which specific economic problems are to be solved. It has even set "targets" to be hit by definite dates for such specific things as coal production, exports, imports, and manpower available in specific industries. These elements of economic planning, however, have been on a piecemeal basis. No coordinated and comprehensive long-range economic plans of the character usually associated with socialism have been set forth. Indeed, it appears that this matter was not mentioned concretely until July, 1947. Then Mr. Morrison, whose cabinet post bore some resemblance to that of an economic planner, said that a long-term economic plan covering from three to five years was being drawn up by the government.[69]

There are three likely reasons for this neglect of planning. First, economic disruptions caused by the War were so serious that the first task of the Labor government was to patch up the economy on an emergency basis. Secondly, the socialist program was to nationalize, one by one, selected segments of the economy, and the mere formal details of this action demanded more time and attention than the Laborites had anticipated. Thirdly, comprehensive economic planning may have been considered less vital because the immediate goal was a "mixed" economy—twenty per cent nationalized and eighty per cent private. While the first two reasons may be considered legitimate excuses for not emphasizing comprehensive planning, the latter, if such thinking did pervade the leaders' minds, is scarcely understandable. They should have realized that the penetrating influences of the key industries to be nationalized would necessitate comprehensive economic planning. Indeed, it can be argued logically that such a mixed economy demands a more highly developed and skilled type of economic planning than does a completely socialized economy, for it encounters vexing problems of coordinating public undertakings with such unplanned phenomena as competitive prices, profit-making, individual initiative, and independent entrepreneurship in non-socialized sectors.

Whatever the reasons, the new Labor government only gradually, and after some bitter experiences with emergencies such as the fuel crisis of the winter of 1946–47, developed comprehensive planning agencies and functions. By the middle of 1947 a rather definite set of planning machinery existed, although the functions and interrelationships among its

[69] New York *Times*, July 3, 1947.

parts remained undisclosed and apparently nebulous. In March, 1947, the government announced the creation of a new interdepartmental planning staff, which apparently was its answer to the criticism that planning had been neglected. Prior to that, the only broad economic planning that occurred was carried on under the aegis of the Lord President of the Council, then really a deputy Prime Minister in charge of economic affairs. The able Herbert Morrison, who occupied that post from the beginning of the Labor government, was primarily responsible for effecting correlation among the government's widely scattered economic measures.

An Economic Section of the Cabinet Secretariat, manned by economists, had been established by Lord Keynes as the "GHQ" for planning.[70] It worked closely with the Central Statistical Office, the repository for the basic data needed for planning, and was responsible to, and received instructions from, a steering committee of Ministers acting for, and reporting back to, the Cabinet. The Interdepartmental Steering Committee includes the Ministers of Labor, Supply, Fuel and Power, the President of the Board of Trade (a Cabinet post), the Chancellor of the Exchequer, and the Lord President of the Council. There are five subcommittees dealing with manpower, balance of payments, economic surveys, investments, and statistics. The economic surveys subcommittee is "responsible for mapping out the whole economic picture twelve months ahead, and for balancing national resources and demand."[71] The planning activities carried on through this machinery were severely criticized by some economists and top government employees during early 1947. The Labor government's economic planning was characterized as inferior to that prevailing during the War. The "target" set for coal production was held inadequate and the Cabinet was charged with failure to coordinate allotments of materials with manpower "targets" for certain industries, such as steel, coal, and timber.[72]

The March, 1947, announcement of an interdepartmental planning staff recognized the weaknesses of the then existing planning machinery. A Planning Board, including representatives of management, labor, and government, was set up outside the Cabinet and given the task of developing a long-range plan for the utilization of the nation's human and material resources, and the coordination of the planning activities of other agencies, such as the Economic Section of the Cabinet Secretariat. The first Chairman of the Board was Sir Edwin Plowden, an industrialist with varied ex-

[70] In April, 1947, Robert Hall was made head of this agency. American students of socialism will identify him as the author of *The Economic System in the Socialist State*, a penetrating analysis of the problems of economic administration in an economy where free-market guidance has to be supplanted by economic planning.

[71] *Business Week*, April 12, 1947, p. 114.

[72] M. L. Hoffman, New York *Times*, March 6, 1947.

perience and Director General of the Ministry of Aircraft Production during the War. The chairman is given a small staff of assistants and consultants drawn from industry and from the planning sections being established in each of the government departments concerned with economic affairs. He will work under the Lord President of the Council with direct access to all Ministers concerned with economic affairs. He has no active administrative duties and may make recommendations directly to the Lord President of the Council and the Prime Minister. Of the thirteen Board members, three were nominated by the Federation of British Industries, three by the Trades Union Council, and the remaining seven were from the government departments. The Cabinet, of course, retains the power to make all policy decisions. The Planning Board is purely advisory and is designed to integrate industry and labor with economic planning.

While the effectiveness of the new over-all planning machinery cannot be evaluated as yet, it appears to comprise somewhat sprawling and cumbersome parts, with overlapping and poorly defined powers. Presumably the Labor government will modify the organization of planning as experience dictates. The basic problem remains one of creating planning agencies and procedures adequate to achieve "full employment, economic prosperity, and justice for all," meanwhile proving that "democratic freedom and economic planning are going to be reconciled."[73] If this is achieved, Mr. Herbert Morrison's prediction will be correct. He characterized the British style of planning as "something new and constructively revolutionary" which will be "regarded in times to come as a contribution to civilization as vital and as distinctively British as Parliamentary democracy and the rule of law."[74]

Is there any evidence that British nationalization has been accompanied by a significant loss of individual freedom? Winston Churchill has said: "I firmly believe that the liberties and free life of Britain are in great danger at the hands of the Labor party."[75] He accused the Labor government of the "strangulation of parliamentary democracy" in unprecedently limiting debate in the House of Commons, and of "enforcing ill-considered legislation through the snoopers of the seventeen government departments."[76] Some newspapers have accused the government of interference with freedom of the press in suspending weekly papers and magazines temporarily to save newsprint.[77] The government has been criticized for extending many war-time controls over individuals' economic activi-

[73] From address by Prime Minister Attlee at the Annual Conference of the British Labor Party, June, 1946, *Labor and Industry in Britain,* August, 1946, pp. 124, 126.

[74] *Ibid.,* December, 1946, p. 189.

[75] New York *Times,* March 4, 1947.

[76] *Ibid.,* March 10, 1947.

[77] *Ibid.*

ties without demonstrating the intent to consider them temporary in nature. Under various nationalization measures, Ministers have been vested with certain vaguely defined powers, with orders issued thereunder not reviewable by the courts. While some of these charges are political chaff, they may indicate that British thought contains a serious vein of concern over the possibility of reconciling a "planned society and democratic freedom," as a government Minister described the government's twin objectives.[78]

In self-defense, Labor party leaders point to the overwhelming mandate they received in the 1945 election, after the issues of specific nationalization measures had been thoroughly debated. They hold that, at least for the immediate future, the individual will have plenty of elbow room in the eighty per cent of the economy which will not be nationalized. They emphasize the active parliamentary debates accompanying each nationalization measure and the responsibility of the Cabinet and the individual Ministers to Parliament. They insist that the net effect of planning is to increase the individual's *economic* freedom and release him from "homogenizing tendencies" of the current age by increased educational and cultural opportunities. They insist that "within every political party, trade union or industrial group, individual opinion can and does assert itself."[79]

The real fact is that as yet individuals have not been hurt by British nationalization. Each measure has been surrounded by protection for owners and for workers and possibly less adequate, but some, protection for consumers. Some socialists feel that such protection has been excessive and that success cannot be attained except through the imposition of more restraints and hardships upon individuals than the Labor government so far has been willing to impose. The answer to this question is in the future. Will it be possible to tighten and extend economic planning and yet permit the individual a wide scope of free choice of action? Can a democratic House of Commons exercise sufficiently close control over powerful economic administrators to keep their administrative actions in line with the popular will? When the next general election is held, what will be the choice offered to the voters? Can a realistic program opposing nationalization be framed and, if so, will it offer the voter a real choice of basic policies? Or, once the nation is started along the path of socialization, is the electorate by that very fact forestalled from dictating a reversal? These are basic questions whose implications should be considered thoroughly as we watch the unfolding of evolutionary socialism in Great Britain.

[78] At 1947 Labor Party Conference, New York *Times*, May 26, 1947.
[79] *Labor and Industry in Britain*, December, 1946, p. 189.

QUESTIONS FOR CLASS DISCUSSION

1. What is the wage policy of the Labor government? Is this policy one you would expect socialists to adopt?
2. What is the scheme for decasualization of dock workers? Why has it caused strikes? Do these show that it is unsound?
3. How has nationalization affected the functions of British trade unions? What obligations has it placed upon unions and union leaders?
4. Is it surprising that strikes have occurred in industry while the Labor government is in power? What conclusions can you draw from the strike experience in Great Britain in recent years?
5. Would you call the British health services "socialized medicine"?
6. In what sense are the public finance problems of the Labor government being handled in an orthodox manner? Is this manner consistent with the principles of socialism?
7. What attitude have the Conservatives taken toward the Labor government and its program? What factors account for this attitude?
8. Why must the Labor government show some prospect of rising living standards?
9. Why does the Labor government believe it is in a better position to solve the problem of modernization of industry that are private owners?
10. Is labor responsible for the low labor productivity in Great Britain in the immediate post-war years?
11. What are the factors which created the post-war problem of trade balance for Great Britain?
12. Why is the problem of exports said to be tied up with all the other economic problems of Great Britain?
13. Has the Labor government solved the problem of planning and yet preserving freedom? Why is this problem said to be basic?
14. Has individualism been reduced by the Labor government's program? Does this mean that there is no danger that it will be?

SUBJECTS FOR STUDENT REPORTS FOR PART VI

1. The History of the British Labor Party.
2. The History of Trade Unionism in Great Britain.
3. The Negotiations for the British Loan from the United States.
4. The Relations Between the Soviet Union and Great Britain Under the Labor Government.
5. The Criteria by Which British Socialism Should be Evaluated.
6. A Comparison Between British and American Industrial Efficiency, and an Explanation of the Differences.
7. How the War Affected British Industry.
8. A History of the British Fabian Society.
9. Economic Planning in Great Britain Prior to the Labor Government.
10. The International Competitive Position of the British Steel Industry.
11. The International Trade Policy of the British Labor Government.

12. Britain's Natural Resources as a Factor Determining the Success of Socialism.
13. The Colonial Policy of the British Labor Government.
14. The Factors Which Shaped the Labor Government's Policy Toward India.

SUGGESTIONS FOR FURTHER READING FOR PART VI

Since the British experiment in socialism is so new, the footnotes in this section contain references to the current sources of information. Possibly the best current comprehensive accounts of nationalization measures will be found in *Labor and Industry in Britain* and the *Economic Record,* both published by the British Information Services, 30 Rockefeller Plaza, New York, N. Y.

Part VII

The Economy of the Soviet Union

Chapter 22

THE GOVERNMENT OF THE SOVIET UNION

Pre-Revolution Russia

Absolute monarchy in Russia ended in 1905 coincidentally with a wave of riots and strikes in industrial centers. During these disturbances strike committees set up by revolutionary workers were partially successful in assuming governmental power, more particularly directing their activities to the conduct of general strikes. The tsarist government was able to cope with the situation, and one by one these provisional governments either abdicated or were suppressed by force. However, following these disorders, the tsar on October 30, 1905, issued a manifesto granting the people "the immutable foundations of civil liberty, based on real inviolability of person, freedom of conscience, speech, meetings, and associations." More liberal franchise rights were granted citizens in choosing the members of the state Duma (parliament) which had been established several months before. These concessions to popular dissatisfaction established a constitutional monarchy in name only; actually the tsar remained all-powerful. He could appoint and dismiss ministers at will. He held absolute veto powers over the Duma, and so far as certain basic laws were concerned he alone could initiate revisions. Moreover, he had the power to issue decrees having the force of law and to convoke and adjourn the Duma, being required merely to convoke both of its houses every year. A corrupt, bureaucratic, and practically absolute monarchy in fact prevailed.

The First World War found tsarist Russia fighting on the side of the Allies. As the war years passed, the Russian people became more and more war-weary. Meantime graft and corruption in the ruling group fatally weakened the monarchy. First-hand observers paint a sordid picture of the situation existing in 1916 and 1917. Representatives of munitions manufacturers were forced to compete in bribings as many as a half-dozen consecutive ranks of officials in their attempts to negotiate contracts with the Russian government. The result was that the troops were poorly equipped and suffered severely. It is reported that at one time guns were so scarce that when troops were sent into battle only alternate regiments were equipped with them, on the theory that as the soldiers first in line were

killed or wounded the advancing reserves could arm themselves from their fallen comrades. Conditions were intolerable, and it was only a matter of time until the tsarist régime fell.

The Communist Revolution

In March, 1917, there occurred a "spontaneous uprising of the masses in important urban centers." The failure of the troops to support him forced the abdication of Emperor Nicholas II on March 15. Again workers' groups, organizing what are usually referred to as "soviets" (councils), sprang up in the industrial centers, preserving order and assuming control over food supplies. These groups did not establish a provisional government, for this was done under the authority of the lower chamber of the Duma by a group of leaders among whom Kerensky assumed chief control. Thus, during the spring and summer of 1917, there were two groups seeking control in Russia—one being the provisional Kerensky government attempting to establish a new democratic constitutional assembly, and the other consisting of the soviets of workers which included some representatives of the troops and socialist groups. As the Kerensky government made no progress toward restoring stable government, the masses were driven to look elsewhere for such restoration. An attempt to establish a military dictatorship further incited the working groups to plan drastic action. Already in April, 1917, Lenin had condemned the Kerensky government as favorable to the owning classes and had demanded that the workers' soviets assume full control of the government. This position was adopted by Lenin's Bolshevik party[1]—a revolutionary group which had been active in Russia for many years and had played a part in the 1905 outbreaks.

By the fall of 1917 it appeared to the Bolshevik leaders, whose party had only several hundred thousand members, that they had the support of the masses. They had control of the soviets in Petrograd and Moscow, and on November 6, 1917, the Military Revolutionary Committee of the Petrograd Soviet seized the government buildings in the capital city. Kerensky's attempt to rally troops to the defense of his provisional government failed, leaving the Bolshevik group in possession of the government. Meantime the local soviets had formed interconnections and had already held one All-Russian Congress of Soviets. Following the Bolshevik *coup* there convened on November 7 a second All-Russian Congress of Soviets in which the Bolshevik party played the leading role. This Congress declared itself the government, and placed legislative and executive authority in a Council of People's Commissars, of which Lenin was the chairman. Under this Council the workers' soviets became the local arms of the new government. A stable working-class government, or, in Marxian terms, a dictatorship of the proletariat, was established.

It will be impossible to trace in detail here the two important historic

[1] This later became the Communist party of the Soviet Union.

stages of development which preceded 1928. The situation which prevailed from 1917 to 1920 is usually labeled "war communism." The new government was engaged in war activities against the counterrevolutionary attempts of the White Russian troops and against the armies of intervention sent by the Allies. During this period the Bolsheviks attempted to abolish the use of money and to supply the necessities of life free to every citizen. This unsuccessful attempt to create full communism in one sweeping gesture led to the "new economic policy" of the years 1921 to 1927. Money was again brought into use, private trade permitted, and some industrial concessions were granted to foreign capitalist interests.

The formation of the federal Union of Soviet Socialist Republics (U.S.S.R.) was completed with the adoption of a federal Constitution in 1923. In 1924 Lenin died, and a struggle for leadership between Trotsky and Stalin followed, the latter ultimately succeeding to Lenin's mantle. This struggle involved basic matters of policy, and reverberations of it were still being heard in the trials of "Trotskyists" in 1937. While Stalin favored a policy of first establishing a firm socialized economy in the Soviet Union, thus by example inciting the workers in other nations to overthrow their capitalist governments, Trotsky doubted the possibility of creating an enduring socialism in a country which was surrounded by capitalist nations. Trotsky therefore advocated the more direct and active and immediate participation of the workers of Soviet Russia in revolutionary activities throughout the world. Moreover, he advocated the rapid socialization of agriculture—a policy which Stalin at that time rejected but later accepted and pursued with a vengeance. With the year 1928 came the first "Five-Year Plan" and the firm establishment of the basic features of the system which we shall proceed to examine in some detail.

General Nature of the Government

The economic significance of the soviet government is enhanced by two facts: First, the adherents of Marxian theory place great emphasis upon the part which the state is to play both in creating a revolutionary situation and in bringing about certain transformations in social and economic phenomena after the revolution. Second, in the Soviet Union the economic system is an extension of the governmental organization, the latter blending into the former by imperceptible degrees at many junctures. It would be interesting to examine in detail the revolutionary and evolutionary changes in government in Russia and the Soviet Union, thereby testing certain basic Marxian tenets concerning the function of the state and its final "withering away." It will be impossible to follow this line of thought, except to note that the Soviet Union apparently has been in the stage referred to by Marxians as the "dictatorship of the proletariat." This merely means that governmental power is held by a group theoretically representing the working classes. Whether dictatorship or

democracy rules *within* the working class is an open question which will be discussed briefly in a later chapter. We should note, however, that there is no evidence as yet of the soviet state "withering away"—a procedure which Marxians have insisted will accompany the liquidation or the absorption of the former owning class by the working class.

The Union of Soviet Socialist Republics is a federal state consisting of sixteen union republics, each of which is autonomous with reference to matters of local importance. Each has its own constitution, its own budget, and its own laws which, however, must not be in conflict with those of the Union. Each republic has a governmental structure strongly resembling that of the U.S.S.R. with its own Supreme Soviet of the Republic, Presidium of the Supreme Soviet, Council of People's Ministers, and Supreme Court. Some of these union republics are politically subdivided into "autonomous republics," "autonomous regions," and "national areas."[2] The federal Constitution of 1936 granted the government of the U.S.S.R. jurisdiction over all political and commercial relations of the Soviet Union with other nations, the armed forces of the nation, transportation and communication facilities, basic labor laws, and basic legal procedure of both criminal and civil nature.

At the height of the recent war, the Supreme Soviet of the U.S.S.R. modified the 1936 Constitution by granting each republic enlarged powers over its foreign relations and military forces.[3] Each republic was permitted to carry on direct relations with foreign nations by exchanging diplomatic and consular representatives and concluding agreements with them. Each republic was given the right to have its own military formations which, however, would serve as component parts of the Red Army. Whereas previously the sole administrative agencies dealing with foreign and military affairs had been those of the federal government, now each republic was permitted to establish a republic ministry of foreign affairs and a republic ministry of defense. In the light of the still strong political and economic bonds linking the republics to the Union, this move appears to have been merely a gesture of reply to the war-born German hope that she could create defection among the constituent republics. It may also

[2] "The Autonomous Republics are Soviet national states within the territory of the Union Republics. They also have their own constitutions, supreme legislative organs, their own budget and supreme court. The Constitution does not grant the Autonomous Republic the right to secede from the Union Republic, but its territory may not be altered without its consent. The smaller national units—the Autonomous Regions and the National Areas—also enjoy rights permitting them to take into account their national specific features.

"The National Areas are formed in sparsely populated, formerly backward districts such as the Far North, for the purpose of ensuring consideration of the interests of the smallest nationality." N. Farberov, *Information Bulletin of the Embassy of the U.S.S.R.*, February 12, 1947.

[3] Decree of the Supreme Soviet of the U.S.S.R., February 1, 1944.

have been designed to secure greater representation in some of the United Nations bodies.

Other economic powers possessed by the federal government include: "Determination of the national economic plans of the U.S.S.R.; approval of the consolidated state budget of the U.S.S.R. and the report on its fulfillment; determination of the taxes and revenues which go to the Union, the Republican and the local budgets; administration of the banks, industrial and agricultural institutions and enterprises and trading enterprises of all-Union importance; administration of transport and communications; direction of the monetary and credit system; organization of state insurance; contracting and granting of loans; determination of the basic principles of land tenure and of the use of mineral wealth, forests and waters; organization of a uniform system of national economic statistics."[4]

This concentration of *economic* authority is furthered by the fact that one of the sixteen republics holds a place within the Union incomparably more important than that of any other republic. The Russian Soviet Federated Socialist Republic (R.S.F.S.R.) occupies approximately three-quarters of the total area of the Soviet Union, accounting for over one-half of the nearly two hundred million total population,[5] and including within its borders the most highly developed industrial regions as well as the important cities of Moscow and Leningrad, the combined population of which was about 7.3 millions in 1939. Prior to the late war the R.S.F.S.R. produced 70 per cent of the industrial and agricultural output of the U.S.S.R. Its resources include 90 per cent of Russia's coal deposits, 85 per cent of its iron ore, 95 per cent of its timber, 50 per cent of its oil, and 64 per cent of its grain-producing land. The very close relationship between the government of the U.S.S.R. and that of the R.S.F.S.R. enhances the power of the former to control every matter of broad significance throughout the Union.

No republic is permitted to enact any law which is in conflict with the Constitution of the U.S.S.R. or with legislation which has been enacted for the Union as a whole. Three important basic principles with which all legislation must conform are: First, that the basic property rights to all land, forests, mineral wealth, waters, transportation, and large-scale industry are to remain nationalized; second, that every nationality (of which there are some 182, with 149 languages) within the Soviet Union has the right to "organize its own economic, political, and cultural life, to establish its own local government and to use its own language in schools, courts, etc."; third, that every constituent republic has the right to secede

[4] Constitution, Art. 14.

[5] The 1939 census showed a total population in the U.S.S.R. of 170,467,186 persons. New border territories which were joined to the U.S.S.R. in 1939 and 1940 increased this total to about 193,000,000 at the beginning of the Russo-German War in 1940. The population of the R.S.F.S.R. was 109,279,000 in 1939. *Information Bulletin of the Embassy of the U.S.S.R.*, September 4, 1941.

freely from the Union. The latter principle, while guaranteed by the Constitution, is of questionable practical significance.

Local Government

The smallest local units of government are the city, village, and rural district soviets which correspond roughly to our city and village councils and township and county boards of commissioners. These soviets, to which deputies are elected for two-year terms, are the legislative bodies in their respective local areas, and to them the local executive and administrative organs are responsible. Since they are considerably larger than our councils, varying in size from about 20 deputies in the villages to over 2000 in the soviet of Moscow, they are unwieldy, and they customarily delegate to executive committees the power to legislate between sessions of the soviet. Also, various subsidiary committees are established to handle specific problems and detailed matters of local administration. Representatives are elected to these local soviets by election districts. Deputies to all local soviets numbered over a half million in 1948. At least half of these deputies were women.[6]

The right to vote in local as well as all other elections was extended materially by the new Constitution. Prior to 1936, the right to vote was possessed by every citizen 18 years of age "who performs productive and socially useful labor," by "members of the army and navy, and citizens belonging to the category of workers but incapacitated for labor." Excluded from the franchise were the following groups: "members of royalty, police and secret service employees of the old régime, the clergy, private traders, persons living on unearned income or exploiting the labor of others, and the insane," who together represented about 2.5 per cent of the population of voting age. Under the new Constitution adopted in December, 1936, formerly excluded groups are granted suffrage since voting privileges are extended to "all citizens of the USSR who have reached the age of 18, irrespective of race or nationality, sex, religion, education, domicile, social origin, property status or past activities."[7] This extension of the franchise indicates that the leaders of the government consider the formerly disenfranchised groups so completely liquidated and the existing régime so firmly established that the change could not create any significant difficulties.

The Supreme Soviet of the U.S.S.R.

Under the 1936 Constitution, the Supreme Soviet of the U.S.S.R. is the highest legislative body in the Soviet Union. Resembling somewhat our

[6] *Information Bulletin of the Embassy of the U.S.S.R.*, January 14, 1948. In 1947 there were more than 71,000 village soviets and nearly 1200 city soviets in the U.S.S.R. *Information Bulletin of the Embassy of the U.S.S.R.*, April 30, 1947.

[7] Art. 135.

Federal Congress, it consists of two bodies: the Soviet of the Union, and the Soviet of Nationalities. The former is made up of between six and seven hundred "deputies" chosen directly by the electorate on the basis of one deputy for each electoral district of 300,000 population. The Soviet of Nationalities is comprised of deputies elected by the citizens of the various political divisions of the Soviet Union—25 from each "Union republic," 11 from each "autonomous republic," five from each "autonomous region," and one from each "national area." The total number of deputies in the Soviet of Nationalities is approximately equal to the number in the Soviet of the Union. The chart on page 460 shows the composition of this body.

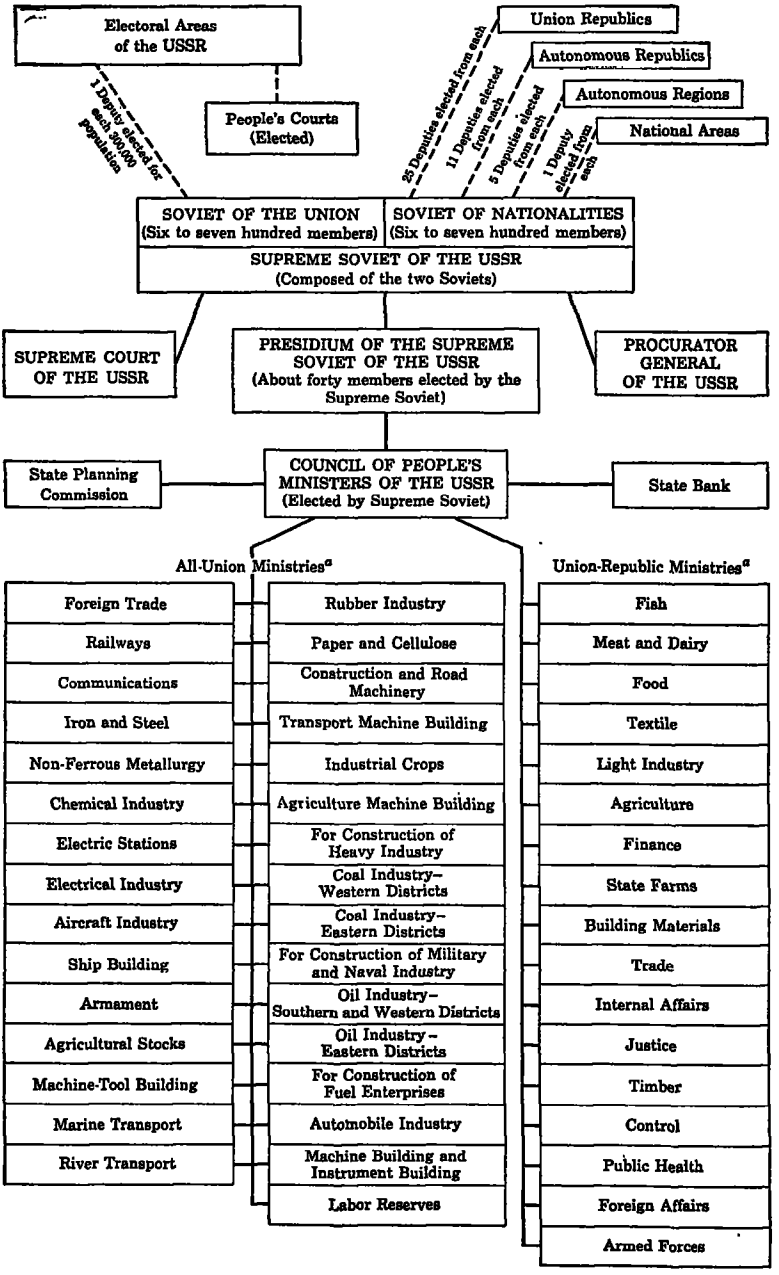
The deputies in the Supreme Soviet must be at least twenty-three years of age and are elected for terms of two years. Both Soviets begin and end their sessions at the same time. The Presidium of the Supreme Soviet (to be described later) convenes the sessions of the Supreme Soviet twice each year. It is planned that the Supreme Soviet shall always be fully representative in its composition. Its frequent meetings are for the purpose of keeping current governmental activities before the electorate and of keeping the masses, through their elected deputies, informed of the current flow of governmental affairs.

By the nature of its composition the Supreme Soviet provides that any proposed legislation will be considered both from the point of view of the country as a whole (in the Soviet of the Union) and from the separate points of view of the republics and their political subdivisions (in the Soviet of Nationalities).[8] This somewhat resembles the theory that our bi-cameral Federal Congress affords separate representation to national and state interests. Voting in the Supreme Soviet proceeds by the deputy raising his hand holding his credentials. Decisions are made by a majority vote except that it requires a two-thirds majority in each of the two chambers to pass an amendment to the Constitution of the U.S.S.R.

Each Soviet has the power to initiate legislation. Also, like our Congress, these two Soviets have equal power, in that all legislation must be approved by both Soviets before it becomes effective. In case of disagreement between the Soviets a conciliation board, on which each Soviet has equal power and which is not unlike our congressional conference committee, attempts a solution agreeable to both Soviets. Should such a conciliation board be unable to arrive at an agreement, the question is discussed again by each Soviet. If the two Soviets still cannot agree, the Presidium of the Supreme Soviet dissolves the body and arranges for elections to choose new

[8] This follows from the fact that the election to the Soviet of Nationalities gives greater proportionate representation to the less densely populated portions of the Soviet Union, while representation in the Soviet of the Union is directly proportionate to population. Thus the Russian Soviet Federative Socialist Republic with a population of over 100,000,000 is represented in the Soviet of Nationalities by the same number of deputies as is the Estonian Soviet Socialist Republic which has less than 1,000,000 population.

THE GOVERNMENT OF THE U. S. S. R.



[a] See note [a] on facing page.

deputies. By this means the question over which the disagreement occurred is to be referred to the electorate which is thus given a chance to express its will.

The Supreme Soviet meets twice each year. The first elections under the 1936 Constitution were held in 1937, and the next regular elections, which would have been held in 1941, were suspended because of the war. In 1946 elections again were held. Preparations for these elections began on October 5, 1945, when the Presidium of the Supreme Soviet decreed that elections would be held on February 10, 1946. A Central Election Commission was created for the Union and subsidiary election commissions were constituted for the constituent republics and other political areas, down to the voting "precincts" which correspond closely to our election precincts.

These election commissions are obligated to assure that elections meet all of the detailed rules relating thereto. For the 1946 elections these rules were formulated by the Central Election Commission, approved by the Presidium of the Supreme Soviet on October 11, 1945, and published widely in the press.[9] They specify that elections shall be on the "basis of universal, equal and direct suffrage," that each citizen has one vote, that women have equal rights to vote and to be elected to office, and that voting is to be secret. The rules instruct the local election commissions on the formulation of voters' lists and grant any citizen omitted therefrom the right to appeal to a People's Court. These lists must be posted at least thirty days before the election date. The procedure was laid down for the creation of the 1339 electoral areas, the units of representation of deputies to the Supreme Soviet, and their subdivision into precincts. The details of balloting and counting the ballots were specified, "representatives of public organizations and societies of working people" and "representatives of the press" being given the right to be present at the counting of the votes. Many of the election rules are very similar to those controlling elections in our country. However, contrary to our custom, a citizen has the right to vote in whatever electoral area he happens to be on election

[9] For complete text of the 1946 election regulations see: *Information Bulletin of the Embassy of the U.S.S.R.*, November 25, 1945.

[a] Data on the Ministries are from *Business Week*, March 23, 1946, p. 114. The Ministry of Labor Reserves was established subsequent to the above date. Also, after that date the following functions were removed from the Ministry of Food and turned over to a new ministry: All matters pertaining to the cultivation and processing of tea, tobacco, essential oils, perfumery, cosmetics, alcohol, wines, distilled spirits and liquors, soft and mineral drinks, and beer. While the name of each ministry indicates fairly well the scope of its administration, some may not be entirely clear. For instance the Transport Machine Building Ministry administers the construction of railway locomotives and rolling stock; the Ministry of Industrial Crops is responsible for expanding the production of raw materials of agricultural origin; the Ministry of Agricultural Machine Building supervises the repairing and building of farm implements, such as tractors and combines; the Ministry of Machine Building and Instrument Building is responsible for the production of precision instruments for scientific laboratories and airplane and automobile instruments.

day, for the candidates standing for election in that area. Hence, the election rules provide for the establishment of voting precincts at railway stations, in hospitals and rest homes, at army garrison points, and even on long-distance trains and on ships which are at sea on election day.[10] The prospective voter's "citizen passport" which he always carries entitles him to a vote wherever he happens to be.

Soon after issuance of the election rules in the fall of 1945, the naming of candidates began. A candidate for the Supreme Soviet may be nominated by any public organization or society of working people including a trade union, cooperative, youth organization, cultural society, the workers in an enterprise, servicemen in an army unit, or general meetings of peasants on a collective farm. Thus, in the first instance, there may be numerous nominees for one office of deputy to the Soviet of the Union and for one office of deputy to the Soviet of Nationalities. This is narrowed down to one candidate for each office through nomination meetings attended by elected representatives of the various nominating bodies in that area. Each body is entitled to campaign for its nominee but eventually the election commission for that area must certify one candidate for each post of deputy as the choice of the nominating bodies of that area and must attest to the willingness of that candidate to stand for election. The official list of candidates must be published at least twenty-five days before the election date. Party membership is not a prerequisite for official candidacy for the post of deputy. After the one candidate for each deputyship has been selected, the entire list is known as the "bloc of Communists and non-Party people."

On election day the voter appears at the polls between six in the morning and midnight and is handed a printed ballot on which appear the names of the "bloc" candidates for deputyships. In elections to the Supreme Soviet there is one "bloc" candidate for deputyship to the Soviet of the Union, and one for the Soviet of Nationalities. The voter is entitled to secrecy while he marks his ballot which consists of scratching out the name of the candidate if he does not wish him to be elected. If he favors the candidate, the voter merely places the ballot unscratched in the ballot box. Thus, the voter's choice amounts to saying "yes" or "no" to a "bloc" candidate for the Soviet of the Union and to a "bloc" candidate for the Soviet of Nationalities.

Between the time when candidates have been selected officially and election day, campaigning is said to occur extensively and vigorously. This consists of the candidate visiting and talking with groups of voters in the electoral area where he is standing for election. During these talks the

[10] For instance, passengers on long-distance trains "vote for candidates in the election districts in which the train travels longest during the day. Voters at sea cast their ballots for candidates in the ship's port of registry." Drew Middleton, New York *Times*, February 10, 1947.

candidate is expected to induce all voters to come to the polls to vote favorably for him as a "bloc" candidate, and is assumed to become familiar with the problems of the people of the area he will represent in the Supreme Soviet. Also, during the campaign period, the various organizations of workers and peasants are expected to stimulate all eligible voters to be ready and willing to appear at the polls to vote "yes" for the "bloc" candidates. There is rivalry among the electoral areas in this attempt to demonstrate complete unanimity for the "bloc" candidates who, presumably, are those in favor of continuing the current régime in power. Some aspects of this campaigning are not unlike those with which we are familiar. For instance, on the eve of the 1946 elections Stalin, who stood for election from the "Stalin Electoral Area of Moscow" made a "wind-up" campaign speech in which he reviewed the past achievements of the government and promised an early end to rationing and an increase in the production of consumer goods.

To be elected, a candidate must receive more than half of the votes cast in the area in which he is a candidate—that is, his name must not be "scratched" on more than half of the ballots deposited in the ballot box. If the candidate does not receive this majority vote, or if less than half of the eligible voters in the electoral area cast ballots, the local election commission must set a new election. The election rules for the 1946 elections specified imprisonment of up to two years for "any person who attempts by violence, deception, intimidation or bribery to prevent a citizen of the USSR from freely exercising his right to elect and be elected to the Supreme Soviet," and imprisonment up to three years for "any official of a Soviet or member of an election commission who forges election documents or deliberately miscounts the votes."

In the 1946 election of deputies to the Supreme Soviet there were 101,717,681 citizens registered to vote, of whom 99.7 per cent voted. Of the total ballots cast in the election of deputies to the Soviet of the Union only 819,699, or 0.81 per cent, were cast against the "bloc of Communist and non-Party people"; in the elections to the Soviet of Nationalities there were 818,955, or 0.81 per cent, negative votes. In the former case 10,012 ballots, and in the latter 28,414 ballots, were declared invalid by the election officials.[11] For comparative purposes, it may be noted that, in the 1937 elections of deputies to the Supreme Soviet, 98.6 per cent of the eligible voters cast ballots and that there were some 500,000 "scratched" or negative votes cast while another one-and-a-half million ballots were declared invalid. As the high degree of unanimity becomes concretely established by the count of ballots, the announced results of the election are widely celebrated. After the 1946 elections one Soviet newspaper hailed the elections as "the most important state affair." "The elections became a new

[11] For more complete data on the election results in 1946 see *Information Bulletin of the Embassy of the U.S.S.R.*, March 12, 1946.

achievement of the Soviet government. They show the whole world that there is no other government in the world which enjoys such unanimous effective support as the Soviet government. No party in the world enjoys such trust by its people as does the Party of Lenin and Stalin."[12]

Deputies elected to the Supreme Soviet are expected to work at their regular jobs at all other times except during the short sessions of the Supreme Soviet. They are expected to become familiar with, and intensely interested in, the special problems of the areas they represent, through visits to the localities within these areas, through correspondence and through visits from their constituents. The deputies are expected to assist local government agencies and Communist party organs. Apparently some of them attempt to advise their constituents on such matters as housing, education, medical services, and pension problems. Deputies receive salaries of one thousand rubles a month (about five times the average wage of an unskilled industrial worker) and free railroad transportation.

On March 11, 1946 the newly elected Supreme Soviet met in Moscow for its first session. Of the 1339 deputies, 277 were women, among whom were school teachers, collective farm chairmen, tractor drivers, machine and tractor station directors, physicians, technicians, weavers, miners, and Communist Party functionaries. Deputies who were Communist party members numbered 1085, while 254 were non-party people.[13] Many of the deputies were war heroes and workers who had been decorated for outstanding industrial achievements. Included were industrial workers, peasants, office employees, miners, scientists, and servicemen ranging from private to marshal. Classified by educational background, 445 deputies were college graduates, 71 had partially completed university courses, and 300 were high school graduates. The session set up permanent committees such as the Foreign Affairs Commission and the Budget Commission, elected the Presidium of the Supreme Soviet, formed the Council of Ministers, elected the Supreme Court, appointed the Procurator General of the U.S.S.R., and approved the first post-war Five-Year Plan. The post of Chairman of the Supreme Soviet, sometimes referred to as the President of the Soviet Union, was filled by electing Nicholai Shvernik, a former apprentice in an industrial plant and revolutionary worker who had held numerous important government and party offices.

The Presidium of the Supreme Soviet of the U.S.S.R.

Elected by the Supreme Soviet at a joint session of its two chambers, the Presidium possesses powers derived from the Supreme Soviet. It consists

[12] From *Pravda*. Quoted in the *Information Bulletin of the Embassy of the U.S.S.R.*, February 14, 1946.

[13] The percentage of local and republic soviet deputies who are not party members is much greater than it is in the Supreme Soviet. In 1948, 53 per cent of the 766,563 deputies to local and republic soviets were not party members. *Information Bulletin of the Embassy of the U.S.S.R.*, January 14, 1948.

of a chairman, sixteen deputy-chairmen each of whom represents one of the constituent republics, a secretary, and fifteen additional members. While the Supreme Soviet is not in session the Presidium has the power to issue decrees having the force of law, to rescind decisions and orders of the Council of People's Ministers, to use the armed forces, to ratify treaties, and so on. During such times it may also conduct referenda and appoint and dismiss People's Ministers at the instance of the Chairman of the Council of People's Ministers. Thus the Presidium is an agency for making current decisions chiefly on legislative, but partially on administrative, matters needing immediate attention while the Supreme Soviet is not in session. However, all of its acts are subject to ratification by the Supreme Soviet. Since the Presidium consists of thirty-three members it can be in practically continuous session, and it consequently becomes the continuing day-to-day head of the government of the Soviet Union, transacting its current business. As previously noted, the Presidium convenes the sessions of the Supreme Soviet and dissolves the Supreme Soviet when its two component chambers fail to agree.

The Council of People's Ministers

According to the basic theory underlying the organization of the Soviet government, there is no independent executive or administrative machinery. While the Council of People's Ministers is the "highest executive and administrative organ of the state power of the USSR,"[14] it is responsible to the Supreme Soviet (when it is not in session, to the Presidium) for the execution of the laws of the Soviet Union. In its executive and administrative capacity it issues orders and decrees which must be carried out, but all acts of the Council of People's Ministers are subject to review and change by the Presidium and the Supreme Soviet. The Ministers are the respective heads of the Ministries, which are the executive departments of the government of the Soviet Union. They are appointed and dismissed by the Supreme Soviet (or the Presidium) on recommendation of the Council of People's Ministers. The Council of People's Ministers has as its members the head of the ministries included in the chart shown on page 460 and, in addition, the following: The Chairman of the Council of People's Ministers, the ten Vice-Chairmen, the Chairman of the State Planning Commission, and the chairmen of certain other agencies attached to it, such as the State Bank. During recent years Stalin has been Chairman of the Council of People's Ministers and Molotov has been his first assistant.

These executive departments of the Soviet Union government are divided into "All-Union Ministries" and "Union-Republic Ministries." The former handle administrative matters of significance only to the

[14] Constitution, Art. 64.

entire Union and have branch offices throughout the Union. The latter administer matters which are of significance throughout the Union but which also show considerable local variation. In these latter cases the local government of each republic includes in its structure a similar Ministry which cooperates closely with, and in fact on all economic matters is subordinate to, the corresponding Ministry of the U.S.S.R. For such matters as social welfare and education the republics have their local Ministries for which there are no corresponding Ministries in the government of the Soviet Union.

The number and functions of the individual Ministries are constantly changing in accordance with need. They have increased greatly in number since the establishment of the U.S.S.R., in many recent instances a single Ministry having been split into two or more Ministries. This trend has been due to the expansion of the government's economic activities, the changing international situation which necessitated conversion of the government's executive machinery to war-time functions and then reconversion to peace-time needs, and an incessant effort to improve the administrative agencies of the government.

Moreover, for the purpose of supervising and coordinating more closely the work of groups of related Ministries, a number of committees function within the Council of People's Ministers. Each committee is responsible for the work of the respective Ministries which are grouped under it. Since there is continuous change in the number, functions, and groupings of the Ministries, it is almost certain that the details of any organization chart of the Soviet government will be inaccurate by the time it gets into print.

The degree to which the Ministers are responsible to the Supreme Soviet is indicated by the fact that the Constitution provides that a Minister to whom a question is addressed by a deputy of the Supreme Soviet must give a reply within three days in the chamber from which the question came.[15] A number of important commissions are attached to the Council of People's Ministers and work under its direction.

The Ministry of Control

Prior to 1934, two agencies, the Commissariat of Workers' and Peasants' Inspection (before 1945 the Ministries were called Commissariats) and the Committee of Fulfillment, held broad powers enabling them to discover and eradicate discrepancies between government programs, laws, and decrees, and their actual operation. In 1934, these powers and duties were centralized in the Commission of Soviet Control. They are now administered by the Union-Republic Ministry of Control whose function is to assure the actual execution of government orders systematically, promptly, and efficiently, with a minimum of administrative bureaucracy.

[15] Art. 71.

This Ministry is one of the most important agencies of the Soviet government. As a Union-Republic Ministry, it works through the republic Ministries of Control. "It will control accounting and expenditure of governmental financial and material resources, verifying the execution of official decisions. . . . It must make preliminary and subsequent checks of the receipt, storage, and utilization of funds and goods; and make audits as requested by Union or Republican agencies; and check the manner in which governmental regulations are actually executed." It may demand from other bodies any reports it considers necessary to its control function.

The State Planning Commission

This Commission is the focal point of all the economic planning procedure within the Soviet Union. Since its activities are so closely linked with numerous Ministries, it is attached to the Council of People's Ministers. Its composition and function will be described in greater detail in connection with a discussion of the economic planning machinery of the Soviet Union.

The State Procurator and Courts

The enforcement of the laws of the Soviet Union upon institutions, citizens, and government officials is the duty of the State Procurator General of the Soviet Union and his subordinates. The State Procurator General, who is appointed for a term of seven years by the Supreme Soviet, in turn appoints the state procurator of each republic. The state procurator of each district and city within a republic is appointed by the state procurator of the republic, with the approval of the Procurator General of the Soviet Union. These procurators institute proceedings on their own initiative and as a result of complaints by citizens. They are said to receive as many as a half million complaints a year, each of which is supposed to be investigated to determine whether any action should be taken against the accused person or agency. The procurators work through the machinery of the Union Republic Ministries of Justice of the respective republics.

Just as the Procurator General of the Soviet Union controls law enforcement throughout all the republics, so the Supreme Court of the Soviet Union supervises all judicial agencies and activities throughout the Soviet Union. The Supreme Court of the U.S.S.R. is elected by the Supreme Soviet for a term of five years; and the supreme court of each republic, province, and region respectively is elected for a five-year term by the Supreme Soviet of that republic, province, or region. The Supreme Court of the U.S.S.R. includes a president, a deputy-president, and thirty judges. Full sessions are held several times a year. It is a court of final appeal from

the supreme courts of the republics; it decides disputes between republic governments; and it hears cases which involve charges against high officials in the government or the Army. The Supreme Court of the U.S.S.R. is supposed to correct errors made by the lower courts, and to this end its decisions on cases appealed to it are circulated among the lower courts. It has given much attention to the problem of accurately defining crimes and to the problem of defining and protecting the rights of defendants. The Constitution makes the protection of the rights of the defendant a duty of the courts. The supreme court of each republic, being controlled by the Supreme Court of the U.S.S.R., in turn controls the judicial work within the republic. It interprets the republic laws and tries cases that are important or that are appealed to it. It passes upon the decisions of all courts beneath it.

The citizen's day-to-day contact with the law is in the People's Courts, established in all city districts and rural areas. They have original jurisdiction over civil cases arising between citizens, over disputes concerning the alleged failure of the manager of an enterprise or of workers therein to adhere to the terms of a labor contract or the controlling labor laws, over alleged improper omission of a citizen's name from the official list of voters, and over crimes and misdemeanors allegedly committed by citizens. Each People's Court consists of a "judge," who presides and administers the work of the court, and two "people's justices" who share with the judge the judicial work of the court. The judge and the people's justices hold office for three-year terms. They are elected directly and can be recalled by the citizens of the district in which they serve. The judge is a person with legal experience, but the two people's justices are chosen from workers in factories and offices, members of collective farms, army personnel, teachers, and so on, and they continue at their usual tasks except for the relatively few days per year they serve as people's justices. While serving as justices they receive their regular salaries from their usual places of employment. Upon accumulating experience, people's justices sometimes are elected judges and in many cases become assistants to judges. In all cases except a few specified in the statutes a people's justice has power equal to that of the judge in determining guilt or innocence, applying and interpreting the law, fixing the punishment, questioning witnesses, seeking additional witnesses or evidence, and determining the amount of a civil plaintiff's claim. The opinion of a majority of the three members of the court constitutes the court's decision.

Thus, in the People's Courts, the two people's justices can outvote the one judge, making their decision prevail over his. However, when this occurs, the judge has the right to attach to the court's ruling his minority decision and opinion, so that it comes to the attention of the higher court if the case is appealed. If either of the people's justices is in the minority, he

has an equal right to dissent. Similar use of people's justices prevails in the higher courts, including the Supreme Court of the Union and the Supreme Courts of the constituent republics. Since this practice doubtless appears novel and questionable to those of us who are familiar with courts consisting of judges who are independent and legally trained, its purpose should be noted carefully. The object is to keep the courts close to the people and to subordinate formal legalities to "objective justice." Since the state is thought of as a working-class state, even the courts are designed to reflect the obligation of the masses of citizens to participate in the protection of their own collective or socialist property, and to uphold the individual discipline and honesty necessary for the functioning of a socialist economy.

A court case in the Soviet Union proceeds along lines quite unlike those with which we are familiar. It is a basic principle that the procurator, or prosecutor, is neutral in his approach. He is expected to work toward the end of justice, which involves protecting an accused citizen's rights just as much as proving him guilty of an alleged crime. When an allegation is brought to the attention of the procurator, he, or his assistant, makes a "preliminary investigation" to ascertain all the facts on the side of innocence as well as guilt. Only if this investigation fully warrants it is the procurator to file an indictment. When the case comes to court trial the procurator is obligated to preserve his neutral attempt to bring out the facts on both sides. He is not expected to pit his prosecution against the defense of the other counsel, as is done customarily in our courts. The court trial is open to the public and anyone connected with the case is entitled to ask questions of any witness. If the case against the defendant weakens during the proceedings, the procurator is expected to judge the degree of weakness and he may ask for dismissal. Even after a court has found an accused guilty, the procurator is expected to review the evidence and court findings impartially and, if he feels warranted, to appeal to a higher court to reverse the verdict of "guilty."

The legal system which the courts interpret has several aspects which may seem unique to the student familiar with our own legal system. In the first place, the courts are in all instances creatures of either the voters directly or of the legislative bodies and are subject to their control. Moreover, while the Constitution grants the individual the familiar civil liberties, these are circumscribed by the goals of the Soviet Union. These rights or liberties cannot be exercised in any manner inimical to communist objectives. The fusion of the economy and the political government has influenced the nature of the legal system. Since the purpose of the governmental machinery is to bring economic improvement in the Soviet Union, he who does not fulfill his entire obligation as a worker is deemed guilty of a "crime." For instance, the Soviet criminal code makes it a crime to produce goods of poor quality in a state industry or to sell goods of sub-

standard quality in state trade.[16] This shaping of the legal system and court interpretations thereof to promote the interests and goals of the state was furthered by the late war. "The Soviet Union has always maintained a militant system of jurisprudence, in which the pressure of public need has been clearly apparent." The war has but emphasized a basic principle which underlies all Soviet legal thought.[17]

Taxation

In a system in which political and economic institutions are as completely intertwined as they are in the Soviet Union, taxation may be considered as either a phase of government activity or an economic phenomenon. The chief source of government revenue in the Soviet Union is a "turnover tax" which is levied on the sale of commodities at the point of their production. The economic effects and implications of this tax will be treated in a later chapter.

The Communist Party of the Soviet Union

In describing the government machinery, various references have been made to the Communist party. Since it is the only legal political party in the Soviet Union and since, therefore, control of the government centers in the party, a description of its membership, organization, and functions is necessary. While, as has been noted, party membership is not a prerequisite for election to the Supreme Soviet of the U.S.S.R. or one of the lesser "legislative" bodies, all of the more important officials are party members. The Presidium of the Supreme Soviet is dominated by party members and each Ministry is headed by a party member.

The Communist party of the Soviet Union has a present membership of approximately six millions of whom about one-quarter are "candidate-members." "Candidates" for full party status are probationary members who pay dues and engage in assigned tasks to prove the purity of their communism and their willingness and ability to serve the party. The membership of certain auxiliary bodies increases the six million substantially. The Young Communist League, consisting of persons of ages from 14 to 25 years, is a training unit of some fifteen million members. Its

[16] "The system of punishment provided by the Soviet criminal code includes a large number of different methods of bringing influence to bear on a criminal: he may be declared an enemy of the working people, be deprived of Soviet citizenship and expelled from the USSR, he may be imprisoned, undergo corrective labor without imprisonment, lose his political and civil liberties, be exiled within the country, be discharged from a position he holds, be forbidden to engage in some particular work or industry, he may be subjected to social censure, his property may be confiscated, he may be fined or made to remedy the damage done.

"Present-day Soviet criminal law does not include the death sentence, which was abolished by a law published on May 26, 1947." A. Herzensohn, *Information Bulletin of the Embassy of the U.S.S.R.*, October 8, 1947.

[17] John N. Hazard, *New Republic*, November 17, 1941, p. 161.

members are engaged in learning trades, studying Marxian theory, promoting sports and culture, and carrying on Communist party work in those places where there are no party units. The Young Pioneers include children of about 10 to 16 years of age and is designed to give first training in communism and to inculcate in Soviet children feelings of "social duty, collectivism, bravery, honesty, and love of labor."[18] In the immediate pre-war years the normal way of achieving full party membership had come to be by progressing through these indoctrinating, testing, and weeding-out children's and youth organizations.

Full party membership, attainable at a minimum age of eighteen, prior to the War was accorded only to those who were willing to be completely swallowed up by the party. It involved the most arduous obligations of a financial, service, and behavior nature. Besides an initiation fee, the member paid progressive rate dues to support party work. These rise from one-half of one per cent on lower incomes to three per cent on higher incomes. Non-payment of dues for three months cancels membership. Service to the party may include almost anything the party leaders make it, such as filling particularly difficult or unpleasant industrial posts and doing educational and propagandist work. Moreover, in motives, in sincerity, in effort, in performance, and even in the matter of personal consumption, party members were expected to set examples for other citizens, thus contributing to the ultimate goal of communism. Even a suspicion that a member sought material advantage from his party status could result in loss of membership. Each member had to carry out all Communist party decisions diligently. The influence of the party line was to be carried to and effectuated in all large and small assemblies and conferences, whether of a government, trade union, or other nature. If three or more party members attended a meeting they were to organize a "party group" to "consolidate the influence of the party in every respect, and to carry out its policy among non-party people. . . . In all questions the groups must be guided strictly and undeviatingly by the decisions of the leading party bodies."[19]

While these requirements of party membership undoubtedly still stand as an ideal, there is some probability that changes during the War diluted the purity of the average party member. The pre-war membership was reported as totalling only two and a half millions,[20] made up of three-fifths manual industrial workers, one-fifth peasants, and one-fifth intelligentsia and government employees. The increase to six million members is accounted for principally by the liberal extension of membership to those serving in the armed forces, even though they had not necessarily met the rigorous pre-war membership requirements. Moreover, war-time

[18] Moscow *News*, June 12, 1939.

[19] *American Quarterly on the Soviet Union*, April, 1939, p. 72.

[20] At the time of the 18th Conference of the Communist Party of the U.S.S.R. held in February, 1941. *American Review on the Soviet Union*, June, 1941, p. 35, note.

patriotism led many workers to seek and get party membership on a somewhat different basis than had existed before the War. As a result of these factors, the majority of present members were non-party people before the War, the average age of party members is lower, there is a larger proportion of men, and a larger proportion from rural areas than prior to the War. Communist indoctrination and experience which formerly preceded full party membership must now be provided party members on a large scale in order to restore the pre-war purity of the party. The seriousness of this problem is illustrated by the complaint that even in Moscow "secretaries of primary organizations often lack experience in party administrative work."[21] There is some speculation on whether these changes in the make-up of the membership, together with the increased contact the military has had with the populations of other nations, may cause substantial groups in the party to press for more emphasis upon the production of consumer goods to raise living standards and more local autonomy, as well as less emphasis upon revolutionary concepts. However, the top leadership of the party still consists of "veteran Bolsheviks" who have shown no inclination to relax strict party discipline and adherence to a party program formulated at the top.

Periodic local and national "cleansings" or "purges" of the party by its leaders are designed to provide the degree of purity that is considered essential to effectiveness. The most severe purge occurred during a five-year period extending from 1934 to 1939. It is estimated that during it some 466,000 members, about 25 per cent of the total in 1934, and about 516,000 candidates, over 50 per cent of the total in 1934, were put out of the party.[22] At the close of the purge, Stalin reported to a party congress that, "as a result of all these measures, the party succeeded in weeding out chance, passive, careerist and directly hostile elements, and in selecting the most staunch and loyal elements." While he considered this action "unavoidable" and "beneficial," he stated that there would be "no further need of resorting to the method of mass purges."[23] However, there are indications that the admission of incompletely indoctrinated persons into the party organizations during the War may lead to other purges. The chief of the political department of the Soviet armed forces has instructed

[21] Quoted from a reported statement by the secretary of the Moscow city committee of the party by C. L. Sulzberger, New York *Times*, June 5, 1945. Other portions of this paragraph are based partially upon Mr. Sulzberger's apparently careful report on the post-war status of the party. The second issue of the magazine of the new Communist Information Bureau in Belgrade reported that the Central Committee of the Communist party of the U.S.S.R. was drafting new rules tightening entrance requirements and discipline, and emphasizing education in the party line. The party was reported entering upon a "decisive struggle against different manifestations of admiration and slavishness toward Western bourgeois culture, which has a certain spreading among some layers of our intellectuals." New York *Times*, December 10, 1947. *See also* New York *Times*, January 26, 1948.

[22] M. T. Florinsky, *Toward an Understanding of the U.S.S.R.*, Macmillan, New York, 1939, p. 111.

[23] Moscow *News*, March 16, 1939.

the Young Communist League to be "most energetic" in the elimination of idealogical deficiencies among army and navy youth.[24] He indicated that the League's educational activities have been neglected and had failed to counteract "all kinds of bourgeois influence" which had penetrated into the armed forces personnel. The League is instructed to drive for "unceasing perfection in political knowledge."

Little need be said about the organizational structure of the party, since in design it is almost a precise copy of the governmental organization. The principle followed is that for every geographic or functional government agency there shall be a corresponding party agency. Thus the agencies of shop and enterprise management are matched by thousands of party cells or units organized in the shops and plants; corresponding to the local soviets are the village and city party organizations; similar to the regional and republic congresses are the same geographic party congresses. There is even a "Party Control Commission," with duties parallel to those of the powerful Ministry of Control.

The cells or units of "primary party organization" constitute the base of the entire party structure. Three party members are the minimum for a party cell; the average cell includes several hundred members. They are set up at "mills, factories, state farms, machine-tractor stations, and other economic enterprises, at collective farms, in units of the Red Army and Navy, in villages, offices, educational institutions, etc."[25] The ubiquitous nature of the party organization is illustrated by the fact that all branches of the Army and Navy are touched by political and propagandist administrations supervised by the Chief of the Political Department of the Soviet Armed Forces. Each cell is governed by a party committee averaging five members. Its secretary is its most important official and, as a link in the hierarchy of party secretaries extending to Stalin as General Secretary of the party, it is he who ties the cell into the far-flung party organization and keeps its policies and actions consistent with the directives laid down by the higher party organs. The elections of these local party officials have been referred to as "the most democratic phase of Soviet life" because at election time officials are "called upon to give an account of their stewardship to their fellow members and electors."[26]

The highest governing body of the party, at least theoretically, is the All-Union Party Congress which is supposed to meet at least once every three years. It has convened at irregular intervals, the most recently reported session (the 18th) having met in March, 1939. The chief functions of the Congress are to hear and approve extended reports by government officials and to approve decisions and actions by subsidiary bodies. The

[24] New York *Times*, October 28, 1946.

[25] Rules of the All-Union Communist Party of the U.S.S.R., as adopted by the 18th Congress of the party. *American Quarterly on the Soviet Union*, April, 1939, p. 69.

[26] Walter Duranty, New York *Times*, February 27, 1940.

18th Party Congress consisted of about fifteen hundred voting delegates elected by the lower party units. About one-fifth of them had been party members since 1920 or earlier. Half of them were under thirty-five years of age and only three per cent were over fifty years old.[27] Twenty-two per cent came from Moscow and Leningrad.[28] The most important actions taken by this Congress were the adoption of the third Five-Year Plan (1938–1942) for the national economy and the adoption of a new set of rules for the party.

The new party rules provided for an All-Union Party Conference to be convened at least once each year for the discussion of "urgent questions of party policy." The latest All-Union Party Conference reported in the United States was held in February, 1941. The most important items on the agenda concerned the problem of how to use the party to stimulate industrial production and efficiency without causing undue interference with technical management in the individual plants.[29] The Conference has the power to decide upon party policy subject to ratification by the Central Committee of the Communist party and it has limited power to replace members of this committee. The latter is elected by the All-Union Congress and has power to determine the policies of the party, subject to ratification by the All-Union Congress. This Central Committee is the party's "ruling executive body" and consists of seventy-two members.

The Central Committee, not being in continuous session, elects as its executive agency the Political Bureau of the Central Committee, usually referred to as the Politburo. This consists of fourteen men, one of whom is Stalin. The other include such prominent figures as Andreyev, Voroshilov, Kaganovich, Molotov, and Shvernik, the latter having been elected chairman of the Supreme Soviet of the U.S.S.R. in March, 1946. The personnel of the dominating group within the Politburo has not been changed since before the War except by several deaths. It consists of middle-aged and slightly younger men who have long been close associates of Stalin. Most of them were Bolsheviks at the time of the Revolution and participated actively therein. One of them undoubtedly will replace Stalin when the day for such action comes. One member of this group is head of the secret police. Whatever trends there may have been within the general membership of the party during the War, this inner group remains idealogically just as it was. They will continue to insist upon strict party discipline, no division or differences once the program of the party has been set, and complete devotion to strengthening the socialist state toward the end of communism. The fact that these are the men who led the Soviet Union to victory in the late War probably strengthened, if that

[27] Moscow *News*, March 27, 1939.
[28] M. T. Florinsky, *Toward an Understanding of the U.S.S.R.*, p. 112.
[29] New York *Times*, January 30, 1941.

were possible, the hold of the Politburo on the machinery and policies of the party and, hence, of the government.

The Politburo establishes policies on every conceivable problem, frequently without the advice or knowledge of the Ministry which will be expected to carry out the policy. While there may be differences of opinion on matters of policy within the Politburo, there is no evidence of them, for records of its meetings are not published. Individual party members do not question the policy decisions after they are made and no factional organizations within the party are permitted. The Politburo's word on some specific question is passed on to the Central Committee where there may be discussion of ways and means of making it effective. From there the matter goes to the Ministry concerned. The latter issues pertinent orders and instructions to the proper subsidiary agencies which are expected to execute them. Not only is Stalin the most influential member of this powerful body, but he is also the General Secretary of the party. As such he is in direct charge of all party organization and activities and directs the work of the subsidiary party secretaries throughout the Union. It is from this key position in the Politburo, and as head of the staff of party workers, that Stalin wields his power although he also occupies the important post of Chairman of the Council of People's Ministers, in which capacity he is referred to as "Premier" of the Soviet Union.

The duties and functions of each geographic and functional portion of the party organization are correlated closely with those of the corresponding geographic and functional government agency. In fact, the interlocking of personnel which accompanies this correspondence of function creates many situations in which it is difficult or impossible to distinguish the governmental from the party agencies. For instance, it is quite common for a piece of new legislation to be announced as a decree issued jointly by the Council of People's Ministers, a government organ, and the Central Committee of the Communist Party.

Prior to 1943 this fusion of personnel extended beyond the borders of the Soviet Union into the organization of the Third International, the world organization of the Communist parties of the various nations. In numerous instances important Communist party members in the Soviet Union, who were also Soviet government officials, held posts in, and dominated the work of, the Third International. In 1943 it was announced that the Third International had been disbanded. Despite this fact, it is widely felt that the Communist parties operating in the respective nations consult with, and receive a measure of guidance from, the top men in the Communist party of the Soviet Union. Moreover, the leaders of the Communist party of the U.S.S.R. undoubtedly control the Communist Information Bureau established in Belgrade in 1947 for the purpose of "exchanging experience" and "coordinating activities" among the Communist parties of nine European nations.

It seems clear that sovereignty in the Soviet Union resides in the Communist party; within the party, power appears to be highly concentrated in the Politburo, within which the General Secretary holds a most strategic position for the exercise of control over policies and activities. But why this maze of intricate government machinery if actual policy-shaping and activity direction take place within such a closely circumscribed group of Communist party leaders? Does it not seem foolish to devote so much energy to the operation of an elaborate government machine when it means so little in actual governing? These government agencies are far from superfluous, since they serve a number of important functions despite the concentration of controlling power in the hands of the party leaders. First, the intricate representative bodies give at least a semblance of the possession of power by the electorate, which appearance the leaders are undoubtedly anxious to retain for obvious domestic and international reasons. Second, the various representative assemblies may give the leaders some otherwise unobtainable opportunities to survey mass sentiment. Third, the assemblages act as sounding boards for utterances which the leaders wish to have conveyed back to the masses in a more vital way than would be possible through the printed word. Fourth, the sessions of the legislative bodies act as emotional focal points from which enthusiasm generated *en masse* is carried back to rank-and-file citizens. There are also certain detailed functions of actual administration performed by many of the government agencies. The broad purposes enumerated above, if accomplished, justify, from the point of view of the existing régime, what might otherwise appear to be the mere turning of wheels within wheels.

QUESTIONS FOR CLASS DISCUSSION

1. Would it be correct to call the pre-revolution government of Russia a "constitutional monarchy"? What qualifications should be added?
2. There were two revolutions in Russia in 1917. Show how the second differed from the first.
3. How long did it take the Bolshevik régime to become firmly established in Russia? Why did it take so long?
4. What is meant by saying that the Soviet Union is a federal state?
5. According to what principle are governmental powers and functions divided between the Union government and the governments of the republics?
6. How can you account for the fact that in 1936 the right to vote was extended to formerly disenfranchised groups?
7. What are the powers and functions of the Supreme Soviet of the Soviet Union?
8. Why is the Supreme Soviet divided into two parts, each of which has independent legislative powers?
9. What is the function of the Presidium, and what is its relation to the Supreme Soviet?
10. From what source does the Council of People's Ministers draw its authority? What are its chief functions?

11. Why is the Ministry of Control one of the most important of the governmental agencies?
12. Why does the Communist party of the Soviet Union have such a relatively small membership? Does this fact prove that only a few people in the Soviet Union like and support the existing government?
13. What is the significance of the fact that the Communist party organization parallels so closely the organization of the government?
14. What is the Politburo, and what is its relation to the government of the Soviet Union?

Chapter 23

AGRICULTURE AND MANUFACTURING

The Link Between the Economy and Government

It is in the Ministries that the economy and government are fused. On the one hand, these departments are the highest executive arms of the government and, on the other hand, certain Ministries are the administrative heads of the various divisions of the economic machinery of the Soviet Union. The All-Union Ministries administer their segments of the economy from Moscow on a national basis. Thus the Ministry of Iron and Steel operates all iron and steel producing enterprises throughout the Union. The Ministry of the Automobile Industry runs the plants producing passenger automobiles and trucks. The Ministry of Foreign Trade administers all purchase and sale transactions with foreign parties, and so on throughout the numerous Ministries of economic significance listed as All-Union Ministries in the chart on page 460. The Union-Republic Ministries of an economic character supervise the work of corresponding Ministries in the respective republics. Thus the actual administration of the food industries is vested in the Food Ministries of the various republics, with coordination and supervision from the Ministry of Food in the U.S.S.R. government. The same is true for such industries as the fish, meat and dairy, textile, light manufacturing, building materials, and timber industries. State trading enterprises, state farms, collective farms, and finance also are administered directly by republic Ministries with supervision from the Union-Republic Ministries in Moscow.

The apparent clarity of division of economic functions among these Ministries is somewhat misleading. The pragmatic bases upon which lines of administrative authority are laid down and the flexible structure of industry create complexities which defy attempts to expose clearly and precisely the patterns of economic organization. Shifts in administrative control and all sorts of apparently illogical and unsymmetrical groupings of economic enterprises are accounted for only on the basis of the drive to "make it work." Whatever is conducive to that end is good organization, and whatever is not is to be discarded. This fact affords ample warning that

in tracing the organizational features in the soviet economy, we shall be describing the actual organization only in the broadest of terms. In numerous cases the exceptions are important, but it is possible to trace the thread of the scheme of organization.

Service Utilities

There are certain portions of the economy which we shall not be able to treat in detail. It must suffice to note that service "utilities" in all cases are operated as government industries. Those of wide geographic significance, such as transportation and communication, operate as national units under All-Union Ministries on somewhat the same basis as does our postal system. Local utility enterprises, such as water, gas, and electric light, are operated by the local soviets. These instances correspond roughly to certain cases of municipal ownership of gas, water, and electric utility enterprises in our country. The principles upon which these utilities are organized and operated in the Soviet Union are approximately the same as prevail in certain lines of industrial activity which will be discussed later.

Two Basic Principles of the Soviet Economy

Two important principles which underlie the entire economic organization of the Soviet Union are: First, since the entire economy is in all but relatively insignificant exceptions socialized, that is, governmentally operated or minutely controlled, we shall expect to find the activities of any and every functional part of it subordinated to, and coordinated with, certain social objectives toward which economic activity as a whole is aimed. Thus, for instance, we shall not expect to find the financial portion of the economy behaving in a manner which is explainable in terms of aims and objectives that have primary significance to the financial system itself. Nor shall we find agriculture, or the timber industry, or any other economic division following directives which are established by and for itself. Each is merely a part of an entity which can be conceived of in no terms other than the general social objectives toward which the activities of the entire system are directed. To master this basic principle of unified action toward chosen social goals will require real effort on the part of those thoroughly imbued with the economics of separate, competing enterprises, industries, and categories of industries, each of which follows its own self-established profit goals, the comprehensive end result being determined by the totality of the interrelated individual actions. The question of whether one type of organization is better than the other must be left to the judgment of the individual. However, an understanding of this basic principle of a socialized economy is absolutely essential to any attempt to comprehend the functioning of the soviet economy.

The second principle of basic importance and universal application in the soviet economy is a corollary of the first: In the necessary bookkeeping of a socialized economy such concepts as profits, losses, costs, etc., take on meanings entirely foreign to those which they possess in our capitalist economy. In the soviet economy all accounts are merged into one gigantic bookkeeping procedure in which the striking of one national asset-liability or profit-loss balance has final significance. Just as within a set of accounts kept by a private corporation in our economy, any specific asset can be used to counterbalance any specific liability, and any profit item can be used to counterbalance any loss item regardless of all differences in their natures, so, in the accounts of a socialized economy, any loss realized in any part of the economy can be offset by a profit arising in any other part of the economy, leaving the net balance for the economy as a whole as the item of major significance.[1]

Although we shall have further contact with both of these basic principles as we proceed to analyze certain portions of the soviet economy, this brief statement gives a preliminary understanding of two important fundamental facts.

AGRICULTURE

Agricultural Policy

Two-thirds of the workers of the Soviet Union are engaged in agricultural production. This fact, coupled with the basic importance of agricultural products as raw materials and foodstuffs, makes this industry of key importance in the soviet economy. At the time of the Communist Revolution, Russian agriculture was featured by extremely primitive methods and equipment. The inefficient strip system of cultivation prevailed, and the supremely conservative and ignorant peasant tillers of the soil continued to utilize methods which their ancestors had used for generations. Over 60 per cent of the cultivated land was owned by royalty, the church, and rich "kulaks." Rural life differed little from that which had existed for centuries.

To the peasants the Revolution meant land reform. They seized some 370,000,000 acres of land they had previously tilled for the benefit of tsar, church, and private landlord and began cultivating it individually in small tracts. Rents estimated at 500,000,000 gold rubles annually (then the equivalent of $250,000,000), as well as obligations to supply labor to

[1] This, however, should not obscure the fact that since about 1932 increasing emphasis has been put upon the accounts of the individual economic unit. While it is still true and significant that a loss incurred in one unit can be offset by a profit realized elsewhere, strenuous attempts are made to keep a balanced account for each enterprise as a unit. These efforts bring pressure upon the individual industrial unit to achieve productive efficiency.

the landlord and to pay him dues in kind were abrogated.[2] While titles to land were nationalized in February, 1918, there was no immediate interference with this private use of agricultural land by the peasant families. However, neither the peasant nor the nation was much better off because of this change. The 25,000,000 small landholdings farmed by ignorant peasants using primitive methods could never supply the foodstuffs or agricultural raw materials essential to the successful building of a socialist economy. Leaders of the new government early realized the necessity for increasing the size of the farm unit and for mechanizing land cultivation and harvesting.

During the late 1920's the government seriously undertook the collectivization of agriculture. Since the only mental acumen and organizing ability in most rural regions was in the former "kulak" class, the government was forced to rely upon their assistance which, however, often turned into opposition and attempts to reestablish the kulaks' pre-Revolution power to levy tribute on the peasants. During these years government policy alternated between compulsory collectivization by edict and conciliatory measures designed to tempt the peasants into voluntary participation in collectivization programs. While the latter measures often were ineffective, the imposed measures proved costly, even to the point of endangering the entire régime.

The early pressure to reorganize individual farming units into collective units and the resistance of the rural population resulted in the destruction by current consumption (as the alternative to their collectivization) of about one-half of the pigs, one-third of the sheep and goats, nearly one-third of the cattle, and about two-thirds of the poultry of the Soviet Union. The plain fact was that the masses of peasants chose to eat their individually owned livestock rather than merge it into group-owned herds and flocks of the collective farm which the government was trying to establish as the basic unit for agricultural production. These early experiences resulted in the privileges which the individual peasant member of a collective farm today enjoys, to own and benefit individually from his own cattle, pigs, poultry, and small plot of cultivated ground. It will be impossible for us to trace the details of the history of the collectivization of agriculture in the Soviet Union. The record prior to 1930 will remain an everlasting and forceful illustration of the disruptions, the difficulties, and the social costs which may result from attempts to socialize quickly an important segment of an economy.

The agricultural objectives of the soviet régime, despite shifts in the attempted means for their realization, have remained consistent. The broad goals which have been sought are as follows:

[2] I. Benediktov, *Information Bulletin of the Embassy of the U.S.S.R.*, January 15, 1946, p. 33.

1. To increase considerably the average size of the productive unit in order to realize the increased efficiency of large-scale operations.

2. To mechanize agricultural production both by substituting mechanical for human or animal power, and by substituting modern cultivation and harvesting machines for primitive ones.

3. To eliminate from agricultural production all claims to compensation which are based on landlordism.

4. To substitute the collective application of labor and the collective realization of product for individual application and individual realization.

5. To increase the application of science to agricultural production, especially in the development of better fertilizers, better seed selection, and the scientific determination of the suitability of specific tracts of land for specialized crops.

6. To break down class differentiation between the peasant, who has tended to remain more individualistic, and the already largely socialized industrial proletariat.

Practically all of the effective collectivization of agriculture has been accomplished since 1928. In that year over 95 per cent of the total sown area of the Soviet Union was cultivated by individually operated farming units. Today over 99 per cent of the sown area is cultivated by state and collective farms.

State Farms

Although the first state farms were established in 1918, practically no progress was made in their organization until 1928. Since then their number has increased to about 4000, employing nearly two million persons, and accounting for about one-twelfth of the sown area of the Soviet Union. While some of the state farms produce grains, others are important producers of cotton, flax, sugar beets, rice, vegetables, livestock, and dairy products. Apparently there is no intention to increase the relative importance of production on state farms. At present many of them are considered "model farms" where experimental and demonstration work is carried on and institutes are maintained for training specialists who are sent out to serve collective farms. State farms are reported to be highly mechanized. Before the War they utilized some 85,000 tractors and 26,000 harvester combines. Their production figures are impressive. Pre-war state livestock farms were reported to have 3,700,000 head of cattle, 2,800,000 pigs, 7,000,000 sheep and goats, and 2,000,000 horses and to turn out annually some 7,000,000 tons of grain, 2,000,000 tons of milk, 20,000 tons of wool, 1,500,000 tons of sugar beets, and 132,000 tons of cotton.[3]

State farms are organized and operated directly as state enterprises. The

[3] P. Pelisov, *Information Bulletin of the Embassy of the U.S.S.R.*, October 9, 1946, p. 13.

units range in size from 27,000 to 80,000 acres. Through a variety of local organizational forms they are pyramided into large trusts according to the line of production in which each specializes. Thus there is the grain trust, the sugar trust, the cotton trust, the cattle-breeding trust, and so on. Each trust is subordinate to, and managed by, the appropriate Ministry. Each trust is simply a state-owned industry in which the government owns the land, agricultural machinery, and livestock and hires agricultural labor. The gross product belongs to the trust, which pays individual wages to the employees in the same manner as does a manufacturing enterprise. After food, fodder, seed, and other portions of the gross product needed on the state farm are taken out, the rest of the produce is sold by the trust, as are the products of other state industries, through state-owned and co-operative trading enterprises. Full managerial authority over each farm is in the hands of a farm director who is appointed and supervised by the trust which operates the farm. The employees have generally the same rights and privileges as do workers in manufacturing plants. They belong to trade unions and have paid vacation privileges. They may build their own homes on the state farms and they have privileges of using garden plots and owning limited amounts of certain kinds of livestock.

In referring to the ownership of homes and livestock for personal use, we have touched upon another basic principle of soviet institutions. This is the clear-cut distinction drawn between property privately owned for the purpose of personal use and property privately owned for the purpose of combining it with privately hired labor. While the latter is anathema to the existing régime, the former is not only permitted but encouraged. Although in the completely communistic anarchistic society, which Marxians envisage as the probable culmination of social evolution, there would be no private property of any sort, the first stage of communism (socialism) would be characterized by the socialization of the means of *large-scale* production. Thus, although there are plenty of privately owned consumers' goods (some of which are very durable, such as houses) and also plenty of privately owned man-made producers' goods which are used directly by their owners, all natural resources and all man-made equipment which is combined with labor in large-scale production is either state-owned, or owned by collectives which are subject to state control. It is not private property but rather private property in producers' goods for the "exploitation of labor" which has been rooted out of the property institutions of the Soviet Union. Even certain forms of intangible property, such as privately owned state bonds, are not only permitted but encouraged.

Collective Farms

Collective farm units in the Soviet Union account for about 91 per cent of the total cultivated area of the country. There are over 200,000 collec-

tive farms on which about 90 per cent of the peasant households reside and work.[4] Only about one per cent of the total sown area is cultivated by private farmers outside the collective and state farms. Although the government holds basic title to the land in these collective farms, the use of the land has been "secured for farms in perpetuity." Much of the machinery and equipment is group-owned by the members. Contractual wages are not paid because the members share the output collectively. These collectives were organized originally by the peasants within each of certain geographical areas pooling their equipment and the land they had been cultivating into a single agricultural unit, keeping only limited amounts of privately owned equipment and livestock for individual family use. Collective farms average several thousand acres in size, or about fifty acres for each of the seventy or eighty peasant households residing thereon. Many of them specialize in one or a few products. If a farm specializes in livestock raising, each peasant family joining it has merged its livestock into that of the collective, keeping, however, a milk cow or two, and all the pigs, sheep, chickens, rabbits, and so on, it desires, for its own family use.

The organization of each collective farm is set up in accordance with a model charter prepared by the government. Its day-by-day operations are supervised by a manager and executive board elected for two-year terms. They determine how the detailed tasks are to be performed and assign the members of the collective to various kinds of work. The workers are organized into "brigades" of some forty to sixty persons, each headed by a "brigade leader" who is responsible for accomplishing the assigned task. The management is thoroughly dominated by the Communist party. Moreover, through the respective Ministries the government issues directives which must be carried out by the collective farms. For instance, in 1939 the Council of People's Commissars (now the Council of People's Ministers) and the Central Committee of the Communist party decreed that each collective farm should have two livestock sections—one for cattle and the other for sheep or hog breeding. The decree further specified by regions and by sizes of farm the minimum amount of livestock each farm was to have by the end of 1940 and by the end of 1942. Numerous detailed regulations accompanied the decree.[5] Another illustrative decree was that of 1939, which ordered collective farms to expel members who had not worked at least 60 to 100 days per year on the collectively cultivated lands of the farm.[6]

[4] I. Benediktov, *Information Bulletin of the Embassy of the U.S.S.R.*, January 15, 1946, p. 34; Alexander Baykov, *The Development of the Soviet Economic System*, Cambridge University Press, London, 1946, p. 327.

[5] Moscow *News*, July 17, 1939.

[6] For details see: Alexander Baykov, *The Development of the Soviet Economic System*, p. 314.

Agricultural Mechanization and Machine-Tractor Stations

One of the chief objectives of the Soviet government has been to mechanize agriculture. Progress in this direction was reported to be particularly rapid in the decade between 1930 and 1940 when the number of tractors used in agriculture increased from 72,000 to 523,000 and the number of harvester combines from 1700 to 182,000.[7] During this period thousands of operators of such equipment were trained in technical schools. In 1939 Molotov boasted that "our agriculture is now ahead of that of any other country in the world with regard to technical level and large-scale production.[8] However, the late War caused the loss of thousands of pieces of agricultural machinery in the occupied areas of Russia and stopped further mechanization by requiring the conversion of agricultural machinery plants to the production of heavy military equipment, such as tanks and mobile artillery, and by interfering with repairs and maintenance of existing equipment. With the end of the War, it was reported that millions of acres were again being returned to mechanized cultivation and harvesting.[9] The post-war Five-Year Plan provides for the production by 1950 of 325,000 higher-powered tractors, 174,000 harvester combines, and many thousands of seeders, cultivators, disc harrows, mowers, and so on. It is planned that by 1950 the following percentages of field work will be performed by machines: "plowing 90 per cent; sowing, spring and winter cultivation, no less than 70 per cent," and that harvester combines will reap 55 per cent of the grain. Efforts will be devoted to developing a greater variety of agricultural machinery so that the special needs of particular regions and crops may be met. It is planned to train 2,300,000 tractor and harvester combine operators and other agricultural technicians. These efforts are expected to place the 1950 agricultural production 27 per cent above the 1940 level.[10]

This mechanization, of course, has resulted in increased labor efficiency. Government statistics indicate that labor productivity on collective farms is more than three times as high as on the small-scale and less mechanized individual peasant farms.[11] A cited example is that of two highly skilled operators who, with two combines, during one season harvested crops which by the old hand methods would have required the labor of 3323 men.[12] It is claimed that in 1940 tractors on state and collective farms performed tasks which would have required 11,000,000 man-years of work if done by old methods.[13] However, Soviet writers avow that this displace-

[7] *Ibid.*, p. 331.
[8] Moscow *News*, March 22, 1939.
[9] *Information Bulletin of the Embassy of the U.S.S.R.*, January 15, 1946, p. 34.
[10] *Information Bulletin of the Embassy of the U.S.S.R.*, May 16, 1946.
[11] V. Russakov, *Information Bulletin of the Embassy of the U.S.S.R.*, May 8, 1945, p. 4.
[12] *Ibid.*, p. 3.
[13] *Ibid.*

ment of hand labor by agricultural machinery has not created any fear of unemployment on the part of workers. Labor freed from hand tasks has been absorbed in "livestock breeding, vegetable and fruit growing and other constantly developing branches of collective farming" and in the rapid development of industry which has drawn labor into the towns from the rural areas.[14]

At least four-fifths of this mechanical equipment is owned and operated by the 7000 machine-tractor stations of the Soviet Union. These stations are run by the government for the purpose of supplying the collective farms on a contractual basis with the services of tractors, combines, threshers, trucks, and other machines such as flax harvesters, beet lifters, and potato diggers.[15] Besides skilled mechanics, agricultural experts are attached to these stations, thus making their knowledge available to assist collective farms in solving their technical problems. The workers and equipment of each station are organized into brigades and assigned to the surrounding collective farms. Each tractor station serves an average of about thirty collective farms.[16]

The director of each station is obligated to cooperate closely with the collective farm management in planning and carrying out the contract between the station and the farm. Payment for the machine-tractor station's services may be in grain, or other products, or in money. Through operating these machine-tractor stations the government acquires tremendous power to control the operations of the collective farms. Failure to secure the services of a station would be disastrous to a collective farm and the mere threat of such punishment would be entirely adequate to force a recalcitrant farm management to yield to any demands the government might make.

Division of a Collective Farm's Output

The apportionment of the gross product of a collective farm is specified by laws which are supplemented by close administration by the respective Ministries. Before the members of the collective receive any individual shares of the product, the following deductions from the gross product must be made:

1. A compulsory payment to the government. Since this involves the sale of a specified amount of each kind of crop to the government at a very low price, it may be thought of as a rent paid to the state as landlord.[17]

[14] I. Benediktov, *Information Bulletin of the Embassy of the U.S.S.R.*, January 15, 1946, p. 34.

[15] The state farms generally own their mechanical equipment.

[16] Alexander Baykov, *The Development of the Soviet Economic System*, p. 330.

[17] ". . . since the quota is varied according to estimates of soil fertility and crop yield, it serves the function of differential rent in equalizing, in a rough and ready manner, the position of different farms by skimming off the difference in their yield due to differences in natural advantages. . . . The differences in the burden of these quotas, measured per acre, apparently range up to a ratio of 1:4." Maurice Dobb, *Soviet Economy and the War*, International Publishers, New York, 1943, p. 69.

These state "collections" of grains, meats, dairy products, and numerous other kinds of agricultural produce aggregate into (*a*) food supplies which government marketing agencies sell in the cities and villages, and (*b*) supplies of agricultural raw materials, such as cotton, wool, and flax, which are fed into manufacturing industries for further processing. Formerly these government levies in kind were based upon the planting plans of the farm. Since 1940 they have been at fixed amounts per hectare, varying with the quality of the land, for the total number of arable hectares in the collective farm.[18] Placing this "rent" charge on a *fixed* per hectare basis offers the collective farm members an incentive to increase the percentage of the arable land which is sown and to increase the per hectare yield of the farm and thus increase the amount of produce left after the "rent" is paid. There is a similar levy, but 10 to 20 per cent larger, against individual peasant farmers who have not joined collectives.

2. Payment to the machine-tractor station for the services of its equipment and personnel. This payment is in grain, or other products, or in money, and is made from the portion of the farm's output which is left after the government's levy has been met. If the payment is in money, the money will have been derived from selling products in excess of the government's levy, either to the government directly under a contract yielding a higher price than that for the "collections" referred to above, or to some state industrial enterprise or cooperative to which the farm is permitted to sell at similarly higher prices, or in a city or village where the collective farm is permitted to maintain a market to sell surplus portions of its output at whatever prices it can get.

3. The setting aside of seed for the next crop and the establishment of reserves of seed and fodder.

4. Payment of insurance premiums, of interest on loans from the state bank, or of principal of such loans as are due.

5. A contribution to the farm's fund for cultural and mutual aid purposes.

6. In some cases payments into the "indivisible fund" of the collective farm to be used for improvements on the farm.

7. Administrative and managerial expenses of the farm.[19]

After these deductions, the remainder of the gross output of the farm is available for distribution to the members as individuals. This may be in kind or in the form of money received from the sale of portions of the product to the government or in a city or village market. It has been estimated that this net fund available for distribution to members amounts

[18] See *International Reference Service*, May, 1941, p. 1; A. Yugow, *Russia's Economic Front for War and Peace*, Harper, New York, 1942, pp. 56–57, 65.

[19] For further details on these deductions from gross product, including their average amounts as percentages of gross product, see Alexander Baykov, *The Development of the Soviet Economic System*, pp. 311–312; Maurice Dobb, *Soviet Economy and the War*, 1943, pp. 68–69.

on the average of 35 to 39 per cent of the gross output of the farm.[20] This net fund is divided among the members proportionately to the number of "workday units" which stands to the credit of each.

A member's workday units, and therefore his payment (in kind or in cash) by the cooperative, is calculated as follows: For each farm "norms" are established by expressing the worth of each farm task in terms of workday units. The tasks are so evaluated that for one working day of normal hours a person may get from one-half to two workday units. For completing any one of these tasks the member is credited on the farm's records with the number of workday units specified for that task, regardless of the time it took him to complete the task. The same credit is entered in the work book which is in the possession of the member. While these norms are established in accordance with a model scale constructed by the government, each collective farm has some control over its own norms and can adjust them in accordance with variations in local conditions of fertility, moisture, topography, and other matters pertinent to the relative difficulties of accomplishing the respective tasks on that farm.

At the end of the accounting year the total workday units credited to each member of the collective is computed and these are totaled into the aggregate number of workday units credited to all members. The amount of each farm product left over for distribution to members in kind is divided by the aggregate number of workday units credited to all members, thereby deriving the "in kind" value of each workday unit. Also, the farm's net cash yield available for distribution in money is divided by the same aggregate number of workday units credited to all members, thereby deriving the "cash" value of each workday unit. The "in kind" value of each workday unit is multiplied by the number of workday units credited to each member to ascertain what is due him in kind, and the "cash" value of each workday unit is multiplied by the number of workday units credited to each member to ascertain what is due him in cash.[21]

[20] A. Yugow, *Russia's Economic Front for War and Peace*, p. 65.

[21] A hypothetical example may clarify this: "Suppose that the members of the collective farm have earned a total of 25,375 workday units in a given year, and that there are 30,450 kilograms of wheat and 35,525 kilograms of rye to be distributed. In that case each workday unit will be worth 30,450 divided by 25,375, which equals 1.2 kilograms of wheat, and 35,525 divided by 25,375, which equals 1.4 kilograms of rye. For example, a collective farmer who has earned 250 workday units will get 1.2 times 250, i.e. 300 kilograms of wheat, and 1.4 times 250, i.e. 350 kilograms of rye. All other crops are distributed in the same way, whether cereals, beans, vegetables or dairy produce. The same system governs the allocation of cash income." From: *Information Bulletin of Embassy of the U.S.S.R.*, June 7, 1945, p. 4. The division of one collective farm's earnings in kind and in cash in 1946 is described as follows: In 1946 the individual pay for each workday unit came to a kilogram and 700 grams of grain, 7 kilograms of potatoes, 7 kilograms of vegetables, 4 kilograms of hay and straw, and 9 rubles. On the average the *individuals* on the collective farm were credited with about 200 workday units each, and some *families* were credited with as many as 1,700 workday units each. Such families received over a ton and a half of grain each. Drew Middleton, New York *Times*, February 17, 1947.

Thus the individual for his year's work is entitled to draw out an income, partly in kind and partly in cash, based upon a piece-work system of sharing the net product of the collective farm for the year. In some cases additional workday units are added to the credit of individual workers who have distinguished themselves by unusual feats of productive effort. Also for such feats badges, medals, and other non-economic honors are awarded.[22]

On his individual share of income from the collective farm each member pays the government a direct income tax, which was about 10 per cent prior to the war years. During the War the rate was increased temporarily. Peasants who are not members of collectives pay substantially higher tax rates. This is one of the numerous handicaps placed on non-members in order to achieve the complete collectivization of agriculture.[23]

It is evident from this description of the apportionment of the gross product of the collective that some members may gain considerably larger incomes from collective farms than others. Indeed, this possibility has been more and more relied upon to stimulate the member to work hard and to acquire a high degree of skill, so that he can perform the more skilled tasks which are more highly rated in workday units. It is also true that the various collective farms differ greatly in the amounts of their per capita gross products. Those which have better land or are favored by the government through a generous grant of capital funds, or by some other means, are much more prosperous than the least favored. In so far as they are not equalized by the differential "rents" referred to above, these differences in gross output are of course reflected in differences in the incomes of the members of the various collective farms.

While it has been assumed that most of the effort of the member would go into the work of the collective farm as long as he remained a member, in 1935 the government granted permission for each member to reserve, from the collective farm's land, for his family's personal use, a "farmstead" of from half an acre in fertile areas to two and a half acres in arid regions. He was permitted to own whatever farm property was necessary for the utilization of his farmstead, and could raise specified forms of livestock, food for his family's use, and produce to be sold in a market which his collective farm might operate in a village or city. This was a concession to the peasants' dislike for complete domination by a governmentally controlled collective. It gave him something quite personal to work for, with

[22] In connection with this account of the member's income from the collective farm it should be noted that during the year the member has had the benefit of the produce from his "farmstead" (see pp. 489-490). This produce he may either consume or sell at whatever price he can get on the markets maintained by his collective farm in nearby villages or cities. Also, the member derives some real income from social services, such as medical and recreational facilities, maintained on the collective farm and paid for out of its funds.

[23] For a description of these taxes, see: A. Yugow, *Russia's Economic Front for War and Peace*, pp. 65–66, 137–138; *Foreign Commerce Weekly*, June 7, 1941, p. 421.

the assurance that he alone would benefit from whatever increased productivity he could get from his farmstead.

By 1939 it was discovered that there were many cases where collectives had allotted more than the legal maximum to private farmsteads. Many collective farm members were devoting practically all of their time to their own illegally swollen farmsteads, in effect becoming "counterfeit collective farmers" in order to retain the tax advantages and other benefits of membership. In that year the Council of People's Commissars (now the Council of People's Ministers) and the Central Committee of the Communist Party issued drastic decrees to correct the abuses of the farmstead privileges. Among other rules, it was ordered that each member of a collective was to devote at least 60 to 100 days per year to the work of his collective farm. Criminal proceedings were to be instituted against farm and party executives who tolerated violations of these rules, and the member who did not comply was to be expelled from his collective farm, the collective farm taking over all his accumulated property. Later decrees still further tightened the regulations governing the possession and use of farmsteads. About 10,000,000 acres are included in farmsteads, as compared with the 915,000,000 acres in lands which are used collectively by the collective farms of the U.S.S.R.[24]

The above description correctly implies that the government, through its central administrative organs, and the Communist party keep a tight control over the operations of collective farms. This is not surprising, since agriculture constitutes the source of foodstuffs and many essential raw materials. The former must be made as abundant as possible and the latter must be produced not only in abundance but in those proportions needed by the planned industrial organization which processes them. Governmental controls stem from the central planning agencies to whose plans the farms must conform, and from the various Ministries which not only supervise the compulsory contributions of grain and other produce but also lay out the detailed plans for plowing, cultivating, harvesting, and rotating crops and for capital improvements on farms and extension of credit for collective farm use. Through the machine tractor stations it operates, the government holds the power to wreck any collective farm that does not conform to its directives. These extend to the promulgation of "model statutes" or patterns which farm managements are required to follow in admitting new members, dismissing delinquent members, electing management boards, keeping books, allocating portions of their gross incomes to various "expenses" or "deductions," evaluating tasks in terms of workday units, and even in undertaking communal projects in education, health, culture, and recreation. While certain concessions to individualism, such as the "farmstead," have been made, these are relatively minor and collective agriculture in the Soviet Union is, just as the term indicates, a

[24] *Information Bulletin of the Embassy of the U.S.S.R.*, November 5, 1947, p. 28.

thoroughly collectivist institution following policies and programs set by the top command of the Communist party.

The War and Agriculture

By a decree dated November 2, 1942, the Presidium of the Supreme Soviet of the U.S.S.R. established an "Extraordinary State Committee" to assess and report upon the material damage by the German invaders of Soviet territory. The report of the Committee in late 1945 contains the only available estimates of the war damage.[25]

Few people outside Europe realize the extent of the enemy occupation of the Soviet Union. The Committee report indicates that the territory subjected to occupation had a pre-war population of 88 millions. The territory occupied at one time or another is said to have been 40 per cent of the entire cultivated area of the country and to have accounted for 87 per cent of the sugar beet crop, 54 per cent of the grain, 57 per cent of the hogs, and 37 per cent of the cattle.[26]

The Committee report contends that the German invaders followed a previously prepared plan of "destroying collective and state farms and machine and tractor stations." The German administrators of the occupied territory are charged with taking land which had been occupied by collective and state farms and distributing it to German army officers and former kulak families. They had started to set up "community farms" in place of collective farms. On these the "German masters" forced the former collective farmers to work without payment. Refusal to comply made the farmer a "criminal against the German state" with consequent criminal penalties. Resistance brought the burning of farm villages and the destruction of crops as well as personal mistreatment.

The findings of the Committee may be partially summarized as follows: The German invaders "ruined and ransacked" 98,000 collective farms, 1876 state farms, and 2890 machine tractor stations. They destroyed, seized, or took away from collective and state farms and machine and tractor stations, 137,000 tractors, 49,000 harvester combines, 4,000,000 plows, harrows, and other cultivating implements 265,000 seed drills and planting

[25] The "Statement of the Extraordinary State Committee" will be found in the *Information Bulletin of the Embassy of the U.S.S.R.*, October 11, 1945. While an outside observer well might question the accuracy of the Committee's statistics of losses because of the natural tendency to exaggerate them at the close of the War, the various portions of the report are internally consistent. Also, planned production goals under the Fourth (or post-war) Five Year Plan may be checked against the reported pre-war statistics of production and productive capacity. This comparison indicates the quantitative rehabilitation task the Soviet Union has set for itself and coincides generally with the Committee's calculation of losses of productive equipment. Unless otherwise indicated, the estimates of war losses in these paragraphs are from the Committee's report.

[26] I. Benediktov, *Information Bulletin of the Embassy of the U.S.S.R.*, November 2, 1944.

machines, and 885,000 harvesting and grain-sorting machines. They slaughtered, confiscated, or drove off to Germany 7,000,000 horses, 17,000,000 head of cattle, 20,000,000 hogs, 27,000,000 sheep and goats, and 110,000,000 poultry. The Committee finds that in these acts the Germans "destroyed the scientific and production base of agriculture," noting particularly the "complete destruction" of 137 agricultural scientific research institutes, 176 incubator stations, and 14 selection stations supplying collective farms with high-quality seeds.

Post-War Problems of Agriculture

Some of the agricultural losses were counterbalanced by the war-time efforts of the people of the Soviet Union. The tempo of agricultural production was stepped up in the non-occupied regions. "Victory gardens" are reported to have been cultivated by some 20,000,000 persons in 1944 and to have produced 70,000,000 tons of potatoes and other foods during the war years.[27] In some areas the proportion of women's labor on collective farms doubled during the early years of the War and very young and old people were pressed into use on farms. Moreover, from 1940 to 1943 the number of workday units to the credit of collective farmers in the Soviet Union is reported to have increased from 262 to 346 per person per year.[28] Throughout the liberated areas the sown acreage was reported for 1945 to be 76 per cent of the pre-war total.[29] The State Agricultural Bank has granted long-term credits for the construction of housing and equipment on collective farms in the devastated areas. Many machine tractor stations and "horse hiring establishments" have begun operations, evacuated herds of livestock have been returned to the Ukraine, and the non-occupied areas have made equipment and seed loans to the devastated regions.

Despite these recoveries, it remains true that the War "destroyed the scientific and production base of agriculture" and set back the program for the mechanization of agriculture many years. Its restoration is the post-war agricultural problem of prime importance. The pre-war rural electrification program must be reestablished and advanced,[30] and industrial crops must be increased greatly to supply raw materials if consumers' goods industries are to progress. The personnel and equipment of the institutes for training agricultural experts and for agricultural research

[27] *Information Bulletin of the Embassy of the U.S.S.R.*, December 30, 1944.

[28] A. Bolgov, *Information Bulletin of the Embassy of the U.S.S.R.*, August 18, 1945.

[29] I. Benediktov, *Information Bulletin of the Embassy of the U.S.S.R.*, September 20, 1945.

[30] The importance of this program is evident from the fact that the 1947 plan called for the electrification of 6700 collective farms and 1300 machine tractor stations. In 1946, 2615 local power stations serving 4000 collective farms and 900 machine tractor stations were constructed. *Information Bulletin of the Embassy of the U.S.S.R.*, May 28, 1947, p. 24.

must be restored. These are the major agricultural problems of the post-war period.

Along with these problems there are numerous organizational difficulties to be corrected. Substantial elements of inequality persist among collective farm families, and farm management in many instances has been dictatorial, bureaucratic, and inefficient. The Soviet press carries criticism of local party officials for "failure to supply sufficient leadership" in accomplishing farm tasks, declaring party organization in the agricultural areas "unsatisfactory."[31] Apparently some of the collective farm deficiencies stem from failure to completely integrate individuals into the collective property institutions of the farm. Thus the press has made charges and the government has taken action against the diversion of collective farm property to individual use, outright theft of collective farm property—particularly food—and "personal profiteering" through illegal individual use of land theoretically held and used by collective farms. "Money chasers and drones" and "false collective farmers" apparently retain primary interest in working their own "farmsteads," and enlarging them at the expense of the collective farm, meanwhile retaining collective farm membership for taxation advantages and for the purpose of sharing in government assistance to collective farms. There are reports of "seed . . . being embezzled, wasted and plundered in a number of places."[32] Local collective farm and party officials and public procurators (prosecutors) have been "purged" because they condoned such acts.[33] In 1947 the situation was so serious that the Central Committee of the Communist Party demanded that the following basic steps of improvement be taken:

1. Improvement of the supervision of agriculture by party and Soviet organizations.
2. Liquidation to the very end of violators of the collective farm laws.
3. The elimination of deficiencies in the "organization and payment" of collective farm work that "hinder the productivity of labor."
4. A decisive improvement in the work of machine tractor stations to bring about higher efficiency.
5. The organization of wide training and retraining of personnel for agriculture.
6. The equipment of agriculture with new machines, trucks, fertilizer and fuel.[34]

Later a further attempt was made to improve the agricultural situation by a decree of the Presidium of the Supreme Soviet of the U.S.S.R., which ordered that the following honors be bestowed on outstanding farmers: "Hero of Socialist Labor" to leaders of field teams, chairmen of collective farms, and other officials whose farms produce 44.7 bushels of wheat per

[31] Drew Middleton, New York *Times*, January 28, 1947.
[32] New York *Times*, February 12, 1947.
[33] New York *Times*, September 27, 1946 and January 28, 1947.
[34] New York *Times*, March 1, 1947.

acre over an area of not less than 20 acres, or 112 bushels of corn per acre over an area of not less than 7.5 acres, and the "Order of Lenin" for an output of 37.25 bushels per acre of wheat and for increases in other crops. Other awards were specified for increased outputs of sugar beets, cotton, and rye.[35]

Not least on the list of problems is the failure to convert tank plants and other war-time industries to the production of tractors and other agricultural machinery as rapidly as was expected. The Ministry of Agricultural Machinery fulfilled only 75 per cent of its production plan for 1946. Among twenty-eight Ministries for which production statistics were published in January of 1947, this Ministry showed the greatest failure to achieve its 1946 goal. Not only did new tractor production fail to meet the planned goals, but many tractors were in need of repair because of a failure of the industry to produce replacement parts. The managers of individual tractor plants complained that they got little help from the Ministry of Agricultural Machine Building or the Tractor Trust.

To combat these operational deficiencies in agriculture, there was created a "Council for Collective Farm Affairs," operating under the Council of Ministers, to bring the widely diffused administration of collective farms more closely under central control. The new Council has its own representatives who work at the local level but independently of local authorities to eliminate abuses by local farm managements, improve discipline on the collective farms, prevent the "squandering" of farm property, help install modern methods of production, assure the farm membership participation in farm management, improve grain deliveries to the state, and bring adherence to plans. Also the Council revised bookkeeping rules to prevent theft and other losses of farm property. The importance of the problems to be attacked by the new Council is indicated by the fact that Andrei Andreyev, a member of the Politburo of the Communist party and a vice-chairman of the Council of Ministers, was made Chairman, while many of the other 38 members were high party and government officials.[36] Apparently it was intended that drastic measures be used to improve collective farm operation. In late 1946, in one area alone, the government ordered 5,500 members of collective farm organizations to be transferred "from desk to plow" to reduce top-heavy farm administration, some 1500 negligent collective farm members to be stricken from the farms' personnel roles, thus increasing the "wages" of the remaining members, and some 47,000 acres of land illegally acquired by individuals and organizations for their own use to be returned to the legal owners—the collective farms.[37]

[35] New York *Times*, April 1, 1947; *Information Bulletin of the Embassy of the U.S.S.R.*, April 30, 1947. Forty-nine farm workers were awarded the "Hero of Socialist Labor" title for obtaining the specified yields in 1946. *Ibid.*, October 22, 1947.

[36] New York *Times*, October 10, 1946, and October 23, 1946.

[37] New York *Times*, November 12, 1946.

While the physical phase of collectivizing agriculture has been practically completed, human traits of individualism still remain troublesome. It is evident that in future years every effort will be made to adjust the individual to the organizational pattern of agricultural collectivism.

MANUFACTURING INDUSTRY

Government Ownership of Property

Various references have been made to the ownership of natural resources and large-scale industrial equipment by the government of the Soviet Union. The nationalization of titles to such property should be noted before we proceed to an analysis of the organization of the manufacturing industries.

When, in November, 1917, the Bolsheviks came into power, titles to existing property were held by individuals and organizations. Among these property owners, members of the ruling tsarist group and the established church institutions and orders were prominent. These titles, of course, were not wiped out by the revolution but they were worth no more than the existing régime made them. According to Marxian theory, the new workers' state would be expected to transfer property titles to the government by outright confiscation. This was precisely what happened.

By issuing a series of decrees over a period of some seven months, the new government took over the ownership of all land and large-scale industrial capital. These decrees have been summarized as follows: "On November 29, 1917, a decree concerning workers' control of industry was announced which provided that the factory committees should be consulted regarding the production program in their respective enterprises as well as regarding sale, purchase, and selling price. On December 27 the banks were nationalized. All foreign and internal loans of the tsarist and Kerensky governments were repudiated by a decree of January 21, 1918. The merchant fleet ownership was nationalized February 7th. This was followed two weeks later by the nationalization of land. State control of all kinds of insurance was established on April 2nd. On April 22nd foreign trade was made a monopoly of the state. . . . All large-scale industry and commerce was nationalized on June 30, 1918." Along with this series of decrees there was established on December 1, 1917, the Supreme Council of National Economy which was given broad powers in the administration of the properties whose titles were thus newly vested in the state.[38]

Although the titles to natural resources and industrial properties were acquired by a few strokes of the pen, their assimilation into a coordinated socialized economic system occurred at a much slower pace. We have already noted the fact that the collectivization of agriculture advanced by

[38] Harry T. Devine, *The Organization and Technique of Economic Planning with Special Reference to the Soviet Union,* Senior Research Thesis, Wharton School of Finance and Commerce, 1933. Unpublished.

fits and starts through alternating periods of ordering and pleading. Much the same has been true of the socialization of manufacturing industry and commerce. A severe program of reorganization with orders and plans imposed by the powerful central government organs occupied the first years of the Bolshevik régime. The "New Economic Policy" which replaced this accorded some of the privileges and individual benefits of private ownership and private trade to individuals engaging in economic activity for private gain. This "one step backward in order to make two forward" has been shaped into the existing program of socialization and collectivization, with general directives and goals established by the central organs, and the detailed administration left largely to the intricate web of local agencies of governments, trade unions, cooperatives, and the Communist party. In describing the organization of the manufacturing industries of the Soviet Union it will be impossible to trace these changes in pace and shifts in method through which socialization has been effected. Nor will it be possible to deal in any detail with the innumerable local agencies having functional parts in the operation of the total economy. Merely the broad outlines of the structure of manufacturing industry and only the most prominent phases of operational procedure will be traced.

At present practically all of the natural and man-made implements of production are under state or collective ownership. It is reported that 98.7 per cent of the productive capacity of the Soviet Union consists of "public property." This includes productive resources owned and operated by the state as well as means of production owned by agricultural and industrial cooperatives. Of the total, 1.1 per cent consists of the of the farmsteads and equipment owned privately by members of collective farms, and 0.2 per cent is privately owned by farmers and handicraftsmen who are not members of collective farms or industrial cooperatives.[39]

Lines of Organization

All large-scale manufacturing industry in the Soviet Union is owned and operated by the state. There are over 25,000 large-scale industrial enterprises, of which slightly more than half turn out producers' goods, and slightly less than half consumers' goods. Approximately two-thirds of these enterprises are in the R.S.F.S.R. The great bulk of this industrial equipment has been produced under the soviet régime. As early as 1937, it was reported that "over eighty per cent of soviet industrial output came from new or wholly reconstructed enterprises."[40]

The state-owned manufacturing enterprises are organized under the numerous Ministries whose designations in the chart on page 460 indicate their respective industrial functions. Under each of these there are "ad-

[39] P. Ognev, *Information Bulletin of the Embassy of the U.S.S.R.*, October 18, 1945, p. 6.

[40] *Information Bulletin of the Embassy of the U.S.S.R.*, September 4, 1941.

ministrations," each of which controls the operation of a branch of the general field covered by that Ministry. Each administration has broad supervision over the industry under it. It works out (subject to the planning procedure to be described later) the general lines of expansion for its industry; appoints and dismisses the boards which operate the trusts which are subordinate to it; confirms the balance sheets and reports of the trusts; authorizes the uses of "profits" made by the trusts; supervises the construction of new facilities for its industry; supervises the supplying of the raw materials and the selling of the products of its industry; levies fines on trusts and enterprises for failing to carry out their contracts; and provides for the training of personnel and for research work in its field of activity. In recent years there has been a tendency to subdivide these top administrative units. Administrations or divisions of a single Ministry have been raised to the status of Ministry. As industry expands, this tendency to increase the number of Ministries undoubtedly will continue.

Subordinate to each administration are the "trusts." These are the agencies in active charge of the technical details of production. They have considerable power to exercise initiative in the organization and detailed management of producing units. Each trust is operated by a board (appointed by the administration or Ministry) which holds and operates in trust the productive equipment which belongs to the state. This board, in turn, appoints a manager who is responsible to it for the current operation of the trust. These boards and managers of course are either full members of the Communist party or closely aligned with it.

We have already noted the principle of flexibility in the soviet economic structure. There is constant experimentation with, and corresponding revision of, the lines of administrative authority. This is especially evident in the organization of the trusts. In some cases a trust may include a number of producing enterprises integrated vertically, while in other cases a group of enterprisers, all of which occupy the same horizontal stage in production, may constitute a trust. In some cases the constituent enterprises are in geographic propinquity, while in others (especially where vertical integration has taken place) the enterprises operated by a trust are spread over a wide area. Indeed, some very large enterprises are considered as trusts individually and are managed directly by the respective administrations.

Each trust is responsible for the efficient operation of the enterprises it administers. It must arrange the details of raw material, credit, and machinery supplies needed by the enterprise and see that the enterprise's product flows out to the proper state or cooperative buying agencies. It is responsible for the external relationships of the enterprise with other enterprises or institutions. Moreover, it is the function of the trust to effectuate the enterprise's use of the latest and best technological and scientific information and facilities, assure the complete utilization by each

enterprise of all its facilities, institute efficient record and control systems within each enterprise and, in general, keep the operation of each enterprise under its control as near peak efficiency as possible. The trust appoints the director of each enterprise which it operates.

Subsidiary to the trusts are the plants or factories, usually referred to as "enterprises." These are the units within which the actual processing of materials occurs. Each enterprise is again subdivided into shops on a functional basis much as are our factories. Each shop has a manager who is appointed by and is responsible to the director of the enterprise for carrying on the detailed day-by-day operation of his shop. Usually the shop is further subdivided into sections, with a foreman in charge of each section; the workers in each section customarily are divided into brigades, each with its brigade leader.

Management of an Enterprise

This tracing of the managerial organization of manufacturing industry from Ministry to administration to trust to enterprise to shop to section to brigade, creates the impression of an elaborate hierarchy of bureaucratic officialdom. The appearance is that of an army with the general staff shaping policies which are executed by a series of increasingly detailed orders passed down through the descending ranks from generals to privates. Only much closer attention than can be given to the matter here would reveal the degree of correctness in this impression. However, the tendency toward concentration of managerial authority has been clear. During the 1930's the director of an enterprise definitely shared his managerial powers with the local trade union and with the local unit of the Communist party. This sharing was so significant that the management of an enterprise often was referred to as a "triumvirate" of appointed director, union, and party. The Second World War completed the trend which had previously set in. The union and the party lost managerial power over the enterprise and the appointed director gained at their expense. Today, the "one-man management" of each enterprise is a full reality in the Soviet Union. Whatever independent powers the unions and the local party units still possess to determine how the local enterprise is managed must be exercised through bringing to the higher union and party organizations complaints against acts of the enterprise's director.

On a day-to-day basis it is the director who operates the plant. It is his responsibility to plan production schedules and see that they are met, maintain the quality of the product, and keep plant efficiency at a peak and production costs at a minimum. To this end he has extensive powers of disciplining, transferring, and dismissing workers in accordance with labor laws and rules laid down by the higher governmental bodies. He appoints and dismisses his department heads and other assistants.

While responsible for production, the enterprise director has become more and more circumscribed by rules and orders from above. Styles and patterns of product are generally specified by higher administrative agencies. Prices of products and materials are fixed at a higher administrative level and, since raw materials are allotted to enterprises, directors cannot increase production above the planned amount. They are not free to drop lines of products nor are they free to expand capital equipment except in conformity with plans and orders from above. Indeed, the director of an enterprise in the Soviet Union in many respects is not unlike the general manager of a plant owned and operated by a large corporation in the United States.

While the local Communist party unit has lost its previous managerial authority, it still is an important factor in the functioning of the enterprise. It is expected to undertake cultural, recreational, and educational activities among plant personnel, and to check up on the provision of adequate housing for plant employees. It is obligated to cooperate with the enterprise's director in developing morale and efficiency in the labor force. It is free to make both constructive and critical suggestions to the director and to carry up to higher party officials grievances it may have against him. Moreover, the local party unit may wield some influence over the choice of a director for a local enterprise.

It has been difficult to equip Soviet industry during its period of expansion with adequate numbers of capable directors of enterprises. In general, directors have been drawn from the younger groups and have been trained in the various institutes established for that purpose. Many important Soviet directors are men or women in their thirties who have themselves started out as workers and as such demonstrated unusual capacity to exercise initiative or to comprehend problems of machine operation.

Control Devices

In the current operations of industry two control devices well known to the capitalist system are used—contracts or commercial orders, and accounts or bookkeeping entries. While in certain details these devices have been adapted to the intricate maze of lines of authority in the soviet industrial organization, they are in essence just the same instrumentalities our business firms use in their everyday business transactions. The relationships of enterprises to trusts, and of trusts to each other, are contractual in nature and, moreover, are phrased in commercial terms. Thus a trust will have contracts with other trusts calling for the delivery of certain raw materials on certain dates at certain places at certain prices; and at the same time, as the seller, it will have other contracts calling for the delivery of its products in specified amounts, at specified times and places,

for specified prices. These contracts or commercial orders are the means whereby the strictly processing portions of the industrial system in a systematic way tap the agricultural and mineral industries for raw materials, and whereby the concerns standing at the last stage in the processing of consumers' goods provide for the retail distribution of such goods through contracts with state and cooperative distributing concerns. Thus, from one point of view, all the processing and distributing portions of the economy are a network of binding commercial contracts. These are enforced by the respective Ministries which levy fines and other penalties on enterprises which do not fulfill their contractual obligations.

Although the technical features of these contracts are similar to those used in our capitalist system, there is one most significant difference. In our system each individual concern is free to enter what commercial contracts it will, society accepting the totality of the contractual relationships as determining the actual operations of the economic machinery. In the soviet economy the individual contracts must aggregate into a totality which is in conformity with the comprehensive plan which has been set up by the planning agencies to be described later. Thus the autonomy of each contracting unit in the industrial structure is limited by the power of the higher agencies to force that unit's contracts into conformity with the economic plan as a whole.

Since the provisions of these contracts or orders are written in terms of quantities and prices, it becomes a relatively simple matter for each unit in industry—even the smallest—to record its current operations in the accounting terms of receipts and expenditures. Into the receipts enter the proceeds from sales of goods to other economic units and also loans of credit granted by the State Bank (to be described later). Expenditure items, of course, include purchases of materials, fuel, power, interest on and repayment of loans from the State Bank, and wages, which are set by collective agreements or contracts between producing units and trade unions. Such accounts of the current operations of the small units, for instance the shops, are consolidated into the accounts of the enterprise of which they are parts, and these enterprise accounts in turn are consolidated into the accounts of the respective trusts. This consolidation of accounts, of course, leads ultimately to one consolidated account for the current operations of the entire economy. This account is kept on the books of the State Bank. Just as accounting is the device whereby the executives of our large corporations visualize and evaluate the detailed operations of the units under their management, so soviet accounting offers each unit in the industrial hierarchy the means whereby it may survey quickly and accurately the operations of its subsidiary parts. Just as happens in our economy, inefficiencies and maladjustments in soviet industry come to the attention of management through the disclosures

such current accounts make. Any unit may show for any accounting period either a profit or a loss (the nature of which will be discussed later).

One difference between our accounts and those kept in the soviet economy is of moment. Whereas the receipt and expenditure items entering our accounts are, by and large, determined by market situations resulting from the operation of demand and supply forces, the recordings under the soviet system are of items for which the prices have been at least approximately established by authority. This is just another way of saying that our accounting systems record the current operations of industry in prices which are basically uncontrolled indicators of supply and demand conditions, while the soviet accounts reflect the degree to which the economic units have or have not fulfilled those norms in quantity and price which are a part of the comprehensive industrial plan. Disclosed failures to meet such norms bring management action, just as in our economy the failure of receipts aggregated out of selling prices to exceed satisfactorily expenditures aggregated out of cost prices brings such action.

The importance of accounting procedures in the soviet economy cannot be overemphasized. The higher administrative officials are constantly citing the need for better accounting methods, particularly in the field of cost accounting, and for managers of trusts and enterprises to pay closer attention to the accounts of their units. Molotov clearly stated the official attitude on this matter a few years ago. In his report to the 18th Party Congress he said: "It is necessary in practice to insure attention to economics, to the cost of the products turned out. It is necessary to know well what the work of each enterprise, of each organization, costs the state. Meanwhile, even now such executives are to be found among us as consider it beneath their dignity to examine the balance sheet, to study the accounts, to devote attention to cost accounting. It is necessary resolutely to put an end to this unconcern and economic illiteracy, as to an anti-state and anti-Bolshevik practice. Then many instances of mismanagement will disappear."[41] The Congress later affirmed "the necessity of . . . further strengthening cost accounting. . . ."[42] More recently an important transportation official insisted that organizations which used automobiles or trucks must prepare accounts showing their cost of operation. He referred to cost accounting as having "proven most effective in centralizing control over other branches of the national economy."[43]

Producers' Cooperatives

Just as agricultural production in the Soviet Union is divided between state farms and collective farms, so manufacturing production is divided

[41] *Ibid.*, March 22, 1939.

[42] *Ibid.*, April 3, 1939.

[43] Statement summarized by William Mandel in *American Review on the Soviet Union*, February, 1941, p. 40.

between the state industries described above and producers' cooperatives. The latter also are known as "industrial cooperatives" or "handicraftsmen's cooperatives." Although the great bulk of manufactured goods is turned out by state owned and operated industrial enterprises, producers' cooperatives are an industrial factor of importance. With the post-war emphasis upon increasing the output of consumers' goods, measures have been taken to enlarge the activities of producers' cooperatives. They are of chief importance in the production of consumers' goods from locally available raw material, or from by-product materials of state enterprises, and usually function in those lines where relatively little machinery is needed. Their products in large part are sold near the point of production through state stores, consumers' cooperatives, or retail outlets set up by the producers' cooperatives themselves. Producers' cooperatives are important in the following fields: knit goods, shoes, hardware, furniture, building materials, kitchen utensils, office supplies, toys, processed foods, and musical instruments. In some lines, such as knit goods, the output of producers' cooperatives exceeds that of state enterprises. The total output of all producers' cooperatives is reported to amount to nearly 30 billion rubles per year. In 1947 they were expected to account for the production of nearly 30,000,000 pairs of shoes, 11,000,000 pairs of felt boots, more than 1,250,000 metal bedsteads, nearly 15,000 tons of kitchen utensils, and scores of thousands of musical instruments. In the most important republic, the RSFSR, there are 70,000 producers' cooperatives with nearly a million workers and turning out 10,000 different articles.[44]

Each cooperative has from a score to several hundred members and operates under a "model charter" laid down by the state. A member-elected management board administers each producers' cooperative, subject to membership meeting actions on such matters as accepting new and expelling old members, adopting plans and reports submitted by the board, and determining the financial arrangements of the cooperative. Upon joining a cooperative, a new member pays an entrance fee and a share contribution amounting together to about two months' earnings by the new member. This may be deducted from the first earnings of that new member and thus is not burdensome. In lieu of this payment a new member may contribute tools or equipment which he possesses. A member may withdraw upon a month's notice to the management board, a portion of the entrance payment being due him upon withdrawal.

Each member currently receives a wage from the cooperative, the scale of time and piece rates being decided upon by a membership meeting. At the end of the accounting year, the successful cooperative will have a surplus of receipts over outlays for materials, wages, and other expenses, since selling prices usually provide for a "profit" of ten to twenty per cent over

[44] *Information Bulletin of the Embassy of the U.S.S.R.*, April 30, 1947; October 22, 1947.

cost. These net earnings may be used in part for expanding capital equipment, enlarging a "mutual aid fund," improving living conditions of members, and providing cultural, recreational, educational, health, and other facilities, such as restaurants, for the members. Another share is distributed among the members, in addition to wages already received, in proportion to each member's quantity and quality of output for the year.

Since producers' cooperatives are primarily local industries, they are given assistance and guidance through the respective Ministries of the various republics. Raw material, industrial by-products, tools, premises, and credit are assured them, provisions are made for selling their products at prices geared to state-fixed price schedules, and they are integrated into the national economy through the economic planning procedure of the republics and the U.S.S.R. Members of producers' cooperatives have status and privileges equal to those of workers in state owned and operated enterprises. Newly formed cooperatives are assisted by grants of funds from the State Trading Bank and are exempt from taxes during their first two years of operation. The output of producers' cooperatives has been increased by the government's decision in the fall of 1945 to decentralize the production of consumers' goods. Under that decree a substantial portion of the industrial output of consumers' goods produced under the jurisdiction of local and republic agencies is to remain for sale in the local areas rather than be absorbed by state trading facilities directed from Moscow. State enterprises which turn over equipment and tools to producers' cooperatives, and which assist the latter in acquiring needed raw materials, are repaid by receiving substantial portions of the outputs of the cooperatives to distribute to employees of those state enterprises. In some cases state enterprises will turn over to cooperatives semi-finished consumer goods to be completed by the cooperatives and returned to the state enterprises for distribution.

Just as abuses of privileges granted individuals have occurred on collective farms, so the freedom to organize producers' cooperatives has resulted in certain unjustifiable practices. Under the guise of being members of producers' cooperatives, some individuals have employed home workers at low wages to do work the promoting individual then claims *he* has performed for a cooperative. Some actual members of cooperatives thus have been able to increase the production credited to them in the cooperative considerably above the norm established for individual members—for which they have collected large bonuses. In some cases "industrial profiteers" have used this device to organize private "basement factories" that exploit workers for private gain. Early in 1948 this practice became sufficiently widespread to warrant a government decree forbidding producers' cooperatives to employ workers in their homes unless such persons are unable to go to the cooperative plants because of physical disability or, in the case of women, because family duties keep them at home. The decree

prohibited all employment of home workers under any "system of group payments by middlemen."[45]

Location of Industry

There has been a steady eastward trend in the location of industrial plants. Immediately prior to the Second World War, many new plants were placed from 1300 to 3000 miles from the Soviet Union's western boundaries rather than in the Leningrad, Moscow, and Ukraine areas which are from 300 to 500 miles from the western border. The fear of wartime destruction of essential industries accounted for this shift. It was reported in 1941 that "the ratio of the Leningrad, Moscow, and Ukraine regions to the total industry of the country was reduced from 90 to 60 per cent."[46] When war came from the west the eastward shift was accentuated. Numerous important industrial plants were evacuated to the safer eastern areas. The equipment of an entire plant would be dismantled, loaded on freight cars, and along with the plant personnel shipped to an eastern location where a building would be erected and the equipment and personnel reassembled for production. The fact that the enterprises were state owned made it possible to effectuate these shifts without interference by any individual whose economic interests were jeopardized thereby.

The announced principles governing plant location in the future are as follows: "First, to bring the industries as close as possible to the raw material sources and to the consumption districts as well [the post-war condition of railways makes it essential to eliminate all avoidable shipping of freight]; second, the country's leading economic districts are to have the most complete development in all spheres; third, the most rational use of natural wealth; and finally, the entire development is to guarantee the maximum defense strength for the country."[47] An illustration of the application of these principles may be seen in post-war plans for the automobile industry. Prior to the War there were only four automobile plants, all located in the center of the European portion of the U.S.S.R. Plans call for ten plants by 1950, the new enterprises being placed in such locations as Minsk, western Siberia, eastern Siberia, and other scattered areas. Plans call for increasing the portion of total iron and steel production accounted for by the "eastern districts" from the pre-war levels of 29 per cent and 34 per cent respectively to 44 per cent and 51 per cent respectively. The percentage of coal coming from the east is to increase from 36 to 47.5, while the east is to account for 36 per cent of petroleum production instead of the pre-war 12 per cent.[48]

[45] New York *Times,* January 10, 1948.
[46] *Fortune,* July, 1941.
[47] V. Vavilov, *Information Bulletin of the Embassy of the U.S.S.R.,* May 16, 1946.
[48] *Ibid.;* also, *Business Week,* May 31, 1947, p. 84.

PRE-WAR INDUSTRIAL CAPACITY

Without doubt the industrial capacity of the Soviet Union has increased enormously since the Revolution, and particularly during the pre-war years covered by the first three Five-Year Plans. One authority concludes that during this twelve-year period, from 1928 to 1940, the soviet economy experienced development "many times surpassing" the results achieved by private enterprise during the fifty-year period from the abolition of serfdom to 1913.[49] Stalin makes the claim that "it took only thirteen years," that is from 1928 to 1940, "to transform our country from an agrarian into an industrial one . . . an incredibly short period for the accomplishment of such an immense task."[50] This success was the basis of the goal formulated just prior to the War by the leaders of the Communist party: "To overtake and surpass economically the most highly developed capitalist European countries and the United States of America, and to accomplish this task fully in the nearest future. Our country must produce no less industrial goods per capita of the population than the most developed capitalist country—that is the task."[51]

However, when the student of soviet affairs attempts to *measure* the increase in the industrial capacity of the country he is seriously hampered by the deficiency of unquestionable statistics. The only sources of statistical data are the government agencies, since the nature of the system excludes non-governmental statistical and reporting organizations such as we have in the United States. Authorities differ widely on the reliability of soviet statistical data. One critic of the soviet régime contends that "practically no claim of achievement made on behalf of the Soviet Union can be accepted without careful reservation. . . ."[52] Another writer judges the data to be "incomplete, uncoordinated, and inconsistent" as well as "inaccurate" and "biased." He further points out that this is necessarily true since the work of the planning and statistical bureaus . . . has been subject to the political organs of the government."[53] *Fortune's* staff contends that "the true figures on economic progress are known only to the members of the Politburo," that "the head of each ministry knows nothing beyond the figures relating to his own department," and that "an entirely different set of figures is given to the press."[54]

On the other hand some astute analysts of the soviet economy defend the general reliability of soviet governmental reports. Alexander Baykov

[49] Alexander Baykov, *The Development of the Soviet Economic System*, p. 303.

[50] Speech delivered by J. V. Stalin at a meeting of voters of the Stalin Electoral Area of Moscow, February 9, 1946, p. 10. Published by *Information Bulletin of the Embassy of the U.S.S.R.*, March, 1946.

[51] As referred to in speech delivered by V. M. Molotov at a meeting of voters of the Molotov Electoral Area of Moscow, February 6, 1946, p. 7. Published by *Information Bulletin of the Embassy of the U.S.S.R.*, March, 1946.

[52] M. T. Florinsky, *Toward an Understanding of the U.S.S.R.*, p. 214.

[53] A. Yugow, *Russia's Economic Front for War and Peace*, pp. 13-14.

[54] *Fortune*, September, 1946, p. 97.

PLANNED AND REALIZED PRODUCTION IN THE U.S.S.R. AND THE UNITED STATES ON SELECTED DATES

Commodity	*Unit of Measurement*	*Output in U.S.S.R.*				*Output in U.S.* 1935–39 Average	*Output Goal in U.S.S.R.*			*Output Goal in U.S. for 1950*[g]
		1913	1932 End of first Five-Year Plan	1937 End of second Five-Year Plan	1940		For 1942 End of third Five-Year Plan	For 1950 End of fourth Five-Year Plan	for 1960	
Pig Iron	Million metric tons	4.2[a]	6.2[d]	14.5[d]	15.0[a]	28.6[b]	22.0[d]	19.5[a]	50.0[e]	——
Steel	"	4.2[a]	5.9[d]	17.0[d]	18.3[a]	42.2[b]	27.5[d]	25.4[a]	60.0[e]	88.6
Coal	"	30.2[a]	64.3[d]	127.0[d]	166.0[a]	409.4[b]	230.0[d]	250.0[a]	500.0[e]	623.0
Petroleum	"	8.8[a]	22.3[d]	30.5[d]	31.0[a]	158.4[b]	54.0[d]	35.4[a]	60.0[e]	371.5[f]
Automobiles and trucks	Thousands	0.0	44.1[d]	200.0[d]	147.0[d,a]	3,855.3[b]	400.0[d]	500.0[a]	——	8,500.0
Tractors	"	0.0	51.6[d]	78.8[d]	31.0[a]	217.2[b]	140.0[d]	112.0[a]	——	445.0
Locomotives	Units	418.0[b]	828.0[d]	1,581.0[d]	——	288.0[b]	2,090.0[d]	2,720.0[a]	——	——
Freight cars	Thousands	——	22.3[d]	59.0[d]	50.0[a]	26.4[b]	90.0[d]	146.0[a]	——	——
Paper	Thousand metric tons	197.0[b]	471.0[d]	831.6[d]	812.0[b]	4,955.0[b] (1933-37)	1,300.0[d]	1,340.0[d]	——	21,800.0
Leather footwear	Million pairs	8.3[b]	82.0[d]	164.2[d]	230.0[a]	405.2[b]	235.0[d]	240.0[a]	——	——
Stockings and socks	"	——	208.0[b]	——	——	1,502.0[b]	——	580.0[a]	——	——
Cotton	Million metric tons	0.8[a]	1.3[b]	2.5[b]	2.7[a]	3.1[b]	——	3.1[a]	——	——
Flax	Thousand metric tons	330.0[b]	500.0[b]	570.0[b]	575.5[a]	4.0[b]	——	800.0[a]	——	——
Sugar beets	Million metric tons	10.9[b]	6.6[b]	21.9[b]	21.3[a]	8.7[b]	——	26.0[a]	——	——
Grains	"	80.1[a]	——	120.0[a]	118.7[a]	——	——	127.0[a]	——	——
Electric power	Billion	1.9[i]	13.4[d]	36.4[d]	48.2[a]	115.9[i]	75.0[d]	82.0[a]	——	252.0

	kilowatt-hours									
Sugar	Million metric tons	1.3[j]	0.8[d]	2.4[d]	——	——	3.5[d]	2.4[a]	——	——
Cotton cloth	Billion yards	2.4[j]	3.0[d]	3.8[d]	4.2[d,e]	8.3[m,o]	5.4[d]	5.1[a]	——	——
Wool cloth	Million yards	112.6[j]	99.8[d]	121.2[d]	134.6[d,e]	371.8[m,o]	191.4[d]	174.3[a]	——	——
Fish	Million metric tons	1.0[j]	1.3[k]	1.6[k]	1.5[a,f]	1.7[m,n]	——	2.2[a]	——	——
Soap	Thousand metric tons	120.0[l]	357.2[d]	495.0[d]	——	——	925.0[d]	870.0[a]	——	——

[a] "The Fourth Five-Year Plan," *Information Bulletin of the Embassy of the U.S.S.R.*, June, 1946.

[b] *Business Week*, March 30, 1946, p. 114. For similar data see *The Russian Review*, Autumn, 1946, pp. 28–29.

[c] Text of Speech by J. V. Stalin, February 9, 1946. Published by *Information Bulletin of the Embassy of the U.S.S.R.*, March, 1946, p. 14. Stalin referred to these as goals the attainment of which "will take three or more Five-Year Plans . . . if not more."

[d] *The Russian Review*, Autumn, 1946, pp. 28–29. Data from Russian sources.

[e] This production figure may be for 1942.

[f] Approximately 1940.

[g] Minimum annual production capacity needed in order to achieve "full employment" in 1950. Estimates based on data of the U. S. Bureau of Labor Statistics. *United States News*, March 7, 1947, pp. 48–50.

[h] Includes paperboard. The Soviet data presumably do also.

[i] The Federal Power Commission. *World Almanac*, 1946, p. 654.

[j] Ernest C. Ropes, "Industry under the Soviet Government," in E. J. Simmons (ed.), *U.S.S.R.—A Concise Handbook*, Cornell University Press, Ithaca, 1946, p. 267.

[k] *Ibid.*, 1933.

[l] William Mandel, *Soviet Russia Today*, January, 1947.

[m] *Statistical Abstract of the United States.*

[n] 1942

[o] 1939

[p] 1940 Estimate by Professor Harry Schwartz, New York *Times*, August 17, 1947

[q] Bureau of Foreign and Domestic Commerce, United States News, October, 1947, p. 14.

[r] Converted from barrels, on the basis of 42 gallons to the barrel and 7.5 pounds to the gallon. This gives an approximately correct figure.

states: "I do not share the view that soviet statistical and other sources are less reliable than those published in other countries. On the contrary, systematic study over a number of years has convinced me that they can be used to analyze the economic processes and the economic system of the U.S.S.R. with the same degree of confidence as similar sources published in other countries."[55] Abram Bergson, in his study of soviet wages, justifies his use of soviet statistical sources by noting that "these materials are also the facts on which soviet administrators base their decisions." He concludes that " 'double bookkeeping' is not remotely probable." While refraining from "blanket endorsement" of soviet reports, he has found that "the data used in the present study, when taken together with other soviet factual materials, exhibit a broad consistency in widely diverse fields and in very different vehicles of expression."[56]

In a symposium published late in 1947, a group of prominent American economists and statisticians critically analyzed soviet statistics and their sources.[57] They agreed that they could not contend that the government deliberately manipulates its statistical series. However, it has been the practice not to reveal information related to the security of the state and many economic data are considered in this category. Indeed, in June, 1947, the government issued a decree lengthening the list of subjects on which publication of data is prohibited except by special permission of the proper official. Severe penalties are specified for violation of this decree.[58]

With the warning implicit in the above statements, and after culling out the obviously erroneous and inflated items occasionally found in soviet reports, one is forced to base analysis on soviet statistics if any quantitative analysis at all is to be made. In the analysis which follows, however, all production data expressed in terms of rubles' worth of goods have been eliminated. While some governmental reports use this unit of measurement, claiming corrections are made for changes in the purchasing power of the ruble over a period of years, neither the purchasing power index used for this purpose nor an explanation of its composition has been made public. Hence, no reference will be made to such composite indexes as "gross production" or "national income" which could only be calculated in terms of ruble values.

Utilizing a variety of sources, it is possible to piece together production statistics for a score of important items. These are shown in the accompanying table. For comparative purposes the planned goals for the Soviet Union are shown for 1942 and 1950, as well as a few long-run goals for approximately 1960. Production data for the war years following 1940

[55] Alexander Baykov, *The Development of the Soviet Economic System*, p. xiv.

[56] Abram Bergson, *The Structure of Soviet Wages*, Harvard University Press, Cambridge, 1944, p. x.

[57] *Review of Economic Statistics*, November, 1947.

[58] New York *Times*, January 11, 1948.

are not available as they were regarded as confidential. In comparing production data for the Soviet Union with those for the United States, it is important to remember that our population is about two-thirds that of the Soviet Union.

For eleven items in the table it is possible to compare production in Russia in 1913 with production in the U.S.S.R. at the conclusion of the first Five-Year Plan in 1932. This comparison indicates the success accompanying the early efforts of the Soviet Union to increase production of basic materials. Pig iron production increased by 50 per cent, steel by about one-third, coal slightly more than doubled, petroleum increased by two-and-a-half times, locomotive production doubled, a start was made on automobile, truck, and tractor production where no production at all had occurred in 1931, paper increased two-and-a-half times, leather footwear increased ten times, cotton and flax increased by 50 per cent, while sugar beets declined by one-third. These figures indicate far from a phenomenal record. However, the period following the Revolution was chaotic and it is generally admitted that industrialization and technological progress made no appreciable start until 1928. By 1932 merely a base had been laid for industrialization.

The table demonstrates clearly that the tempo of industrial progress was speeded up greatly during the 1932 to 1940 period. Pig iron output increased by two-and-a-half times, steel by three times, coal by two-and-a-half times, freight cars by over 100 per cent, leather footwear by nearly three times, petroleum by 50 per cent, automobile and trucks by over three times, paper nearly doubled, cotton more than doubled, flax increased slightly, sugar beet production increased by three times, electric power output by more than three times, cotton cloth by 40 per cent, and woolen cloth by 35 per cent.

The great distance the Soviet Union travelled in creating industrial capacity in this period was the result of the régime's emphasis upon the production of capital equipment. In 1940, the production of "means of production" was claimed to have exceeded that of 1939 by nearly 14 per cent, and to have been 52 per cent greater than it was in 1937. From 1938 to 1940 it was reported that, exclusive of enterprises of local importance, 2900 *new* factories, mills, mines, power stations, and other industrial enterprises began operation. Soviet statistics indicate that about one-third of the real national income for the years 1938 to 1940 was in the form of producers' goods.[59] The third Five-Year Plan (1938-1942) called for capital investments in productive equipment exceeding those of the first two Five-Year Plans (1928–1937) combined.[60]

[59] Since these figures are from soviet sources they are subject to the reservations previously stated. However, as broad indicators of the expansion of industrial equipment they may be accepted.

[60] Report by Molotov to the 18th Congress of the Communist party. Moscow *News*, March 22, 1939.

Another way of envisioning the industrial capacity of the Soviet Union is to compare its output of important products in 1940 with the output in the United States in 1935–1939. This comparison can be made from the table on pages 506–507. It indicates that just prior to the War our country produced twice as much pig iron, more than twice as much steel, two-and-a-half times as much coal, seven times as many tractors, nearly twice as much footwear, twice as much cotton and woolen cloth, five times as much petroleum, about twenty-five times as many automobiles and trucks, six times as much paper, 20 per cent more cotton, and more than twice as much electric power. The editors of *Fortune* made a similar comparison, using other series of data, for the immediate pre-war years. Data selected from that study are shown on this page. This serves to emphasize still further the fact that the Soviet Union was many steps behind the United States in industrial capacity at the beginning of the Second World War.

PRE-WAR PRODUCTIVE CAPACITY IN SELECTED INDUSTRIES IN THE U.S.S.R. COMPARED WITH PRODUCTIVE CAPACITY IN THE UNITED STATES[a]

	U.S.S.R.		*United States 1940*	
Oil wells in operation (thou.)	9.6	(1939)	401.2	
Oil-refining capacity (mill. tons)	33.7	(1938)	201.3	
Pig-iron furnaces	122.0	(1938)	231.0	
Pig-iron capacity (mill. tons)	15.7	(1940)	49.9	
Steel furnaces	348.0	(1938)	1200.0	
Length of railways including Baltic (thou. km.)	102.5	(1940)	618.9	(1939)
Locomotives on hand (thou.)	est. 24.9	(1940)	45.2	(1938)
Freight-car capacity (mill. tons)	est. 18.0	(1939)	75.8	(1939)
Gross tonnage of merchant fleet (mill. tons)	1.3	(1937)	14.0	
Trucks on hand (thou.)	767.8	(1939)	4497.6	
Length of pipe lines (thou. km.)	4.2	(1939)	157.9	(1939)
Telephone and telegraph lines (mill. km.)	1.6	(1940)	147.6	(1939)
Cement capacity	8.2	(1940)	43.7	
Sawmill capacity (mill. cu. m.)	31.5	(1939)	85.0	

[a] *Fortune,* July, 1941. Data are from "trade publications of key industries," "Communist party speeches," "occasional decrees," "fragmentary trade statistics," and "reports of individual observers."

POST-WAR INDUSTRIAL CAPACITY

It is claimed officially by the Soviet Union that the German invaders had worked out and issued in documentary form a detailed plan for the "organized plunder of its national economy."[61] Whether or not this is

[61] "Statement of Extraordinary State Committee for the Ascertaining and Investigation of Crimes Committed by the German-fascist Invaders." Published in *Information Bulletin of the Embassy of the U.S.S.R.,* October 11, 1945. Unless otherwise indicated, all data on war damages are from this source which is the sole comprehensive source of such information. Despite an unquestioned temptation to exaggerate war losses with matters of reparations, etc., pending, the various portions of the report are in-

true, the war-time destruction of industrial plants and materials was so enormous that there is no apparent hope of recovery to the 1940 capacity for the economy as a whole except through the successful completion of the fourth Five-Year Plan by 1950.

Some of the detailed items in the Committee's report represent staggering losses for a country struggling to catch up with other industrialized nations. Among the most important statistics offered by the Committee are the following. In the two principal coal-producing areas 1135 pits which had employed 337,000 workers and had yielded over 100 million tons of coal a year, or more than half of the 1940 total U.S.S.R. production, were "demolished," and thousands of mine locomotives, drills, pumps, compressors, etc., were "plundered and carried away." In two oil-producing areas the Germans "destroyed and annihilated" over 3000 wells which had yielded as high as 5 million tons of petroleum annually. Numerous refineries and storage tanks also were destroyed. They "blew up, burned or partly destroyed" 61 of the largest electric power stations and many smaller ones. The power system of the Dneiper, the pre-war pride of the nation, was "demolished." Over 6000 miles of main high-tension power lines were put out of commission, 12,000 buildings connected with power stations and sub-stations were "destroyed," and 14,000 steam boilers, 1400 turbines, and 11,300 electric generators were "carried away to Germany." Thirty-seven iron and steel works which had turned out annually 11 million tons of pig iron and 10 million tons of steel (possibly a quarter or third of pre-war production) were "completely or partially destroyed." The Germans "destroyed and put out of action" 12 of the largest non-ferrous metallurgical enterprises. Among the other plants destroyed are the following: 66 nitrogenous fertilizer and chemical plants; 749 heavy and medium engineering plants which had employed 919,000 workers; 21 tractor, automobile, freight car, motorcycle, and bicycle plants "completely demolished," and 27 others "partially wrecked"; lumber establishments accounting for 750,000,000 cubic feet of lumber annually; 77 paper and pulp mills producing 300,000 tons of paper annually, 120 cotton mills; 75 knitted-goods mills; 36 worsted-goods mills; 160 tanneries and shoe factories; 204 sugar mills; 649 distilleries; 47 canneries; 4490 meat and sausage, cheese, milk, and butter plants; 490 plants producing building materials, including five "huge" cement mills. "Special track wrecking machines" were used to "put out of action" 26 main railway lines, and 40,000 miles of railway track were "destroyed" along with 13,000 railway bridges, 4100 stations, 1200 pumping stations, 1600 water towers, 317 locomotive depots, and 129 repair shops, while 15,800 locomotives and 428,000 freight cars were "demolished, damaged or carried away." The

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ternally consistent and the data are generally consistent with the losses disclosed by a comparison of planned production for 1950 with planned production for 1942. For the latter comparison see p. 512.

Germans are charged with "completely or partially wrecking" 31,850 industrial enterprises.[62]

Various accounts of these war losses have appeared in American publications. Summarizing these reports which appeared prior to the Committee's report, it has been estimated that the industrial war losses of the U.S.S.R. were approximately as follows: "60 per cent of her pre-war coal production, 50 per cent of her pre-war iron ore, pig iron, and steel production, 35 per cent of her pre-war manganese production and 40 to 50 per cent of her pre-war machine building capacity—with losses of 75 to 80 per cent if one counts destruction in special lines such as locomotives, rolling stock, steam and hydraulic turbines, steam boilers, electric machinery and power stations, tractors, road building machinery, etc."[63]

Still another way of assessing these war-time industrial losses is to compare the goals specified for 1942, the last year of the third Five-Year Plan, with the goals set for 1950, the last year of the fourth Five-Year Plan (see table on pp. 506–507). Since the War prevented the "completion" of the third Five-Year Plan, these goals, at least in most cases, were not attained prior to or during the War. However, the comparison clearly indicates that the Soviet Union now plans to achieve by 1950 roughly the industrial capacity it had previously planned to achieve by 1942. In the following lines of production the capacity planned for 1950 is approximately the same or less than was planned for 1942: pig iron, steel, petroleum, tractors, paper, leather footwear, sugar, cotton cloth, wool cloth, and soap. Even where the goal for 1950 exceeds the goal for 1942, the increased capacity is relatively small. In the case of coal it is a 10 per cent increase; in automobiles and trucks a 25 per cent increase; in locomotives, 30 per cent; in freight cars, 60 per cent; in electric power, 10 per cent.

This comparison leaves little doubt that the War cost the Soviet Union a decade's growth in terms of industrial capacity. Moreover, even this will turn out to be an understatement if the 1950 production goals are not fully realized. Whereas, at the beginning of the War the Soviet Union was lagging far behind the United States industrially, her war losses injected another decade into this lag. Even if the planned goals for 1950 are fully realized, the industry of the Soviet Union in 1950 will be as far behind our 1935–1939 level as it was at the beginning of the War. Meanwhile the industrial capacity of the United States increased tremendously during the war years. Provided there is no major industrial depression in the United States, our industrial capacity in 1950 will exceed that of the U.S.S.R. by the equivalent of two or three decades of potential industrial expansion in the Soviet Union.[64]

[62] *Information Bulletin of the Embassy of the U.S.S.R.*, February 5, 1946, p. 105.

[63] John G. Martin, *Industrial War Losses of the Soviet Union*, 1946, unpublished.

[64] An illustration of the way in which the War increased the spread between the industrial capacity of the U.S.S.R. and that of the United States may be found in the steel industry. In 1946 the United States had an annual capacity of 65.9 million ingot

Capacity for Production of Consumers' Goods

Industrial capacity in the consumers' goods fields has developed very slowly in the Soviet Union. Up to 1940, industrial expansion was the expansion of the producers' goods industries—a process of *getting ready* to produce increased quantities of consumers' goods. Soviet leaders continually promised a shift of emphasis to consumers' goods production, but the realities of the acute shortage of heavy industries forced the latter to be emphasized in the first three Five-Year Plans. One writer states that during the period prior to 1940 "the output of producers' goods industries increased 14-fold in the twelve years under the Five-Year Plans, while consumers' goods production during the same period increased only 4.3 fold."[65] After 1940, the government was forced to convert many industries to the production of military equipment. Just as occurred in the United States, numerous light industries were shifted from civilian consumers' goods to war production. Since this shift started with a dearth of consumers' goods in the Soviet Union, and since the War brought the destruction of so much industrial equipment, the country emerged from the War with dire shortages of practically all consumers' goods. This necessitated the continuance of rationing of basic consumers' goods during the immediate post-war period in order to assure some equality of access to the necessities of life.

While all consumers' goods are in short supply, the shortage of housing is one of the most critical. Housing space is obtained by either (1) owning one's own home, (2) renting a house from a private owner, or, (3) renting living quarters from a "local soviet" (the local government) or from an industrial enterprise which provides housing for its employees. The third is by far the most common. The rights of the tenant living in rented quarters are laid down in the lease which he holds from either the local soviet or the industrial enterprise. The tenant has the right to have the lease renewed upon expiration, or to be provided with alternative accommodations, unless he has gone to another permanent residence without returning to the lessor the premises he formerly occupied, or has caused damage to the premises, or has failed to pay his rent over a period of months. Tenants may exchange premises, the new tenant taking over all the rights and obligations of the former tenant. When living quarters are vacated they are allocated to new tenants by the local soviet or the industrial enterprise which owns them. Rents are based upon the type of housing, the

net tons, or over 3 times the capacity of the U.S.S.R., which was 21.5 million tons; Olag Hoefiding, *New Republic*, March 10, 1947. The table on pp. 506-507 indicates that immediately before the War the steel capacity of the United States was only 2.3 times that of the U.S.S.R. It is interesting to note, however, that the steel capacity of the Soviet Union far exceeds the capacities of Great Britain, 14.4 million tons, and France, 4.6 million tons, and slightly exceeds the "potential" steel production of Germany, 20.0 million tons. *Ibid.*

[65] A. Yugow, *Russia's Economic Front for War and Peace*, p. 15.

tenant's salary, and the number of his dependents, and generally do not exceed 5 per cent of the tenant's wage or salary. Each republic has housing laws governing the occupation of premises. In some cases special privileges to occupy larger or better quarters are awarded for outstanding work in industry.

An individual who owns his own home has complete disposal of it. He may occupy it or lease part or all of it to another or sell it. To prevent speculative buying and selling of houses it is provided by law that each citizen has no right to purchase housing more than once in three years. The local soviet grants a person the right to build a house and leases him the necessary land for from 50 to 65 years. To encourage private home building the State Bank grants credit, provided the borrower supplies 30 per cent of the total cost which, however, he may contribute in the form of his own labor to build the house. Loans are granted for five to ten years at 2 per cent interest.

In 1941 the government decreed special housing protection for men entering military service. Each service man retained the right of possession of the dwelling or apartment he rented from the local municipality or the industrial enterprise. Each was exempted from rent payments for the duration of the War. If the service man's family did not occupy the premises during the War they were allocated to other persons who, however, had to vacate them upon demand by the ex-service man within six months of his discharge. All pending eviction suits against service men were cancelled by order of the Supreme Court of the U.S.S.R. on June 23, 1941. Families who were evacuated because of enemy occupation of territory were given equivalent rights. Ex-service men and persons in areas occupied by the enemy during the War have been given special borrowing privileges and priorities on materials to induce them to undertake private housing construction.

While the protection of the tenant, the low rents, and the special inducements offered the veteran to build his own home may appear generous, they of course cannot affect the basic cause of the housing shortage—a lack of materials and labor. Indeed, some of the efforts of the government to increase the volume of housing construction scarcely scratch the surface of the problem. For instance, it has been estimated that, if every housing construction loan to an individual were of maximum size, the total appropriation for this purpose from 1942 through 1945 would have provided houses for only 62,700 families. During the first half of 1947, approximately 90,000 homes were built or rehabilitated through loans. Moreover, the soviet press has been very frank in criticizing the various Ministries for failure to achieve the volume of housing construction planned for the workers of the respective industrial enterprises under their administration. Each Ministry undertakes the building of homes for workers in its enterprises. The Ministry of Ferrous Metallurgy, one of the most important

industrial Ministries, during the first eleven months of 1946, built only 45 per cent of the workers' homes it was expected to build. The Ministries of the Coal Industry achieved less than 40 per cent of their housing plans. Other industries were reported to be lagging still more. Moreover, brick factories were reported working at far less than capacity in 1946. New housing construction was reported to be "lagging badly" in 1947, and at the mid-year was reported to have fulfilled only "a fraction" of the 1947 program.[66] Starting with a severe housing shortage when the War began, the war-time destruction of buildings housing 25 million persons,[67] and the post-War lag in housing construction have created a dire shortage of human shelter. Indeed, housing regulations in the Soviet Union currently permit each *person* to have 92 square feet of space—the equivalent of less than a 10′ by 10′ room. The report adds that "he is lucky to get it."[68]

Meanwhile Soviet officials point with optimism to a rise in the production of consumers' goods in 1946 and 1947 and continue to make brave promises. Gross production of consumers' goods for 1946 appeared to be about 20 per cent over that for 1945 and for the first quarter of 1947 "civilian production" was reported 20 per cent over the first quarter of 1946.[69] Footwear production in 1946 was up over 30 per cent, cotton fabrics over 25 per cent. More than 3 million persons were reported to have been newly housed since 1943 in the R.S.F.S.R. alone, and 4 million farmers were reported "moved from dugouts and shacks to newly built farm houses in certain devastated areas by 1947.[70] In an address in February, 1946, Stalin promised that "special attention will be devoted to extending the production of consumer goods, to raising the living standards of the working people . . ." and that the rationing system would shortly be abolished.[71] It is hoped that "the experience gained during the war, when industry was quickly geared to wartime tasks and launched new lines on short notice" will speed up the post-war production of consumers' goods.[72] The fourth Five-Year Plan calls for the average volume of all consumers' goods

[66] New York *Times,* January 21, 1947; June 29, 1947; and July 9, 1947. See also New York *Times,* December 9, 1945, "Soviet Assails Lag in Donbas Housing." *Information Bulletin of the Embassy of the U.S.S.R.,* November 19, 1947, p. 5.

[67] Statement by Molotov at meeting of Council of Foreign Ministers, New York *Times,* March 19, 1947.

[68] New York *Times,* March 11, 1947.

[69] New York *Times,* December 30, 1946; *Information Bulletin of the Embassy of the U.S.S.R.,* May 28, 1947, p. 2. Similarly, optimistic reports were issued covering the second quarter of 1947. See New York *Times,* July 9, 1947. It should be remembered that these percentages of annual increase in production are computed on bases which represent the very low production year of 1945.

[70] New York *Times,* December 30, 1946; *Information Bulletin of the Embassy of the U.S.S.R.,* May 28, 1947, p. 24.

[71] Speech at meeting of the voters of the Stalin Electoral Area of Moscow, February 9, 1946. Published in *Information Bulletin of the Embassy of the U.S.S.R.,* March, 1946, p. 14.

[72] *Information Bulletin of the Embassy of the U.S.S.R.,* October 9, 1945.

in 1950 to be 86 per cent over the 1940 volume. Food production is to exceed 1940 by 23 per cent.[73] The "large-scale production" of prefabricated houses is planned and a total of nearly a billion square feet of housing is to be restored and constructed before 1950.[74] Plans improving housing and municipal services in Moscow are elaborate. Thirty-two million square feet of new housing are planned, permitting each person to have the use of approximately 100 square feet of space. Gas, water, street lighting, and transportation services are to be expanded and "hundreds more cobbler, tailor and consumer-goods shops are to be opened."[75]

Serious efforts to push up the level of output of consumers' goods have accompanied these promises. Production of consumers' goods has been partially localized to make more effective use of local materials and by-products of large enterprises and to avoid complicated and inefficient marketing. Producers' cooperative have been expanded as sources of consumers' goods.[76] Large capital-goods enterprises have added consumers' goods sidelines. For instance, one machine tool works turns out a side line of hardware items such as locks and cutlery, some aircraft plants have added lines of metal bedsteads, and iron and steel works are producing some iron and enameled kitchenware.[77] Auxiliary farms and garden plots attached to industrial enterprises as well as individual war gardens were started during the War and will continue to supply supplementary food to the workers in industrial enterprises and offices.

There is plenty of evidence that the masses of soviet citizens intensely desire a great expansion in the output of consumers' goods, and soviet leaders doubtless are quite sincere in their commitments to achieve such ends. However, the present status of the industrial capacity of the country makes it highly probable that the fourth Five-Year Plan will be just another *getting ready* period and that there will be no substantial increase in the per capita output of consumers' goods over their shortage levels of 1940.

QUESTIONS FOR CLASS DISCUSSION

1. In what sense is the economy of the Soviet Union merely an extension of the government? What and where are the connecting links between them?
2. In what sense do the specific economic units within the soviet economy have less significance than do the separate independent units in our economy?
3. It is sometimes said that the battle for socialization in the Soviet Union has been fought in agriculture. What does this mean?
4. What are the basic differences between the state farms and the collective farms?

[73] B. Borisov, *Information Bulletin of the Embassy of the U.S.S.R.*, May 23, 1946.
[74] *Ibid.*
[75] Drew Middleton, New York *Times*, December 2, 1946.
[76] See p. 502.
[77] *Information Bulletin of the Embassy of the U.S.S.R.*, September 10, 1946.

5. What factors determine how much income a member of a collective farm unit will receive for his labor?
6. What are machine-tractor stations, and what is their relationship to collective farms?
7. Would it be correct to say that the agricultural and industrial property existing at the time of the Communist Revolution was confiscated by the new government?
8. Discuss the functions of the trusts in the soviet industrial system.
9. Compare the manner in which day-by-day decisions are made in the operation of an industrial enterprise in the soviet economy with the way in which they are made in our economy.
10. Would it be correct to say that the individual economic units in the soviet economy are linked to each other by buying and selling contracts much as our business units are?
11. Does the soviet economy need efficient accounting devices and procedures just as our economy does?
12. Would you say that the use of contracts and accounting procedures in the soviet economy proves that that economy basically is very similar to ours?
13. What noticeable trends have there been in recent years in the organization of soviet industry?
14. Compare the Soviet Union's expansion of industrial capacity with her expansion of output of consumers' goods.

Chapter 24

CREDIT, MARKETING, AND LABOR

CREDIT

SHORT-TERM CREDIT; THE STATE BANK

WHETHER in a capitalist or a socialist economy, credit is the device which makes possible production in anticipation of demand. The cost items which must be met long in advance of payment by the purchaser of the product are cared for by investment credit or long-term credit. In the Soviet Union there are four long-term credit banks whose operations will be described. Cost items which must be paid only a relatively short time before the purchaser of the product makes payment, and which cannot be met from the enterprise's own funds, are covered by loans of commercial or short-term credit. In the Soviet Union all extensions of short-term credit are made by the single state-owned and operated Gosbank or State Bank. This bank has a status equivalent to that of a Ministry. The chairman of its board is a member of the Council of People's Ministers. The administration of the bank centers in Moscow with more than four thousand offices and branches scattered throughout the Union to conduct its detailed local business. It has a staff of 100,000 persons. It maintains institutes and technical schools for training bank personnel.

The State Bank completely monopolizes the granting of short-term credit. In selling goods, regardless of their nature, no selling agency has the power to grant the buying agency any period of time in which to make payment. The latter must always pay upon delivery, and payment must be by means of a check[1] drawn on the buyers' account in the State Bank, in which each unit doing business with other units must keep all its funds. Thus, if a steel trust in accordance with a contract delivers to a tractor trust certain monthly shipments of steel parts, the latter must make payment to the former by check drawn on its account in the State Bank immediately

[1] Although this is here referred to as a "check," it differs in form from our customary bank check. It consists of a form properly filled out and sent to the bank as a notice that a certain account should be debited or credited because of a certain transaction.

upon receipt of each shipment. In fact, while shipments are in transit the invoices or bills of lading will be cleared through the State Bank, which, through its proper local branch, will require the consignee to make payment before it actually comes into possession of the goods. Thus every delivery of goods will be reflected by a debit to the buyer and a credit to the seller in their respective accounts in the State Bank. Should the buyer not have a sufficient current balance in its account to make immediate payment, it may be granted a loan by the State Bank, but in no case is the seller empowered to permit the buyer to defer payment.

The first and obvious question is where a trust or enterprise obtains the original credit with the State Bank out of which it can begin making payments for materials and for other current requisites to production. If, for instance, a new tractor plant is to be established in accordance with the industrial plan for the Union, along with all the other preparations for its operations the proper government agency will set up on the books of the State Bank an account to the credit of that enterprise. This will serve as the original supply of circulating capital and will be an amount sufficient to meet the normal requirements for funds to finance current operations. If revision of the plan for an enterprise increases its normal circulating capital needs, an addition is made to its funds in the State Bank. As the enterprise purchases materials, power, and so on, the checks which it issues will be debited against its account with the State Bank, and as it disposes of its product it will deposit in the State Bank for credit to its account the checks which it receives from buyers.

This account, concurrently being drawn upon and replenished, should be adequate to meet all needs of normal operation. When some unusual circumstance arises, the enterprise might find itself short of funds needed to meet necessary current outlays. It would then have to apply to the State Bank for a loan which, if granted, would be for not over three months, with full obligation on the borrowing enterprise to repay it with interest of two to four per cent. A need for additional credit might be caused by delays in the shipments of an enterprise's products to the consignee, seasonal interferences with production, seasonal accumulations of unusually large stocks of finished goods, materials, or fuel, or other temporary lags or advances in the purchasing and selling operations of the trusts and their subsidiary enterprises. Thus, for instance, if an enterprise whose product usually is shipped to buying agencies located nearby undertakes to make substantial shipments to buyers located at more distant points, its receipts (determined by the actual delivery dates of these shipments) will lag further than is usual behind its outlays for materials. Clearly this would interfere with its ability to replenish its account with the State Bank, and would be considered a legitimate reason for a grant of short-term credit from the State Bank. Or, in another case, a break-down in machinery causing an enterprise's deliveries of its product to be delayed, deliveries of

materials to it meanwhile proceeding normally, might result in a similar exhaustion of that enterprise's bank balance. It would apply for a State Bank loan to replenish its account which is to be repaid when, presumably through later overtime operations, it again has caught up with its scheduled deliveries.

From this it is evident that when an enterprise, which in accordance with the industrial plan for the Union has received an original grant of credit on the books of the State Bank, operates with less than that degree of efficiency assumed in the original grant of funds, its account with the State Bank will tend to become exhausted. This will mean that, having been allotted certain power to command the current requisites of production, it is failing to meet the standards of performance set for it by the plan. The dissipation of its bank account and its consequent application for additional bank credit will be the "red-ink" indicator that all is not well with it.

The opposite of course occurs if an enterprise operates with greater efficiency than was assumed in its original grant of credit. However, if a given economic unit were to turn out a greater quantity of product than the plan called for in a certain period of time, it no doubt would experience difficulty in turning that product into bank credits, for if the enterprises to which it sells were just meeting their plans and if the various plans had been coordinated, the buyers of the first enterprise's product would probably not absorb it as rapidly as it was being turned out. In short, it is possible for an enterprise, by overfulfilling its plan, to tie up its credits in an overextended inventory of finished goods.

With all the contractual relationships, all the accounting procedures, and all the clearing of payment between enterprises flowing through this one central credit agency, the State Bank possesses a continuous audit of the "efficiency" of each enterprise, trust, or other economic unit. This "efficiency" is not in terms of automatically imposed tests disclosing the ability of an enterprise to keep its receipts, as determined in free markets, at least equal to its expenditures similarly determined (as would be the case in our system). It is rather in terms of the exact fulfillment, underfulfillment, or overfulfillment of the specific obligations placed upon that enterprise by the industrial plan and the related original grant of credit.

If inefficiency—that is, failure to meet planned production schedules with original allotments of credit—should occur on a large and extended scale throughout the industrial system of the Soviet Union, the result would be constant expansions of bank credit to cover such failures. The consequence of this would be the pumping of purchasing power into the channels of trade more rapidly than production and trade were expanding. Since the contractual prices are fixed by authority, this would not affect prices within the controlled portion of the economy, but, in the absence of suffi-

ciently high taxation to absorb it, it would be reflected in the prices of whatever things individuals buy and sell outside the controlled economy. Just this has happened in the Soviet Union on occasion, and it accounts for the extremely high prices at which privately sold goods have changed hands. In this sense, credit inflation may be said to occur in the socialized economy of the Soviet Union.

The functions of the State Bank in supplying short-term credit to industrial enterprises have been described. The bank functions in precisely the same capacity for other economic units. The accounts of all state and collective farms are kept in the State Bank, which supplies their needs for short-term credit from time to time. This bank also serves the consumers' goods distributing enterprises, the state owned and operated utilities, and, in fact, all other state-controlled economic units whose operations involve purchasing and selling, or expenditures and receipts. It handles all the receipts and expenditures growing out of taxation and the execution of the national and local governmental budgets, as well as the current transactions of the four long-term banks described later. All financial transactions between the government or economic units and foreign parties are handled by the State Bank.

As the commercial bank for the entire economy, the significance of the State Bank's control functions cannot be overemphasized. It stands in a position to see that no unauthorized expenditure of any economic unit's funds occurs and to refuse payment on any claim growing out of a transaction that is not in accordance with the economic plan for the economy as a whole. Its books contain the data which indicate at any moment the degree to which the entire economic plan or any part of it has been fulfilled. Through the State Bank such controls as governmentally established prices can be enforced, for the Bank can refuse payment for anything sold by, or to, an enterprise or agency at a price other than the official price. The bank can refuse further grants of credit to an enterprise which fails to meet its planned output, and it can specify what such an enterprise must do before it can secure further credit.

The importance of these controls is indicated by a change inaugurated just prior to the War. Some industrial enterprises had succeeded in building up their bank balances out of successful operations, thereby possessing funds beyond their normal working capital needs and increasing their independence of the State Bank's controls. These enterprises were ordered to transfer to the bank such excess balances, thus again becoming dependent upon the bank for funds beyond their minimum normal needs. Also some enterprises having no or few seasonal or irregular additional needs for working capital were largely immune from bank control. They were ordered to return portions of their normal working capital to the State Bank, thus forcing them to borrow and come under State Bank control.

The State Bank correctly has been called the "rudder by which the industrial mechanism is steered."[2] It might be added that in this analogy the economic plan is the compass. Lenin referred to the banking system in a socialized economy as an "apparatus for accounting and for regulating the socialistically organized life of the country as a whole."[3] The State Bank in the Soviet Union has been assuming greater and greater importance and has evolved into just such an institution.

Just a word should be added on the source of the funds the State Bank uses for the purposes described above. Since its clearing operations are very similar to those of our commercial banks, debits and credits are constantly offsetting each other, thus making it unnecessary for the bank's own resources to amount to more than a fractional part of the total transactions financed. The basic "capital" of the Bank came from a governmental allotment of funds to it. This has been supplemented by Bank earnings added to capital and by further funds appropriated from the government budget. Since all enterprises and economic institutions in the Soviet Union are required to keep their liquid funds on deposit in the State Bank, net balances in the accounts of many enterprises or agencies constitute "free" funds which the bank can apply where they are needed for working capital. Thus the bank utilizes funds "chiefly derived from the free resources of the economy itself, which all flow into the bank as the sole bank of settlement in the country."[4] A rule already noted serves to stretch out the bank funds still further. Since all enterprises' seasonal and sporadic needs for funds beyond normal working capital are financed through bank loans, no funds are wasted through an enterprise maintaining its permanent working capital at a level geared to seasonal or irregular peak needs. Supplementing these sources of funds is the power of the State Bank to issue paper currency.

Money

While trade among economic units is required by law to be handled by "checks" cleared through the State Bank, wages are paid and retail trade is carried on in money. These monetary payments, accounting for less than ten per cent of total payments throughout the economy, are in terms of inconvertible paper rubles, which the State Bank has the exclusive right to issue. The paper currency is increased and decreased in amount as the State Bank finds increased or decreased need for a hand-to-hand circulating medium. Just as the bank carries on its credit operations in accordance with a "credit" plan, so the emission of paper currency is in accord with a "cash" plan worked out on the basis of all those factors which affect the need for circulating money. These paper rubles constitute a purely in-

[2] *Soviet Russia Today*, October, 1938, p. 12.
[3] Moscow *News*, November 28, 1938.
[4] *Information Bulletin of the Embassy of the U.S.S.R.*, November 13, 1945, p. 6.

ternal currency, their export from and import into the country being prohibited. When financial transactions with foreign concerns lead to payments or collections abroad in foreign currencies, they are handled through the State Bank which converts foreign currencies into internal rubles, and vice versa, at a rate fixed by the bank. Moreover, the State Bank has the exclusive right to deal throughout the Union in the so-called monetary metals such as gold, silver, and platinum.

"Profits"

In describing the credit system it was noted that a trust or enterprise under certain conditions may enlarge the original net balance to its credit on the books of the State Bank. This increase may be called a "profit." In some cases it is a "planned profit," such as would arise when an enterprise is consciously given such preferred treatment in setting its buying or selling prices or in handling some other matter as to justify an expectation that it will increase its balance. In other instances the profit is "unplanned," representing simply an efficiency of operation beyond that assumed when the prices of its product, its supplies, and so on, were set. There are two important distinctions between these profits in a socialized economy and profits in our economy.

First: The existence or non-existence of a profit on the books of the State Bank is not taken as an indicator of the necessity or desirability of expanding or closing down an enterprise. In our capitalist economy, a sustained period of losses must result in plans by private owners to abandon an economic unit or to reduce the scale of its operations. In the soviet economy, the social objectives of the industrial plan may dictate the continued operation or even the expansion of an economic unit which constantly shows a loss. Deficits incurred by such a unit can be counterbalanced by profit realized elsewhere in the economy or by funds derived from taxation. Moreover, unlike the situation in our economy, a "profitable" industry or enterprise in the Soviet Union does not necessarily mean one which is ripe for expansion, and in which production necessarily will be increased. In fact, social objectives may dictate the liquidation of a unit which has been showing a profit.

Second: Whereas in our economy profits of privately owned business units are distributed as earnings to owners, in the soviet economy a "profit" becomes basically a possession of the government. It is ultimately distributed, in accordance with certain rather complex rules, into one or more of the following channels: (1) A part of the "profit" goes into the State budget and thereby becomes available for meeting deficits or expanding capital equipment at any chosen spot in the national economy. (2) A part goes into a capital expansion reserve to be used by the "profitable" enterprise or the trust of which it is a part. (3) Another part is left to be

used by the enterprise or trust itself for bonuses to workers or executives, the construction and operation of cultural, recreational, health, and educational facilities for the benefit of the workers, or construction of housing facilities for managers and workers in the enterprise or trust. This third part is called the "director's fund." Since only a small portion of "planned profits" (about 4 per cent), but a large portion of "unplanned" profits (about 50 per cent), is permitted to flow into this fund, it serves as an incentive to increase the efficiency of the enterprise. Since the director's fund must be used for the direct benefit of the labor and executive staff of the enterprise, it is expected to stimulate each person connected with the enterprise to do his best. The specific uses for the director's fund are chosen by the director of the enterprise together with a committee from the local trade union, but these uses must conform to a general pattern of utilization laid down by the Ministry under which the enterprise or trust functions.[5]

Long-Term Credit; Investment Banks

The means of financing the erection and equipment of factories, power plants, railroads, communication facilities, permanent farm improvements, as well as such municipal facilities as water, sewage disposal, streets, transportation systems, and other forms of capital equipment in the Soviet Union can be divided roughly into five categories. Some of these funds are derived from the reversion to the state of profits realized by enterprises in the socialized economy. As explained above, these profits accumulate in the form of credit balances in the State Bank and may be disbursed in part either directly or through the State budget for capital outlays. The revenues derived by the state from taxation also constitute a source of long-term investment funds. As a third source, the soviet government issues bonds which are purchased by persons and agencies having free funds, the proceeds being available for long-term use in capital expansion. Savings bank deposits and social insurance funds in the custody of the government constitute still other sources.

These capital funds are made available to the respective trusts, enterprises, and other economic units on two bases. Some of them are non-repayable grants. The others are purely long-term loans, with the borrowing agency obligated to pay interest and repay the principal. For instance, a loan of the second type might be granted to a cotton textile trust for the purpose of erecting some new textile mills out of whose receipts the trust would be expected to pay interest and gradually build up in the State Bank a fund adequate to repay the principal. This means that any portion of the economy could be subsidized, at the expense of other portions, by a non-repayable grant of long-term credit, or by a repayable grant at a nominal rate of interest, or by a cancellation of the borrower's obligation

[5] Alexander Baykov, *The Development of the Soviet Economic System*, pp. 297, 374–5.

at any time after the loan has been granted. On the other hand, in any instance where it was so desired, the grant of funds could be made on a strictly business basis, and the ability or lack of ability of the borrowing enterprise to meet interest and principal payments could be used as an index of the degree to which it was meeting the standards of production set for it when the loan was granted.

These long-term funds, coming from the sources noted, flow through and are administered by the following four long-term credit banks which operate under the Ministry of Finance:

1. *The Industrial Bank.* This bank, with its more than one hundred branches, finances all capital expenditures made by state owned and operated manufacturing industries and national utilities such as transport and communication. Most of this financing comes from tax revenues and consists of non-repayable grants. All state industrial enterprises pay a certain share of their profits into this bank. It is expected that this source of long-term funds will become of increasing importance in the future as the newer enterprises expand their operations. This bank is responsible for the efficient construction of the capital facilities it finances. When a grant of funds is made to an enterprise or a trust, the lump sum of the grant is not immediately available to the grantee. The bank pays out claims against the total grant only as parts of the construction job and the purchase of equipment are completed to its satisfaction. All vouchers for materials and equipment and all payrolls involved in the construction of the project go through the bank and afford it a constant check on the necessity for and the return received from each outlay. Supervision of these expenditures is carried on by the bank at the place of construction and apparently is very careful. Only if completion of the new project is proceeding efficiently and according to plan will the bank from time to time release portions of the grant to pay for the work. It is through this device that an attempt is made to eliminate certain gross inefficiencies which accompanied earlier capital expansion ventures in the Soviet Union. This bank also finances the construction of housing undertaken by the various enterprises and trusts for the benefit of their workers.

2. *The Agricultural Bank.* Through both repayable interest-bearing loans and non-repayable grants this bank finances the capital outlays of state farms, collective farms, and tractor stations. During the trying years of the collectivization of agriculture, the collective farms received large repayable grants from this bank. In an attempt to improve the financial standing of many cooperative farming units, a government decree at the end of 1934 canceled all the collective farms' bank indebtedness which had been incurred prior to 1933. On later dates similar cancellations of indebtedness have been reported. These are excellent illustrations of how a flexible, unified banking system for the entire economy permits an offsetting of debit items incurred by any units in the economy with credit

items realized elsewhere. In some cases this bank also extends credits to cooperative farms to buy cattle and develop orchards and industrial crops. It checks the expenditure of all funds just as the Industrial Bank does.

3. *The Trade Bank.* This bank advances funds for the construction of capital facilities to be used by all cooperative undertakings in the Soviet Union, except farming and housing. It supplies funds for state and cooperative trading organizations to open new and expand old shops, stores, warehouses, and grain elevators. The capital needs of producers' cooperatives also are met through this bank. Its grants to cooperative organizations are repayable, forcing such undertakings to meet interest charges and to repay principal.

4. *The Communal Bank.* Through both repayable and non-repayable grants this bank finances housing construction by local soviets and the construction of municipal utilities such as street car lines, electric plants, water plants, bus lines, laundries, and bath houses. It makes grants for capital construction for such cultural, educational, health, and recreational institutions as schools, hospitals, clubs, and theatres. It is through this bank that an individual may borrow funds for the private construction of a house.[6] The loan funds are paid out only as the bank is satisfied that the building work is progressing satisfactorily.

Savings Banks

Scattered over the Soviet Union under the direction of the Ministry of Finance are thousands of branches of the Government Savings Bank. Millions of individuals and hundreds of thousands of institutions and organizations such as trade unions and collective farms keep savings deposits in these banks. The law requires that the Government Savings Bank invest all of its funds in bonds of the Soviet Union. This creates a substantial source of demand for internal bond issues. In 1947, before the monetary reform, the total deposits in savings banks were reported to be 13 billion rubles as compared with 335 million rubles in 1938. To make these facilities accessible to outlying districts some 34,000 branches are attached to post offices and railway and telegraph stations, as well as factories and village libraries. Total savings deposits were reported in 1947 to be double their total at the outbreak of the war.

A depositor in a savings bank may choose from a number of types of deposits. Funds may be deposited in the name of the depositor, or "to the account of the bearer." In the latter case the bank repays the current possessor of the bank book upon its presentation at the bank. Savings deposited for an "unspecified period" draw 3 per cent interest or, if deposited for specified terms of not less than six months and if left on deposit that long, draw 5 per cent interest. Also funds may be left in non-interest-bearing special deposits to be withdrawn at any time. In this case the

[6] See p. 514.

depositor is eligible for lottery drawings twice each year. In each lottery there are 25 winning tickets for each 1000 of these accounts. One winning ticket entitles the holder to a prize of 200 per cent of his average deposit during the preceding six months; two tickets carry winnings of 100 per cent of the winner's average deposit; and the remaining 22 tickets carry prizes of 50 per cent of average deposits. The savings banks also accept checking account deposits and issue letters of credit good throughout the country. Subscriptions and payments for, as well as receipts from, state bonds held by individuals and organizations are handled through these banks, as are also payments to individuals drawing social insurance benefits.

Summary of Credit System

In concluding this discussion of the soviet credit system, its functions may be summarized as follows: "The role of the credit system is to redistribute temporarily liquid funds and control their expenditure according to planned appropriations, and, more generally, the more economical management of affairs. It does not in *itself* influence the redistribution of the national income nor the 'saving' and 'investment' activities of the community. The liquid resources of the budget system deposited with the State Bank are one of the essential sources of short-term credit and permit expansion without resorting to the printing press. Budget funds provide the main source for financing works by means of non-repayable subsidies and long-term credits granted by specialized banks. Thus a clear connection is established between credit and budget systems."[7]

THE MARKETING OF GOODS

There are three possible channels into which goods may flow as they are turned out by producing units: First, they may be exported to foreign purchasers; second, as raw materials or equipment they may be sold on a contractual commercial basis to trusts and enterprises which utilize them in production; third, finished consumers' goods may flow from fabricating enterprises through the domestic marketing system into consumers' hands. The first and third of these channels are described below.

Foreign Trade

All exporting and importing is supervised by the Ministry of Foreign Trade and is actively carried on by the various Commissions the Ministry maintains in foreign countries. The "Amtorg Trading Corporation," for instance, is the trading agency maintained in the United States to handle purchases from, and sales to, American business concerns. Together with the State Bank, through which payments are made to and received from

[7] Alexander Baykov, *The Development of the Soviet Economic System*, p. 419.

foreign sources, these agencies constitute a tightly knit organization through which filters all soviet foreign trade.

Through the state trading monopoly foreign trade *policies* are shaped toward the end of achieving the economic and political objectives of the nation as a whole, while the detailed foreign trade *transactions* are molded into conformity with the concrete economic plan for exports and imports and for the acquisition and use of foreign exchange. Since all commodity exports and imports flow through this monopoly, and since foreign trade as a whole is only one segment of the national economy, prices can be made low enough to assure a sale wherever desired and buying prices can be offered which are high enough to get anything desired from any source. Any bookkeeping losses incurred on specific foreign transactions may be met by bookkeeping profits yielded by other foreign transactions or by profits on domestically consumed commodities. The socialization of foreign trade has enabled the Soviet Union to control closely the impact of foreign economic conditions upon its own internal economy.

A brief tracing of soviet foreign trade will illustrate these generalizations. During the years immediately following the Revolution there was practically no foreign trade. During the period of the New Economic Policy, foreign trade was in large part carried on by private traders for individual profit. During the late 1920's and the early 1930's the socialized economy was being equipped with capital goods, many of which had to be imported from industrialized countries such as the United States and Great Britain. During those years the policy carried out by the foreign trade monopoly emphasized the exportation of agricultural products and raw materials for the purpose of acquiring foreign exchange with which to purchase abroad the needed industrial equipment. Neither food and other consumers' goods shortages at home nor price considerations abroad were permitted to interfere with the policy of laying down sufficient exports in the foreign markets to pay for the needed imports of machinery. The middle 1930's found the Soviet Union better equipped with the basic capital goods. Hence the drive for exports eased off until, during the immediate pre-war years, the soviet policy was to develop a self-sufficient economy in which foreign trade would be held to a minimum. Indeed, just before the War, her foreign trade amounted to only about 1 per cent of her total industrial production.[8] During the period 1936 to 1940 our exports to the U.S.S.R. averaged $58 million per year and our imports from the U.S.S.R. were $24 million per year.[9]

[8] William H. Chamberlin, *Postwar Economic Relations with the U.S.S.R.*, Institute on Postwar Reconstruction, New York University, December 6, 1944, p. 153.

[9] *After the War*, Institute on Postwar Reconstruction, New York University, March, 1945, p. 3. During the immediate pre-war years the political aspects of foreign trade continued to be emphasized. At the 18th Congress of the Communist party in 1939, the Minister of Foreign Trade stated: "Questions of foreign trade are becoming more and more definitely bound up with the foreign policy of the various states. In our trade abroad we have to take into consideration the system of foreign trade established in the

The soviet post-war foreign trade policy cannot be foreseen at present. During the War her normal trade activities of course were suspended. While over 11 billion dollars' worth of lend-lease war materials were sent her by the United States, these are estimated to have been only 10 to 15 per cent of the total soviet production of war materials.[10] Soviet representatives participated in the Bretton Woods conferences in 1944, thereby, at the time, indicating an interest in the stabilization of international exchange rates to stimulate world trade. However, the Soviet Union failed to ratify the agreement establishing the International Monetary Fund planned at Bretton Woods and has not joined the Fund since. Moreover, she did not participate in the London, Geneva, and Havana conferences (1946, 1947, 1948) held for the purpose of recreating world trade by reducing tariffs and other trade controls. These actions indicate a reversion to her goal of self-sufficiency. Should the Soviet Union seek to enter the proposed International Trade Organization planned at London, Geneva, and Havana, it would pose for that organization the difficult theoretical problem of how a nationalized foreign trade monopoly with the manipulative potentialities described above can be fitted into an organization seeking to reduce controls and to emphasize commercial principles of trade. The practical aspects of this difficulty are considerably reduced by the fact that the Soviet Union's pre-war foreign trade accounted for only about 5 per cent of the total international world trade.[11]

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various countries and the political relations that exist between the USSR and these countries, for trading relations, their character and volume, *are directly dependent on political relations.* [Italics supplied.] Hence the difference in character of the trade agreements concluded between the USSR and other countries." Quoted in "Living with Russia," *Economic Affairs*, New York University, October, 1946, pp. 4–5.

[10] E. C. Ropes, *Postwar Economic Relations with the U.S.S.R.*, Institute on Postwar Reconstruction, New York University, December 6, 1944, p. 178.

[11] Indeed, there is evidence that the Soviet Union has not formulated any postwar attitude on foreign trade and is waiting to see what trade relations the rest of the world works out and where she can borrow funds. This may account for the apparent inconsistencies in soviet statements on foreign trade policy. Within a single month in 1947 the following reports came from the Soviet Union: (1) A leading theoretician condemned the principles of free trade as "the legal spearhead for economic penetration into and the capture of key positions by imperialist capital in these countries weakened by war." New York *Times*, May 4, 1947. (2) An eminent soviet economist condemned the efforts to establish an International Trade Organization for the purpose of freeing international trade from hampering restrictions as an attempt to return to archaic conditions, as "returning to affairs in foreign trade which existed in the nineteenth century." He declared that the Soviet Union's absence from the 1947 Geneva Conference on the I.T.O. was due to the fact that the problems discussed there "have no direct interest" for the Soviet Union "in view of the state monopoly of foreign trade, which is a firm element in our economic system." New York *Times*, May 17, 1947. (3) *Pravda* carried articles and editorials expressing a wish to "broaden" trade relations with foreign states and the United States in particular, and condemning these "United States politicians" who sought to restrict the economic relations of the United States to those other countries having economic and political systems similar to ours. New York *Times*, May 14, 1947. If it is possible to follow the policy advocated in (3), one may ask why the Soviet Union did not busy herself at London, Geneva, and Havana, working out such arrangements within the pattern of negotiations which took place there in 1946 to 1948.

Should the Soviet Union undertake to work out her future foreign trade relations outside the scope of prospective international agreements, several facts are pertinent. There is no doubt about her need for imports. The destruction wrought by the War and the present low level of industrial production create an intense need for all forms of industrial equipment. Representatives of the United States Department of Commerce estimate that, if she had the purchasing power, she would desire to buy such goods from the United States to the amount of 2 billion dollars' worth per year for at least a short period of years.[12] On the other hand her ability to export goods to pay for such imports is very limited. Although the list of her exports to the United States from 1925 to 1941 includes some 250 commodities,[13] the dire shortages within the country make it difficult, if not impossible, to set aside large quantities of goods for export. If the Soviet Union's imports are to achieve a substantially high level, it appears that she will have to pay for them either with gold or with credit granted by the selling countries. There appears to be no willingness on the part of our Congress to extend credit to the Soviet Union. Within at least the next decade, the foreign trade of the Soviet Union apparently will not grow beyond a limited number of special transactions for the purchase of badly needed specific types of industrial equipment from those countries which grant credit therefor because they see some advantage to themselves in such arrangements, plus extended trade with her satellite nations in eastern Europe.

Shifting Pattern of Retail Marketing

In tracing the organization of agricultural production in the Soviet Union it was noted that the existing system of state and collective farms was the result of a great deal of confusing experimentation which, indeed, has not yet ended. The same may be said of retail marketing. By 1933, organized private trade which had accounted for about three-quarters of all retail trade during the period of the New Economic Policy had been almost completely eliminated. It was at that time, and it has since remained, the announced purpose of the soviet régime "to have, as soon as it is considered feasible, a single system of trading units open to all purchasers and with a uniform scale of prices."[14] This goal has been pursued faithfully but through devious twists and turns of policy which cannot be reviewed in detail here.

The system of retail trade prevailing from 1933 to 1936 had none of the features of this ideal. It was a mixture of several varieties of trading units, some of which were open to all buyers while others were open only

[12] E. C. Ropes, Lewis L. Lorwin, as quoted in the New York *Times*, July 31, 1946.
[13] *Ibid.*
[14] *Handbook of the Soviet Union*, American-Russian Chamber of Commerce, New York, 1936, p. 389.

to narrowly restricted groups of buyers. Moreover, a highly complex system of price differentials existed among the various retail outlets. Thus the same commodity would customarily be sold for at least two prices in the same market—for one price in the stores which sold only to restricted groups of buyers, for another price in stores in which anyone possessing rubles could buy, and for possibly still a third price in relatively less important trade transactions carried on privately by individual buyers and sellers. Such intricacies are most baffling to us, steeped as we are in a competitive retailing system. They can be defended only on the basis of the broad social and economic objectives to which such manipulations have contributed.

During this period (1933 to 1936) the various trust and Commissariats (now Ministries) operated "state" stores, some of which were open to the general public, while others restricted their sales to special categories of buyers or to buyers possessing certain forms of purchasing power. For instance, in 1932 a chain of 1500 stores was established by a state organization known as "Torgsin." In them a limited range of commodities, usually of high quality, was put on sale at prices expressed only in terms of either foreign currencies or gold. While the internal money of the Soviet Union was inconvertible, this chain before its liquidation in 1936 carried on such a volume of trade in gold and foreign currencies that its receipts are said to have accounted for about 15 per cent of all foreign exchange acquired by the government during that period. To illustrate further, another chain of stores during the same period sold for paper rubles, but only to foreigners working in the Soviet Union, certain selected commodities including foods.

Meanwhile, in other stores, usually organized as consumers' cooperatives, and attached to industrial plants and collective farms, only those who worked for or were members of the sponsoring enterprise could make purchases. Prices here were generally lower than those charged by state stores for equivalent goods. Moreover, in allotting supplies and in price policy the central administrations could and did favor stores at specific plants or farms or in those regions to which they wished to attract more workers. Retail marketing was further complicated during this period by the rationing of basic food items and other goods.

The simultaneous existence of "closed" stores, "open" stores, price differentials on the same commodity as between stores, rationing, and over-all shortages of nearly all consumer commodities created baffling complications in retail trade. An individual's receipt of some stated number of rubles per week might mean that he was on any one of a great range of living standards, depending upon his rationing status and his eligibility or non-eligibility to buy at a certain type of store. Buyers, of course, would seek to purchase up to the limits of their rations, or up to the limits of the store's stock, in the "closed" stores to which they had access and in

which they found the most favorable prices. Once these possibilities were exhausted, if unspent income remained in the pocket it could be spent only in one of the "open" stores where relatively high prices prevailed, or in the peasant markets where very high and uncontrolled prices prevailed. Thus, during this period, equal personal incomes in rubles often entitled their recipients to very different real incomes in goods and services, and quite substantial inequalities in ruble incomes might well disappear when one recipient spent his income under more favorable conditions of purchase than the other was entitled to use.

This situation had materially changed by January, 1936. With increased agricultural production, the rationing of bread and flour was abolished in December, 1934, and uniform prices for these products were established by the government within each of eight zones, price differentials between zones reflecting merely differences in production costs. In 1935 the rationing of meat, meat products, fish, fish products, sugar, fats, oils, and potatoes ended, and uniform prices on a zone basis were set for them. Late in the same year the retail cooperatives in the cities were ordered to turn over their facilities to the state trading organizations, leaving only village and rural trade to be carried on by cooperative stores. Village and rural cooperatives were also ordered to reorganize completely and bring themselves to a level of efficiency matching that of the city stores.

When preparations for war increased in tempo, shortages of consumers' goods again became severe. The re-introduction of the rationing of bread, butter, meat, tobacco, shoes, and clothing came in July, 1941, shortly after Germany declared war on the Soviet Union. War-time rationing of all essential consumers' goods and a retailing system comprised of "closed" or "ration" stores and "open" or "commercial" stores prevailed until December, 1947. During this period (1941 through 1947) workers were entitled to purchase up to the limits of their ration coupons in the "closed" stores at prices fixed by the government at levels which, at least theoretically, enabled them to buy a minimum standard of living. However, supplies often were inadequate even to care for purchases of customers seeking to use their ration coupons. The "commercial" stores, operated by various agencies of the government, sold merchandise at prices much higher than those in the "closed" or "ration" stores. Supplies in excess of those needed to stock the ration stores, or sometimes actually diverted from ration stores, were stocked by these "commercial" stores. Here the higher-income groups such as skilled workers, professional people, artists, and so on, were expected to buy and, indeed, anyone could buy here unrationed goods or goods in excess of his individual ration as long as stocks held out. These "commercial" stores became known as the legalized black market. Their purpose primarily was to siphon off from the pockets of citizens and place in the government's possession purchasing power which was in excess because of the extreme shortages of consumers' goods. To add further to the

differentiated price system, some "privileged classes," such, for instance, as military personnel and artists, prior to September, 1946, held cards entitling them to discounts of 10 to 25 per cent in "commercial" stores.[15]

These features of the retail marketing system continued through the early post-war period until monetary reform and derationing of consumers' goods occurred in December, 1947. Before discussing this major event, we shall note the nature of each of the four types of retail outlets and shall review the government's formula for setting individual prices in the controlled-price portion of the retailing system.

Consumer Cooperatives

Consumer cooperatives have been and still are relied upon to handle the great bulk of the retail trade in rural areas and collective farm villages. These are organized on principles similar to the "Rochdale" principles underlying consumer cooperatives in other European countries and the United States. The individual becomes a member by paying a small fee. Each member votes at membership meetings to choose officers and decide policy questions. While non-members may buy at cooperative stores, only members receive "dividends" or "rebates" on their purchases when the cooperative has an operating surplus. Only members have access to the social and cultural services the cooperative renders, and in some cases members receive better qualities of goods than do non-members. An elected management board, and under it a manager, are in day-to-day charge of the retail activities of the cooperative.

These cooperatives operate stores, shops, stalls, and in some cases send out mobile stores to outlying settlements. Their selling and buying prices are set by the price-fixing agency in the Council of People's Ministers, their activities are planned in advance as a part of the national economic plan, and all operating details are supervised by the Ministries of Trade of the respective republics under "model statutes" established by the government. Their stocks of goods are obtained from a central buying organization which enters buying contracts with various trusts and enterprises, and operates district warehouses from which the cooperatives are served. Additional stocks of goods are purchased from local sources, particularly local producers' cooperatives. Indeed, the consumer cooperatives themselves often establish small industrial enterprises in which such things as baked goods, soft drinks, ice cream, meat products, clothes, shoes, harness, barrels, soap, and rope are produced from local raw materials for sale in the cooperative. Some cooperatives have set up auxiliary farms to supply themselves with agricultural products and some have undertaken

[15] Discount cards were discontinued by decree of the Council of Ministers on September 16, 1946. For an account of their significance and relation to the marketing system, see Irving B. Kravis and Joseph Mintzes, "Soviet Union: Trends in Prices, Rations, and Wages," *Monthly Labor Review*, July, 1947.

the raising or gathering of medicinal plants, mushrooms, wild fruits and berries, and wild game. Some cooperatives organize and operate restaurants, inns, and tearooms.

Prior to the War there were about 30,000 consumer cooperatives in the Soviet Union, with about 38 million members, and some 200,000 stores and other retail outlets. The War caused a serious loss of both facilities and members, but plans have been made for greatly expanding the post-war work of consumer cooperatives. Auxiliary production by consumer cooperatives is to be expanded in the fields of building materials, furniture, household goods, pottery, soap, and foodstuffs. The farms attached to cooperatives are to be expanded and livestock, poultry raising, and bee-keeping stressed. The personnel is to be improved and more attention paid to protecting the consumer and controlling the quality of goods handled.

By decree of November 9, 1946, the Council of People's Ministers ordered consumer cooperative organizations to depart from their exclusively rural and village operations and "develop trade in food and manufactured goods in the cities and workers' settlements."[16] They were ordered to be more thorough in purchasing agricultural products left over after collective farms and peasants had made their compulsory deliveries to the State, and to offer these for sale to the urban population. The cooperatives' buying agencies were granted permission to purchase grains, fish, meat, food, eggs, milk, potatoes, vegetables, fruit, honey, and other food products "at prices developed in the market," that is, at uncontrolled prices comparable to those in the peasant markets or bazaars described below, and sell them in cities and towns at profitable prices which, however, must not exceed prices in the state stores where food could then be bought without ration tickets. This constituted an exception to the rule that prices in cooperatives are set by the State and was designed to place cooperatives in direct competition with State trading agencies, even though both types of facilities are administered by the republic Ministries of Trade. In fact, *Pravda,* in commenting on the decree, stated that the absence of "healthy competition" had harmed retail trade and prevented the "expansion of trade in agricultural products and consumers' goods."[17]

These developments indicate that consumer cooperatives are to expand to more than their pre-war share (about 25 per cent) of total retail trade, and are considered as an important distributive agency for handling the increased output of consumers' goods hoped for in the post-war period.[18] It was reported that more than 10,000 consumer cooperative stores were opened in cities during 1947.[19] As an inducement to expand this form of trade, consumer cooperatives are granted special tax privileges and fa-

[16] Decree quoted in New York *Times,* November 12, 1946.

[17] *Ibid.*

[18] The above is in part based upon Germina Rabinowitch, "Cooperatives in the U.S.S.R.," *The American Review on the Soviet Union,* May, 1946, pp. 40-50.

[19] *Information Bulletin of the Embassy of the U.S.S.R.,* November 5, 1947.

cilities which they acquire are protected, as is the land of cooperative farms, from being diverted to state uses.

Factory Stores

Employees of state owned and operated enterprises look to "workers'-supply departments," or retail stores operated by these enterprises, as the chief retail source of food, clothing, and other necessities of life. Each store is self-supporting and is under the director of the enterprise who appoints a subordinate to operate it. While financially independent of the enterprise, the store is open only to employees of the enterprise and uses the facilities of the enterprise freely. The State Bank supplies credit to these stores, whose trading activities are controlled by the Peoples' Ministries of Trade of the respective republics.

Of the goods stocked, many come from auxiliary farms and workshops maintained by the stores. Some goods are purchased from state industrial enterprises, some from local industrial cooperatives, and some agricultural produce comes from nearby collective farms. The stores organize their own collection of such things as locally grown berries, mushrooms, nuts, and wild game. Livestock and poultry farms are sometimes maintained by these stores and supplies of meat, milk, butter, eggs, and poultry are thus assured the workers in the enterprise. Shoe repair shops, tailor shops, restaurants, barber shops, and laundries are sometimes operated by these stores. Prices are fixed by the state and the store is allowed a small profit over its buying prices. If a surplus is earned, it is used for further development of the store's facilities.[20]

These factory stores perform roughly the same retail trade function for the urban industrial workers that the consumer cooperatives perform for the rural population. When these two sets of retail facilities are considered, it becomes evident that the Soviet government has come to rely upon decentralized trading facilities for a substantial portion of retailing. However, sufficient centralized control is maintained to coordinate these facilities into the national economic plan and to use them for achieving broad economic goals. For instance, by favoring the consumer cooperatives in a particular area or the stores connected with certain enterprises with more adequate supplies of consumer goods, inducements can be offered to workers to go to, or stay in, such areas or enterprises.

State Stores

State stores are operated as government enterprises in the cities and urban areas. The republic Ministries of Trade administer many of them, although some are operated by other Ministries or by trusts or industrial

[20] See N. Gorbunov, "Factory Stores in the Soviet Union," *Information Bulletin of the Embassy of the U.S.S.R.*, March 14, 1946, p. 216.

enterprises as retail outlets for their products. State stores obtain their merchandise through contractual relations with trusts or from wholesale organizations maintained by Ministries or trusts that supervise the production of consumer goods. These wholesale houses in some cases maintain warehouses, anticipate the needs of state stores by building up their wholesale stocks, and even study the peculiarities of local consumer needs and desires in the respective territories they serve.

The prices at which goods are distributed through these wholesale organizations and the state stores are fixed under the jurisdiction of the Council of People's Ministers. Some retail trading organizations achieve considerable autonomy with reference to the composition of their stock and their methods of operation. However, the national economic plan lays down a "turnover plan" for each of them and this is supposed to be followed. The chain-store type of retailing is common in these state stores and the larger cities have state owned and operated department stores.

Peasant Markets or Bazaars

While consumer cooperatives,[21] factory stores, and state stores sell at state-fixed prices and are otherwise closely controlled, peasant markets or bazaars are almost entirely uncontrolled. These consist of open marketplaces and booths established in villages and towns, where collective farms and individual peasants may sell, for whatever price they can get, the products left over after their obligations to the state are met. Both produce from collective farms as such and produce from members' farmsteads is converted into cash income in these markets. The merchandise consists almost exclusively of foodstuffs.

These are the only completely "free" markets in the Soviet Union, since supply and demand govern price. Shortages of foodstuffs normally create very high prices in these markets, articles selling for much more than their prices in the state stores. The only force holding such prices in check is the opportunity to buy the same commodities at consumer cooperatives, factory stores, or state stores in the same town until their supplies are exhausted. It is because many people have some rubles left after they have purchased supplies available at other retail outlets that they turn to these bazaars to spend surplus rubles at much higher prices. Peasant markets have been a very important source of food for town and city populations.[22]

Retail Service

Several incidental features of retail marketing may be noted briefly. The official price list of goods offered for sale must be posted in each cooperative,

[21] With the exception noted on p. 534.

[22] Similar markets have in some cases been established by producers' cooperatives to dispose of industrial products of which they may have surpluses after government agencies have completed their purchases. These, however, are of minor importance as marketing agencies.

factory, or state store. "Shop inspectors" not only check weights and measures but also prevent the official price for goods of one quality being charged for goods of poorer quality.[23] Indeed, any store official who knowingly permits goods of substandard quality to be sold by his store is liable to criminal prosecution. Soviet shops do not sell on credit. A commodity purchased by installment payments is delivered only when the final installment has been paid. Nor is there regular daily delivery service to private homes of bread, milk, and so on. Just prior to the War more emphasis than formerly was put upon advertising for the purpose of developing "a wholesome desire for worth-while products" and to "tell about excellent products, stimulate a taste for them, and help in popularizing these products."[24] However, the more strictly competitive aspects of advertising are absent. The types of advertising permitted and the expenditures thereon are governed by strict rules. A product may not be so advertised as to "insult" another soviet product or even to infer its superiority to another product unless it actually is superior. There is relatively little outdoor advertising; revenues from land rented for this purpose go to the local soviet. Funds which may be spent on advertising are limited to a fraction of one per cent of the total sales. Advertising appeals "usually are direct and basic. Good health, pleasure, pleasant taste, saving of time and money, and convenience are among the more popular appeals."[25] In some cases producing enterprises send representatives to trading units to "show the latest samples, take orders and generally study local fashions and requirements,"[26] and it is not unusual to see in the soviet press announcements of fashion shows at which new models of apparel are displayed. The Moscow radio was reported to have started broadcasting "commercials" in 1947.[27]

The soviet trading system has many deficiencies largely growing out of administrative inefficiency and the lack of adequately trained and experienced personnel. Prior to the War the soviet press was filled with criticism. Store managers were accused of refusing to stock new products and new varieties of old products for fear they would slow down the rate of stock turnover, thereby opening themselves to censure.[28] Bureaucracy and ignorance of local needs and tastes hampered store managements. Producing units have in some cases hoarded goods, thereby keeping them from entering the channels of trade. Store managers sometimes have held back goods either to accommodate friends or to gain a speculative profit

[23] L. E. Hubbard, *Soviet Trade and Distribution*, Macmillan, London, 1938, p. 247.
[24] Henry Ware, *American Quarterly on the Soviet Union*, January, 1939, pp. 66–67.
[25] *Ibid.*, pp. 66–71.
[26] L. E. Hubbard, *Soviet Trade and Distribution*, p. 118.
[27] New York *Times*, June 2, 1947.
[28] Resolution of the Central Committee of the Communist party and the Council of People's Commissars, January 7, 1941. Cited by A. Yugow, *Russia's Economic Front for War and Peace*, p. 93.

for their enterprises. In 1941 it was officially declared that "the merchandise on hand lies in the warehouses and is not delivered to the localities where there is an unsatisfied demand."[29] The charge that stocks are not moved to the consumer is the most serious criticism that can be leveled at a marketing system.

Again, in the post-war period, the soviet press has launched a drive to improve trade facilities. Communist party local organizations are asked to put their members into trade organizations as salesmen and to organize party units among the retail trade personnel to prevent "stealing and embezzling food."[30] The party is appealed to to understand the "importance of cooperative trade" and to engage in "self-criticism" of the service in retail stores, restaurants, and tea shops. Not only inefficiency but dishonesty apparently hampers soviet retail trade. This plea for eliminating abuses was timed to prepare the trading system for distributing efficiently the greatly increased quantities of consumers' goods hoped for in the future.

Pricing

The pricing of goods in the Soviet Union differs materially from pricing procedures which predominate in a relatively free market economy. Soviet pricing procedures are complex, and include important arbitrary elements which are manipulated for the purpose of achieving broad planned objectives in the fields of national income distribution and capital accumulation.

Price fixing is administered by the Council of People's Ministers and the details are carried out by its subsidiary bodies. Pricing thus is highly centralized and adaptable to shifts in economic policy. In some cases prices are fixed by geographical zones so that a commodity selling for a uniform price within each zone will sell for different prices in the various zones, while in other cases, such as salt, a commodity may sell for a uniform price throughout the country even though transportation costs to one area may exceed those to another. Arbitrary pricing of goods appears sensible only when one realizes that the price system is used to achieve broad economic, social, and political goals.

Pricing and the arbitrary elements therein can be understood best by tracing the general principles of the soviet price-making formula as applied to a manufactured commodity sold at retail in one of the price-controlled outlets. By aggregating the items listed below the price-fixing agencies arrive at a retail price.

1. *The Cost of Processing.* This is the starting point in price fixing and includes the cost of raw materials, power, labor, and administrative overhead, as well as depreciation and interest on State Bank funds if interest-bearing funds have been used. The prices of these items, of course,

[29] New York *Times*, January 7, 1947.
[30] *Ibid.*

have been fixed by state authorities, which set raw material prices, wages, salaries, and interest rates. Taken together, on a unit of output basis, they constitute the primary cost which is the most elemental portion of a retail price.

2. *A "Planned Profit."* To the processing cost is added a relatively small percentage of planned profit. Since a portion of this goes into the expansion of capital facilities of the enterprise or of the trust of which it is a part, the amount of planned profit added to costs depends upon the need or desirability of such capital expansion and the desirability of financing it from the receipts of the expanding enterprise itself rather than from outside funds.

3. *Marketing Expense.* This consists of the cost of moving the commodity to the buyer. When it has been added to the first two items the sum of the three is the "transfer price" of the commodity. This is the receipt price recorded on the State Bank's books when an enterprise delivers a commodity to the buying agency. It is "simply an accounting price at which transactions between one state institution and another take place, and bookkeeping debits and credits are effected between them."[31] If the commodity is a raw material or piece of machinery for which no retail price is to be set, the pricing process has been completed at this stage and the "transfer price" becomes the final price at which the buying agency acquires it. If the commodity is destined for retail sale, its pricing proceeds through the following additional steps.

4. *The Turnover Tax.* It is through this element in pricing that the state extracts from retail buyers large amounts of funds which flow into the State budget and therefrom into the capital expansion of the national economy. It is levied on commodities, and therefore is a price-determining factor, either at the last stage in their processing or at the wholesaling stage in their marketing. It is levied only once on each commodity as it flows through the channels of processing and marketing, and no commodities are exempt except farm produce sold in peasant markets or bazaars. In the latter case, certain revenues levied on collective farms at least partially counterbalance the exemption.

The turnover tax has no relation to any other part of the final price. It is levied in addition to the "planned profit" and is collected regardless of the ability or inability of an enterprise to operate efficiently enough to earn its planned profit. Hundreds of different rates of this tax are levied on the various commodities. Generally the rates are higher on quality and luxury articles than on lower quality and necessary goods, averaging for all commodities something over 50 per cent of their final retail prices. The schedule of rates varies greatly from commodity to commodity, ranging in pre-war times from low rates of 17 per cent on laborers' heavy boots, 10 per

[31] Maurice Dobb, *Soviet Planning and Labor in Peace and War*, International Publishers, New York, 1943, p. 35.

cent on some kinds of soap, and 20 per cent on certain kinds of fish, to about 60 per cent on butter, 78 per cent on sugar, 75 to 88 per cent on various qualities of cigarettes, and 83 per cent on vodka.[32] The importance of the turnover tax as a determinant of the distribution of real income and of the incidence of the cost of capital expansion cannot be overemphasized. It is obvious that the structure of rates, and changes therein from time to time, act as a basic determinant of what groups of consumers have their real incomes curtailed, and by how much, to meet the cost of building capital equipment.

5. *The Costs of Wholesale and Retail Distribution Facilities.* These include labor, storage, store space, and equipment items, as well as interest on such funds as may have been borrowed on a commercial basis.

6. *The Planned Profits of the Distribution Agencies.* Wholesale and retail organizations are permitted a modest planned profit of approximately ten per cent on their turnover of goods. Just as in the case of industrial enterprises, some of these profits are turned back into expansion of facilities.

These six items added together normally make up retail price. In the cases of agricultural products raised on collective farms, the prices at which the government "collects" them from the farms replaces the first two items, except that, if further processing occurs before retail distribution takes place, the processing costs and planned profits of processing agencies are added. It is clear that the numerous controlled variables in the soviet price system make prices instrumentalities to be used for achieving planned goals—particularly in the area of income distribution and capital accumulation. Moreover, through the manipulation of the component elements in an individual price the consumption of an article can be stimulated or retarded and scarce raw materials can be conserved, while plentiful raw materials are forced into use.[33]

Currency Reform and Abolition of Rationing

During the War the prices of goods purchased by the population through the rationing system stayed at or near their pre-war level. The controlled prices in the state "open" or "commercial stores" where ration coupons were not required, the uncontrolled prices in the state-operated "commission stores" where second-hand goods were exchanged by individuals with ten per cent commission charged by the store, and the uncontrolled prices in the peasant markets rose very substantially. This price

[32] L. E. Hubbard, *Soviet Trade and Distribution,* p. 214; Paul Haensel, *The Public Finance of the Union of Soviet Socialist Republics,* Commerce Clearing House, 1938, p. 38.

[33] Excellent discussions of soviet pricing may be found in Maurice Dobb, *Soviet Planning and Labor,* circa pp. 34–36; Alexander Baykov, *The Development of the Soviet Economic System,* circa pp. 257–260, 293–305.

inflation reflected the expansion of bank credit and money in circulation which, in the Soviet Union as in all warring countries, occurred at the very time when supplies of consumers' goods offered for sale were drastically curtailed. The slowness of the reconversion of soviet industry during the early post-war period and the poor harvests of 1945 and 1946 enhanced the upward pressure upon uncontrolled prices.

Soon after the War ended the government announced its intention to abolish rationing at the earliest possible time. It was also the government's desire to achieve a "single system of trading units open to all purchasers and with a uniform scale of prices" as soon as possible. However, the increased credit and money rubles which had been injected into circulation during the war and early post-war period had built up a huge fund of liquid purchasing power. This was held by the population, either as individuals or as members of institutions and organizations, in the form of (1) paper rubles (chiefly held by speculators, who had accumulated black market profits during the War, and by sellers of farm products on the peasant markets at uncontrolled high wartime prices who, in accordance with peasant custom, had kept their profits as hoards of paper currency); (2) government bonds (held chiefly by individuals and institutions and organizations such as collective farms, trade unions, and cooperatives who had purchased them during the War under government urging or compulsion); and (3) savings deposits in local branches of the Government Savings Bank (held chiefly by individuals and institutions and organizations who had purchased them with wartime savings). It has been estimated that, including "the money hoards that had existed already before the War, and uncollected claims against the government on account of back pay, vacation allowances, etc., the total purchasing power in the hands of the public at the end of 1947 may well have amounted to over 400 billion rubles."[34] This sum slightly exceeds the total budget of the U.S.S.R. for 1947, and is equal to about one-half of the total per annum national income of the Soviet Union.

If rationing had been abolished and uniform prices had been set at a reasonable level for all goods sold through the controlled-price outlets while this immense aggregate of accumulated purchasing power hung suspended over the markets, available stocks of consumers' goods would have been exhausted immediately upon the abolition of rationing. Moreover, those who had profited most from the War (the peasants and black market speculators) would have benefited most from the abolition of rationing. Hence rationing could not be abolished until after much of this purchasing power had been removed from the pockets of potential retail purchasers.

The controlled system of dual prices constituted another obstacle to the abolition of rationing. As long as the state commercial stores sold

[34] *Monthly Review of the Federal Reserve Bank of New York*, January, 1948, p. 8.

commodities at prices up to one hundred times their prices in stores where ration coupons were needed to buy, it was impossible to eliminate rationing without a chaotic run on the stocks of the latter. During 1946, several readjustments of retail prices had been made to close partially the gap between these two levels of prices for the same commodities. Prices of foods, for instance, were increased an average of 180 per cent in ration stores and food prices in the commercial stores were cut sharply.[35] To ease hardships, wages of the lower-income workers were increased somewhat. These price adjustments narrowed the gap but did not close it. It has been estimated that, whereas in 1945 unrationed foodstuffs sold in state commercial stores at twenty to one hundred times their prices in ration stores, in early 1947 they sold for prices three to five times their prices in ration stores.[36]

On December 14, 1947, the Council of Ministers and the Central Committee of the Communist party issued a decree which scaled down practically all holdings of paper rubles and holdings of ruble credits by the population, abolished rationing, and laid down the principles whereby each commodity whose price the government controlled would be given a uniform price.[37] The decree provided that from December 16 to December 22, 1947, all *paper rubles* "in the hands of the population, state, cooperative and public enterprises, organizations and institutions as well as collective farms" were to be exchanged for a new issue of paper rubles. Old rubles not presented for conversion during this period were ordered "cancelled" and "their power of payment" abrogated. For each *ten* of the old rubles *one* of the new rubles was ordered given. Each *deposit and current account* of an *individual* in a savings bank or the State Bank was ordered converted into an account in new rubles in accordance with the following scale:

For the first 3000 rubles in the deposit, *one* new ruble of deposit would be given for *each* old ruble of deposit.

For the remainder of the deposit, up to 10,000 rubles, *two* new rubles of deposit would be given for every *three* old rubles of deposit.

[35] Irving B. Kravis and Joseph Mintzes, "Soviet Union: Trends in Prices, Rations and Wages," *Monthly Labor Review*, July, 1947. See this excellent study for many details on prices and rations too voluminous to include here. For the text of the official communiqué announcing these changes, see *Information Bulletin of the Embassy of the U.S.S.R.*, September 18, 1946.

[36] C. L. Sulzberger, New York *Times*, April 20, 1947. Mr. Sulzberger also notes that wage adjustments accompanying the increases in prices of rationed foods did not compensate for the price increases. This fact, together with some absolute reductions in rations, caused the average worker to lower his standard of living. This is said to have caused additional members of Russian families to seek work, thus alleviating somewhat the labor shortage. These are interesting techniques utilized in a collectivist economy for the purpose of achieving over-all goals.

[37] The text of the decree was published in the New York *Times*, December 15, 1947. All references to its provisions are references to this text.

For the remainder of the deposit, over 10,000 rubles, *one* new ruble of deposit would be given for every *two* old rubles of deposit.[38]

The *current accounts* of *cooperative enterprises and organizations as well as of collective farms* were ordered revalued at the rate of *four* of the new rubles for every *five* old rubles of deposit. With the exception of a few relatively unimportant issues which were converted on other terms, all *government bonds* were ordered exchanged for bonds of a "new conversion loan" at the rate of *one* new ruble for every *three* old rubles.[39] The new bonds carry only two per cent interest, whereas the old bonds averaged about four per cent.

The quantitative effect of this monetary reform on the public's purchasing power cannot be calculated precisely because that would be affected by such matters as the size of the average bank deposit and the amounts of the various state loans. It has been estimated, however, that the paper rubles held by the population after the conversion amounted to about 40 billion and that savings bank deposits in new rubles were about 10 billion, making approximately 50 billion rubles of the two most liquid forms of accumulated purchasing power.[40]

The decree specified that the wages of "workers and employees," the incomes of members of collective farms from state purchase of their products and from their labor, and "other labor incomes of all sections of the population" (such as social security benefits) were to be "paid out in the new money at the previous rates." It also was decreed that rates of taxation, the ruble amounts of debts and contract obligations between enterprises, institutions, and organizations, and all ruble obligations owed by the population to the state were to remain unchanged and to be payable in the new rubles. The decree promised that real wages would rise because of the price reductions ordered and that further retail price cuts would occur in the future. It stated that the financial losses of the "overwhelming majority of the working people" would be "short-run" and "insignificant" and, in any event, would be the "last sacrifice" the population would be called upon to bear.

The decree abolished all rationing and laid down the following "basis" for unifying the formerly relatively high prices in the state commercial stores with the relatively low prices in ration stores. Bread and flour prices were to be placed at an average of 12 per cent, and cereals and macaroni at 10 per cent, under their then existing ration prices, that is, at about 40

[38] Thus, when converted into new rubles, a 3000-ruble deposit was not reduced, a 10,000-ruble deposit was reduced to 7667 rubles, and a 20,000-ruble deposit was cut to 12,667 rubles.

[39] Illustrative of the exceptions to this conversion scale are the following: Bonds of a 1938 issue, which had been fully redeemable in cash at any time, were converted on a *one*-for-*five* basis; bonds of a 1947 loan, certificates for which had not as yet been issued and subscriptions to which still were open in December, were not ordered converted, thereby leaving their ruble value intact.

[40] *Monthly Review of the Federal Reserve Bank of New York*, January, 1948, p. 9.

per cent of their former commercial prices; meat, fish, fats, sugar, confectionery, salt, potatoes, and vegetables were kept at ration prices; milk, eggs, tea, and fruit were to be placed between the former commercial store prices and the former ration prices; prices of fabrics, footwear, clothing, and knitwear goods, as well as certain other "excessively low prices of rationed supplies," were to be established at a level of about 35 per cent of their former commercial prices; prices of tobacco and matches were kept at ration prices. The Ministry of Trade was ordered to establish, in accordance with these principles, new "state retail prices of foodstuffs for various zones, as well as new state retail prices of industrial commodities for towns and countryside."[41]

The decree ended with the very significant statement that it did not apply to "collective farm markets"—the peasant markets or bazaars where uncontrolled prices therefore continue to prevail—and that it did not apply to "cooperative trade in commodities purchased by the cooperatives themselves." By these exceptions it is made perfectly clear that there will be a "unified price system" only for goods marketed through the state trading agencies. In peasant markets prices remain uncontrolled; and when consumer cooperatives purchase foodstuffs from farms on their own initiative at uncontrolled prices, as they do extensively,[42] the cooperatives' retail prices legally continue to reflect the high prices at which they buy.[43] There still is a gap, especially for foodstuffs, between the new official prices prevailing in outlets operated by state trading agencies and, on the other hand, the prices in peasant markets and cooperatives. Since consumers first go to the state stores, with their lower prices, to spend their rubles, the size of this gap will depend upon the adequacy of state store stocks to meet the demand for consumers' goods. Prospective shortages of these in the Soviet Union warrant a prediction that for a long time many Russians will continue to spend substantial portions of their incomes in the markets where prices are not officially controlled and that prices there will be forced substantially above the level of the unified prices in state stores. Thus, there remains a dual price system for consumers' goods, with attendant consequences similar to those described elsewhere in this chapter.

The immediate effects of the monetary reform were clear. The wartime black market speculators suffered most severely because undoubtedly they kept their profits in paper rubles. Indeed, to avoid embarrassing questions, many of them may not have presented their rubles for conversion on the one-to-ten basis. Second in order of penalization came the peasants whose high (but legally permissive) wartime selling prices created profits

[41] The New York *Times*, December 16, 1947, contains a table of some representative new prices set under the decree.

[42] For their legal right to do this, see p. 534.

[43] The importance of this type of trade is indicated by the report that, during 1947, more than 10,000 consumer cooperative stores were opened in cities. *Information Bulletin of the Embassy of the U.S.S.R.*, November 5, 1947.

held largely in paper rubles. Also they faced the probability that the state store price revisions accompanying monetary reform would reduce somewhat the future level of prices at which their surplus foodstuffs would sell on peasant markets. Next came the savers whose accumulations were in government bonds and savings bank deposits which were held disproportionately by the urban population. Suffering least of all were those who, during the war and immediate post-war period, had spent their incomes currently for whatever they could buy. These people had no ruble claims to be scaled down, and yet, with wages remaining constant, they benefited materially from the price reductions accompanying the monetary reform. Presumably these relative sacrifices were foreknown to, and fore-evaluated by, those who shaped the monetary reform policy. Actually, their judgment appears to have been sound, for the reform occurred without rumor of serious disturbance or dissatisfaction. There is evidence that the urban population received it with jubilation. For them its chief meaning was the shifting of a large part of the cost of the War to the rural population, with industrial wages remaining unchanged and increased supplies of consumers' goods at lower prices being promised.

The long-run effects of the monetary reform, the abolition of rationing, and the unification of retail prices in state trading agencies can only be speculated upon. The monetary reform cut the government's debt to about one-third of its former amount. This, in itself, strengthens the internal financial system. The abolition of rationing and the price revision, however, impose some heavy obligations on the soviet economic administration. The economy will be strengthened if the production of consumers' goods can be increased and larger portions of their output can be corralled into the channels of state retail trade to be sold at the new unified prices. If this happens, differentials in earnings will purchase more real income than formerly and therefore will become more powerful incentives to develop individual efficiency and to work hard. If this proves impossible, further expansion of industrial equipment may have to be attempted through the repetition of inflationary monetary and credit policies which will re-create those problems which the December, 1947, decree was designed to solve.

In any event, the techniques employed in 1947 in dealing with inflation and marketing problems clearly indicate to the student of economic systems the nature and potentialities of the controlled and manipulated economic forces of a collectivized economy.

LABOR

Just prior to the War there were 30.4 million workers employed in the "national economy" (which does not include the collective farms or producers' cooperatives) of the Soviet Union. About 11 or 12 millions of these workers were employed in large-scale state manufacturing and marketing

enterprises, while about 3.5 millions were railway employees, 3 millions worked on state farms and in machine-tractor stations, and several millions engaged in construction work.[44] The soviet régime claims to have permanently eliminated unemployment in the utilization of its labor resources. Whereas, it is claimed, unemployment in the 1900 to 1913 period "hovered between 400,000 and 500,000," not including young people searching for their first jobs, it "diminished rapidly" in the decade 1920 to 1930 "as the new Soviet State developed its economy and healed the wounds sustained in the First World War and the Civil War." "Unemployment finally vanished in the U.S.S.R. in 1930."[45]

The War cut heavily into the labor supply of the country. The best of the country's manpower went into the armed forces which are estimated to have reached a peak of 15 millions in mid-1945.[46] The soviet war dead have been estimated at between 12 and 15 millions, half of these being military personnel and half civilians.[47] This compares with under 300,000 United States soldiers and sailors killed, 350,000 military personnel of the entire British Empire lost, and approximately 8 million German troops and civilians killed.[48] It is estimated that the War caused a 3.7 per cent decrease in the total population of the U.S.S.R., as compared with a 2.0 per cent decrease for France and a 0.8 per cent decrease for Great Britain.[49] Soviet scientists and medical experts are seeking means of improving health and increasing the birth rate to counterbalance the war-time population losses.[50]

The extent of the losses is emphasized by the fact that the fourth Five-Year Plan sets a goal of a labor force of 33.5 million persons (only 3 millions over 1940) for the national economy in 1950. To meet the need for labor the most drastic devices were used during the War. Women entered industrial and agricultural employment at an accelerated rate, undertaking even heavy manual tasks such as shoveling concrete, welding machinery and operating heavy machinery. It is reported that in the post-war period in many factories from 30 to 60 per cent of the workers are women, and on collective farms women sometimes exceed 60 per cent of the total labor force.[51] During the War old and young persons were pressed into service in industry and agriculture, while at the close of the War the

[44] *American Review on the Soviet Union*, June, 1941, p. 48.

[45] D. Grigorov, *Information Bulletin of the Embassy of the U.S.S.R.*, April 30, 1947.

[46] *Information Please Almanac*, 1947, p. 576.

[47] 1946 *Britannica Book of the Year*, p. 846.

[48] *Ibid.*, pp. 846-847.

[49] Data from International Committee for Study of European Questions. Cited by Olag Hoeffding, *New Republic*, March 10, 1947, p. 28.

[50] These efforts include campaigns to prevent contagious diseases and abortions, and to permit the early detection of such diseases as cancer and tuberculosis. For details see C. L. Sulzberger, New York *Times*, May 26, 1947.

[51] New York *Times*, July 22, 1946.

labor shortage caused a rapid and extensive demobilization of military forces.

Labor Training

The large population of the Soviet Union constitutes an immense potential supply of industrial labor. The problem has been and will be one of training. For ordinary tasks in industrial enterprises workers are trained on the job and in apprentice schools attached to the plants.[52] Numerous higher technical schools have been established for training the highest categories of technicians. For the in-between grades of skilled workers and technicians the "labor reserve" schools were established. In 1940 the government announced a new "Law on State Labor Reserves" designed to "ensure a continuous supply of trained workers to Soviet industry through any emergency."[53] The law originally provided for the annual drafting of one million young persons from 14 to 17 years of age into training to learn industrial techniques. The upper age limit was increased to 18 years in June, 1947, to include youths who previously had been subject to military service but were no longer called up. The entire plan was administered by the Central Labor Reserves Administration of the Council of People's Commissars (now Council of People's Ministers). The students were supported by the government during the training period, at the completion of which they were assured of appropriate jobs in industry. These they were obligated to accept and keep for at least four years at the established rates of wages. Collective farms and city soviets were assigned annual quotas of youths to be sent to these schools, however, it is claimed, the quotas were made up largely of volunteers. Some of the schools were "Trade Schools" and "Railway Schools," giving two-year courses preparatory to such occupations as metal workers, chemists, miners, oil workers, assistant locomotive engineers, locomotive and car repair men, and so on. Others were "Industrial Training Schools" giving six-month courses to

[52] These methods may be illustrated by the practices in the Stalin auto plant in Moscow. A principle of "splicing" is followed in training new workers. The raw hand is "spliced" with a qualified worker and stays with him for a training period of from a week to three months. The experienced worker is paid an extra wage for teaching the recruit. Also, in cases where two workers on the same job show widely different degrees of skill, the lesser skilled is "spliced" or "hitched" to the more skilled to learn how the latter avoids spoilage, maintains quality, and meets production quotas. The highly skilled worker may also take a group of other workers for training purposes. Beyond these measures there is a "technical minimum course" where after working hours a worker may learn the "general principles of his new trade—such things as what speed and strain his tools will stand, how to serve his machine, and what his job means in relation to the whole process, safety rules, and so on." Beyond these there is a "training department" with a separate building where three-month to two-year technical courses lead to such jobs as foremen, technicians, laboratory workers, machine designers, and so on. *Information Bulletin of the Embassy of the U.S.S.R.*, May 14, 1947.

[53] For details of the decrees see *Information Bulletin of the Embassy of the U.S.S.R.*, August 22, 1941.

develop a variety of skills needed for various tasks in industrial plants. The labor reserve plan was extended to the training of girls in commercial schools. These labor reserve institutions are reported to have trained a total of over two millions of young skilled laborers during the war period.[54]

It is planned that from 1946 to 1950 these labor reserve schools will train 4.5 millions of the 7.7 newly trained workers needed to carry out the industrial portion of the fourth Five-Year Plan. The remainder will be trained on the job and in apprentice schools connected with plants.[55]

In 1947 it was planned to enroll 1.6 million boys and girls in the labor reserve schools and to graduate 790,000.[56] The administration of the labor reserve schools is now under the Ministry of Labor Reserves. The All-Union Central Committee of Trade Unions has undertaken the task of informing the public of the need for enlistees in the training program.

All this will be no easy task. The labor shortage creates a strong temptation to hasten the flow of new workers into industry with a minimum of training instead of delaying employment until basic technical training is completed. The shortage of technicians and skilled workers in the prewar period led to a decree in 1940 giving the Commissariats (now Ministries) power to transfer technicians and skilled workers from one enterprise to another, regardless of the geographical locations of the enterprises, provided financial assistance was rendered where the shift was burdensome to the employee. Workers disobeying such orders were made subject to criminal prosecution.[57] In 1946 these powers apparently still were being exercised as the government decided to reallocate engineers and technicians to meet personnel shortages in the new eastern industrial regions. Trained workers were inclined to remain in the older industrialized regions of the west and to stay in administrative positions rather than get into posts directly connected with production. Undoubtedly these forcible assignments of technically trained personnel will continue throughout the period of the fourth Five-Year Plan.

Labor Laws

The Constitution of the Soviet Union reserves to the Union government the "determination of the principles of labor legislation."[58] Under this constitutional power, government decrees from time to time establish national standards with reference to hours, wages, and working conditions. The codes of labor law of the various republics are thereby automatically modified to conform to these standards. All the labor decrees of the Union government may be referred to collectively as the "Labor Code," which, then,

[54] *Information Bulletin of the Embassy of the U.S.S.R.*, August 28, 1946, p. 7.

[55] "The Fourth Five-Year Plan," *Information Bulletin of the Embassy of the U.S.S.R.*, June, 1946, p. 16.

[56] New York *Times*, March 2, 1947.

[57] For details see *American Review on the Soviet Union*, February, 1941, p. 67.

[58] Art. 14, sect. t.

controls the methods of wage payment, the hours, and other working conditions, as well as the rights of employees to vacations, maternity leaves, and benefits from various forms of social insurance connected with employment in industry. All collective labor contracts between an enterprise and a trade union must conform to the Labor Code's provisions which are enforced by a staff of inspectors under the jurisdiction of the unions.

Trade Unions

While membership in a union is not compulsory, some 27 millions of industrial workers, or about 85 per cent of all employees in the national economy, are members of the 191 national unions which are federated into the All-Union Congress of Trade Unions. The latter meets triennially as the highest governing body, while permanent and smaller subsidiary bodies supervise the activities of the national unions between sessions of the All-Union Congress. Each national union is an "industrial" union with membership open to any employee in the industry which it covers. At the base of the union structure are the local unions, each of which accepts as a member any employee in the given plant regardless of his trade or task. The local collects from its members dues amounting to about one per cent of the member's wage. There is no check-off, the dues being collected by the group organizer. Even plant directors usually are union dues-paying members, although they do not participate in union work. While there are paid union officials, the great bulk of the work at the local level is carried on by non-salaried local officers and committee members who are paid their job rates if they lose time from their jobs while on union work. Since the local and national leadership of the unions comes from the Communist party, union policies are kept completely in line with party policies. The high percentage of union membership among employees is at least partially accounted for by the preferential treatment they receive in such matters as sick benefits and allocation of housing facilities and trips to rest and vacation homes.

The smallest unit of union organization is the "Production Group," consisting of about twenty employees in the same production unit or brigade. A "group organizer," corresponding to a "shop steward" in our unions, is elected by each such group to supervise the task of protecting the immediate interests of the members of the group. The next higher unit is the "Shop Committee" for the department, while for each enterprise there is a "Works Committee." The latter is elected to represent the union members throughout the entire enterprise and must report back regularly at membership meetings of the local. The day-to-day work of the local union is carried out by committees assigned special tasks. About one-fifth of all members are reported to participate actively in the work of these committees. Thus, there is a social insurance committee for each enter-

prise and there may be committees on factory restaurants, subsidiary farms, housing, education, recreation, cultural activities, production, factory inspection, and safety. While there are government factory inspectors, the local union constantly checks up on possible violations of labor laws.

The functions of such unions in a socialized economy are very different from union functions as we know them in a capitalist economy. The aggressive, and sometimes violent, struggles of our unions against individual employers or groups of employers, to wring wage and hour concessions from them, are unknown in the soviet economy. Since, in theory at least, the state is the employer and the workers are the state, to strike for higher wages or shorter hours would be to strike against themselves. Union functions therefore take other forms—chiefly the following:

1. To carry on a wide assortment of cultural, educational, and recreational activities for the benefit of members. Thus the local unions establish nurseries and nursery schools, workers' education classes, series of concerts for members, and so on, and the national unions build rest homes and develop vacation facilities for the use of the local unions. The funds for such activities come chiefly from the earnings of plants, portions of which are set aside by collective agreement for the union's use.

2. To assist the plant management in obtaining the degree of labor performance necessary to enable the enterprise to fulfill its portion of the industrial plan. This includes, particularly, raising the general level of labor efficiency and solving any specific problems arising in connection with the use of labor, such as excess absenteeism.

3. To handle, through shop committees and higher bodies, grievances which individuals or groups of workers allege against management. These are submitted to the "Rates and Conflicts" Committee of the enterprise on which the union and management have representation. If the grievance cannot be settled at this level it is taken to a court having power to enforce its final decision. The intense interest of the director of the enterprise in productivity and low cost may lead him to infringe upon the contract or legal rights of employees. In such cases the union is expected to lodge a complaint and to press it to a final conclusion.[59]

4. To criticize the acts of a plant director or his subordinates and to propose changes in managerial policies determined at the local level. While unions play no direct part in the management of plants, they may make suggestions for improving plant conditions and operations. These criticisms and suggestions may be carried up to the higher trade union organizations and to the Ministries, if they are considered important. On occasion, a union may even go so far as to demand the removal of a director. Soviet Ministers are often invited to meetings of the higher trade union bodies and there are subjected to criticisms relating to the managements of the

[59] For a more detailed discussion of the handling of grievances and disputes see Maurice Dobb, *Soviet Economy and the War*, pp. 81–83.

enterprises under their jurisdiction. A local union may even undertake a systematic survey of the labor protection facilities of a plant and suggest a comprehensive program of reform. After the War, unions paid particular attention to restoring compliance with various provisions of the Labor Code whose enforcement had been neglected during the War.

5. To supervise the social insurance system. Although the funds are contributed entirely by the enterprise and the government, the administration of funds resides exclusively with the unions.[60]

Collective Labor Contracts

The general level of wages and hours and minimum working conditions are laid down by the higher planning and administrative agencies of the Soviet Union. In shaping these determinants of labor's position in the economy, these agencies have the advice and criticism of the central organs of the trade unions. Again, since all organizations are subordinate to the top agencies of the Communist party, all important differences of opinion are resolved by the latter.

Under the supervision of the Council of People's Ministers and the individual Ministries, collective labor contracts are "negotiated" between each trust and the trade union for that industry, while more detailed agreements are worked out between the managements of the individual enterprises and the local union factory committees. The latter contracts contain the detailed application of the broad wage, hour, and other principles to the employment of labor in the respective jobs. The contracts "are fairly standardized in their general form" but "vary considerably in their detail with the special circumstances of an industry or factory."[61]

The agreements worked out at the trust level "fix the time-rate scales for various categories of workers, the classes of workers to be paid on a piece-rate basis, and the relationship to be maintained between the normal earnings of piece-workers and time-workers. The conditions under which the over-time is paid and the payment for overtime are stipulated; also the conditions under which workers can be transferred between jobs in different wage categories, and the conditions of engagement and dismissal."[62] The agreements at the enterprise level "generally include provisions governing training, working conditions, including safety measures and accident prevention and the provision of working clothes, and welfare work, including canteens, washing accommodations, and also perhaps a

[60] For a more complete treatment of the organization and functions of unions see: Germina Rabinowitch, "Soviet Trade Union Functions and Activities," *The American Review on the Soviet Union*, February, 1946; K. Omelchenko, "Trade Unions and the State," *Information Bulletin of the Embassy of the U.S.S.R.*, May 15, 1945. The latter discusses the question of whether the soviet trade unions are more or less "independent" than those of Great Britain and the United States.

[61] Maurice Dobb, *Soviet Economy and the War*, p. 78.

[62] *Ibid.*, p. 78.

factory club and sports field, and workers' housing." Most agreements bind "the management to give proper consideration to proposals made either by production conferences of the workers or by individual workers, and to award premiums for inventions and improvements that are successfully adopted." On the other hand, the factory committee generally agrees "to cooperate with the management in enforcing labor discipline, in overcoming absenteeism and bad timekeeping, 'to mobilize the workers for fighting theft and for the protection of socialist property,' to cooperate in the enforcement of measures of accident prevention and to provide for the efficient running of the factory canteens, dining room, and crèche."[63] The grievance machinery through which these contacts are enforced has been noted in discussing the functions of unions. While the general pattern described above is still valid, the pressure to centralize economic administration during the late War caused more of the details of these agreements to be ordered by the top government agencies and fewer to be worked out at the local level. In some cases this extended even to such detailed matters as changes in scales of piece-rate wages for various categories of workers.

Hours

Originally the legal maximum working day was eight hours for adults and six hours for young people. In 1927 the seven-hour day was established for most industrial workers, with every sixth day a rest day. In hazardous occupations, and for employees from 16 to 18 years of age, the six-hour day prevailed. Employment of children below the age of 16 was forbidden, unless it was in connection with their training. In 1940, the maximum working day was increased to eight hours and every seventh day was made a rest day. The six-hour day in hazardous occupations and for employees 16 to 18 years old was in some cases increased to seven hours. In July, 1941, two to three hours of overtime work with a bonus for overtime were included in the legal maximum. Thus the standard work-week became forty-eight hours during the War. However, time-rates and piece-rates were adjusted downward to leave weekly take-home pay the same as before. The extra hours each week became a War contribution by labor. Many plants which, prior to 1940, operated on a three-shift basis found it inefficient and changed to a two-shift day, the third eight-hour period being devoted to cleaning and repairing machinery. The eight-hour day and six-day week prevail during the post-war reconversion period. There are complaints in the soviet press that "unregistered," and therefore unpaid, overtime is required by many managements in violation of the labor

[63] *Ibid.*, pp. 78–79. It is reported that during 1946 light industry in the Soviet Union saved 70,000,000 rubles through utilizing labor-saving suggestions made by workers who received bonuses therefor. *Information Bulletin of the Embassy of the U.S.S.R.*, May 28, 1947, p. 24.

laws. It is charged that in some plants overtime in excess of that worked during the War, and amounting to thousands of hours, is required of workers, while in some cases factory managers have cut the workers' proper number of rest days. Management's defense is the need for production and the manpower shortage.[64] This is the type of problem the unions are expected to solve through negotiation with enterprise managements and the higher administrative agencies, although, clearly, a strike cannot be called to remedy the situation as might be the case in our economy.

Vacations

The Soviet Constitution establishes a legal right to "annual vacations with full pay for factory and office workers."[65] Prior to the War the paid vacation period varied from two to eight weeks. The longest vacations, six weeks to two months, were received by teachers, scientific workers, actors, and persons working in the Far North. Persons in occupations injurious to health received two weeks in addition to the normal two weeks to a month for other workers. Vacation pay was drawn in advance of the vacation period and was based on average earnings including bonuses for exceeding production norms.

The exigencies of the War caused the suspension of vacation rights during the war period. However, in lieu of paid vacations, workers were given special state promissory notes bearing 3 per cent interest and equaling the vacation pay they would have received if normal vacations had been possible. The repayment privileges on these notes provided that no more than one quarter of the total amount owed to any individual worker could be collected by him in any one year. In April, 1947, the first one-quarter payment became due and was paid through the savings banks. At that time it was estimated that the individual amounts due ranged from two to four months' earnings for industrial workers.[66] In effect, vacation pay had been loaned to the state during the War.

In July, 1945, the government decreed that rights to paid vacations were restored.[67] It was estimated that in 1947 some thirty million workers would receive paid vacations and that one-tenth of these vacationers could be accommodated at rest homes, mountain hotels, tourist camps, and country bungalows maintained by various enterprises, institutions, and unions.[68]

Wages

The chief emphasis in the soviet wage system is upon payment in accordance with productivity. Complicated sets of wage differentials are

[64] See Drew Middleton, New York *Times*, February 8, 1947.
[65] Art. 119.
[66] *Information Bulletin of the Embassy of the U.S.S.R.*, April 27, 1947.
[67] *Ibid.*, July 25, 1945.
[68] *Ibid.*, May 14, 1947.

established to induce individuals to acquire the highest possible skill and devote maximum energy and care to the performance of their tasks. In this principle the soviet wage system resembles our own. In two respects it differs. One difference arises from the fact that in the soviet economy a worker's earnings are spent under conditions of much greater scarcity of consumers' goods than prevails in the United States. Hence, after spending as much of his income as he cares to for goods actually purchasable in state, cooperative, and factory stores at relatively low state-fixed uniform prices, an individual may find that there is no further use for the remainder of his income unless he is willing to spend it in a collective farm market where very high uncontrolled prices prevail or in some other market where, legally or illegally, very high prices prevail. This means that as one goes up the scale of differentials in earnings the differentials become progressively weaker as incentives to acquire skill and work hard, unless, perchance, the individual places an exceptionally high premium upon saving. This situation is somewhat like that prevailing in our country under war-time rationing and "black markets."

Another difference arises out of the fact that the Soviet Union has undertaken important measures to achieve the communistic goal of awarding income in accordance with need. Hence, in the United States a larger percentage of the individual's total consumption is purchased with his individual wage than is the case in the Soviet Union. This, again, weakens the wage incentive in the Soviet Union as compared with the United States. For instance, in the Soviet Union no contribution to the social insurance fund is made by the individual. Housing rental may run about five per cent of a worker's wage as compared with 20 to 25 per cent in the United States, the remainder of the cost of housing being met by the government and industry on a communal basis. Medical and hospital care are paid for largely from public funds as are important portions of recreational, cultural, and educational facilities. In a pre-war year, for instance, the total amounts spent by the government for education and health amounted to 14 per cent of the total wage and salary payments in the Soviet Union.[69] Passenger transportation is generally cheaper than in the United States because of government subsidies. While it is impossible to indicate the over-all percentage importance, relative to his wage, of these items of communal consumption enjoyed by the individual, their importance is unquestioned and, when coupled with the shortages of consumers' goods, weakens the incentive aspect of wage differentials as compared with our wage system. Nevertheless, wage differentials are by far the most important labor incentive in the soviet economy.

The wage budget for each segment of the national economy is fixed, along with production quotas and other phases of the economic plan, by the State Planning Commission and the Council of People's Ministers. The

[69] Abram Bergson, *The Structure of Soviet Wages*, p. 32.

central agencies of the trade unions act in an advisory capacity in dividing these wage budgets into allotments of wage funds for each individual Ministry and the various industries under it. The scales of job rates for each plant, as a part of the collective labor contract applying to that plant, are worked out by management in consultation with the local union wage committee. While this committee may influence the details of the plant's wage structure, its basic principles and general pattern are set by the higher administrative agencies as indicated in the following description of the types of wage and salary rates prevailing in the soviet economy.[70]

1. *Time-Work Rates.* These are comparable to straight hourly rates in American industry. They are related to the demands the job makes upon the worker in terms of skill, training, close attention, and effort. Time rates are used where performance standards cannot be set in terms of either quantity or quality of output. At present not more than one-quarter of the production workers in industrial plants are paid simple time rates. At least three-quarters are paid on the basis of some piece-rate or bonus scale.[71]

2. *Time-Work Rates Supplemented by Bonuses.* This type of rate is used where no absolute norm can be set for quantity of output and yet the worker can exercise some influence over the quality of his output or the speed of his machine. In such cases a bonus is paid for exceeding a specified output over a period of time, for avoiding excessive spoilage of material, or meeting some other quality standard. The specified bonus for the stated performance in some cases amounts to as much as 30 per cent of the base time rate. Bonuses of this type sometimes are paid for saving electric power, fuel, or raw materials.

3. *Direct Piece-Work Rates.* These are like the straight piece rates used by American industries. A rate per unit of output is set for each job. A drill press operation, for instance, may carry a rate of so many rubles per hundred parts drilled. The rate remains constant regardless of the quantity of the individual's output and may yield substantial variations in earnings to workers performing the same kind of task. Managers of enterprises have the unlimited right to institute direct piece-work rates wherever they choose through their plants, but rates must be set so as to yield the average worker earnings considered normal for his grade of job.

4. *Progressive Piece-Work Rates.* These correspond roughly to incentive wage systems used in many American industries. A norm, or standard quantity of output for a two-week or one-month period, is set for each job or operation, and a rate per piece is specified for fulfilling the norm in that time. Workers who fall below the norm also are paid this

[70] It is quite customary for women to be employed along with men in "heavy" jobs. In all such cases they receive equal pay for equal work.

[71] Based upon statement by Alexander Baykov, *The Development of the Soviet Economic System*, p. 339.

rate per piece, but if a worker falls below the norm for causes beyond his control he is guaranteed two-thirds of what he would have earned if he had produced the norm. If a worker exceeds the norm by at least 10 per cent, the rate per piece for all output between the norm and 10 per cent above it is increased. The rate per piece is further increased for production which exceeds 10 per cent above the norm. For instance, it was reported that in the machine building industry the piece rate increases by 30 per cent for product in excess of the norm, as soon as the worker attains 10 per cent over the norm, and increases by 50 per cent for production in excess of 10 per cent over the norm. In some industries piece rates are reported to increase by as much as 300 per cent when specified outputs in excess of norm are attained.[72] There are standard scales of progressive rate increases established for whole industries by the Ministries, but the norms are usually set separately for each local plant. Clearly, progressive piece-work rates put tremendous pressure on the individual to increase his output per unit of time. Progressive piece-rates were used in some industries before the War and their use was greatly extended during the War. At present they constitute the basic system of wage rates in such industries as coal, construction, iron, steel, and cotton textiles. Since a manipulation of progressive piece-work rates can be a potent factor affecting productivity, since their application to specific tasks involves highly technical time-study and other administrative matters, and since they affect wage budgets, their use is centrally controlled. A plant director cannot institute this type of rate system without permission from a superior body, usually the Ministry.[73] As output per worker increases it is to be expected that the norms beyond which the piece rates progressively increase will be raised in the interest of reducing unit costs and pressing the individual to increase his production. When the eight-hour day was instituted at the beginning of the war, a government decree increased norms so that weekly take-home pay would remain at about the pre-war level. Early in 1947 it was announced that norms would be raised, by as much as 100 per cent in some cases, and on the average by 20 to 25 per cent, to boost production and especially to put pressure on "lower-graded workers" who are content merely to attain their norms and receive their base pay therefor.[74] During the War more jobs were brought within the scope of this type of wage rate and increased central control was exercised over its use in industry. These trends undoubtedly will continue.

5. *Salaries of Engineers and Technicians.* These are fixed monthly salaries scaled in accordance with the importance of the post occupied.

[72] *Information Bulletin of the Embassy of the U.S.S.R.*, May 22, 1945, p. 7.

[73] A. E. Pasherstnik, "Problems of Legal Wage Regulation in Wartime," *The American Review on the Soviet Union*, May, 1946, p. 64. See this article for an explanation of the numerous details connected with the use of this type of rate.

[74] New York *Times*, February 24, 1947 and March 2, 1947. For further discussion of the relation of norms to increasing productivity see Maurice Dobb, *Soviet Planning and Labor*, pp. 82-88.

However, supplementary bonuses are paid for fulfilling and exceeding production plans. Office personnel in industrial enterprises also usually receive fixed salaries dependent upon the quality of the labor and highly standardized by central administrative agencies. Teachers, physicians, and other professional personnel receive additions to their base salaries for meeting certain educational and experience qualifications.

6. *Salaries of Managers of Enterprises.* These are on a monthly basis and are fixed in accordance with the qualifications of the encumbent and the responsibilities of the post. However, to afford incentive for efficiency, plant managers receive bonuses when their plants exceed production plans. These bonuses are large, in some cases amounting to as much as 100 per cent of salary for exceeding monthly planned production by 5 per cent, and as much as 200 per cent for exceeding the production quota by some specified greater amount. Managers also are given some special priorities as, for instance, in the allotment of housing facilities. Foremen are on time rates but receive bonuses when production in their respective departments exceeds the planned quota.

While, for reasons given above, the real significance of differences in money earnings decreases progressively as earnings increase, the actual differences in terms of rubles are very substantial. Roughly, ordinary production workers receive about twice the minimum wage in a plant, the latter being the wage paid for the most common or menial tasks. Skilled workers' earnings may reach three times the ordinary production workers' wage, while very highly skilled workers and technicians may reach twice the wage of skilled workers. Thus the ratio of earnings of the better paid industrial workers to the earnings of lowest grades is about 6 to 1. This ratio is no less than, and may even exceed, the comparable ratio for industrial wage earners in the United States. The "Stakhanov movement" doubtless has increased the spread of earnings differentials even more than this. "Stakhanov workers," taking their name from the reputed originator of the movement, utilize the most advanced techniques and machines and develop the greatest skill in their productive operations. They generally surpass substantially the normal production quotas set for a given job and receive in addition to normal wages premiums of 100 per cent or more for thus demonstrating the level to which individual production may rise.[75]

Supplementary Labor Incentives

Chief reliance is placed upon incentive wage scales to evoke the greatest possible amount of human effort. However, supplementary to these are certain non-wage incentives which fall into two categories—economic and

[75] For a further discussion of differentials in earnings and recent changes therein, see Abram Bergson, *The Structure of Soviet Wages*, pp. 152-153. Mr. Bergson emphasizes the relationship between supply and demand factors and wage differentials. He concludes that the distribution of workers among employments tends to be such as to make relative money wages correspond to relative productivities.

non-economic. The wide range of economic incentives lying outside the wage structure includes chiefly the offering of much-desired consumers' goods as prizes in various forms of production contests. In some cases these prizes are in terms of rubles. For illustration, some years ago 400,000 rubles were set aside to be awarded in All-Union contests to the village and city soviets which proved their superiority in: (1) high harvest yields; (2) best livestock breeding; (3) the organization of cultural and social services; (4) renovating old houses.[76] In another case, 50 automobiles, 25 motorcycles, 500 bicycles, and over 1000 smaller gifts were awarded as prizes to coal miners who had exceeded certain norms of production.[77] In other cases, the best apartments, special vacations, trips to Moscow, and tickets to theatres are used as premiums to induce special efforts. The soviet press carries accounts of awards of "Stalin Prizes." These have been awarded on four occasions since they were established in 1939.[78] Some were for technological inventions and contriving new and speedier methods of production. In some instances the prizes amounted to 200,000 rubles, the equivalent of possibly ten to twelve years' earnings of a skilled industrial worker.

A non-economic award for unusual achievement in production generally is membership in an "Order" or permission to use some honored title. The best known, ranked in the order of their importance, are: Order of Lenin; Order of the Red Banner of Labor; Badge of Honor.[79] In some cases awards which appear to be non-economic carry certain privileges of economic significance. Awards such as these listed above may gain for their possessors supplementary wages paid in rubles, certain tax exemptions, reduction of house rent by 10 to 50 per cent, free use of street cars, or especially generous privileges under the social insurance system.[80] While these economic and non-economic supplementary incentives are used more comprehensively in the soviet economy than they are in ours, there is no indication that they are regarded as substitutes for the many wage incentives which are, and for a long time will remain, basic.

Labor Discipline

During the course of its industrialization the economy of the Soviet Union has had to absorb millions of ignorant peasants into factory jobs. Many of them were drawn from the most primitive and backward rural regions and had to be taught to read and write before they could be trained to handle complex industrial machinery; their psychology and morale

[76] Moscow *News*, February 26, 1936.

[77] *Ibid.*, January 22, 1936.

[78] *Information Bulletin of the Embassy of the U.S.S.R.*, February 7, 1946, pp. 5–6; July 9, 1947, pp. 1–5.

[79] Abram Bergson, *The Structure of Soviet Wages*, pp. 47–48.

[80] See M. T. Florinsky, *Toward an Understanding of the U.S.S.R.*, p. 197; Abram Bergson, *The Structure of Soviet Wages*, pp. 47–48.

were those of the agricultural peasant. To adapt them to factory work required the overcoming of many obstacles. One of the most difficult tasks has been the development of labor discipline adequate to the requirements of large-scale mechanized plants.

Labor turnover, absenteeism, tardiness, and loafing were serious problems during the decade of the 1930's and remain serious in the post-war period. The general shortage of factory labor, plus the scarcity of consumers' goods and the unevenness with which various localities have been supplied with goods, has caused workers constantly to seek and try out new forms of employment and new enterprises. With "full employment" prevailing the worker has been able to find a job almost anywhere and normally he shopped around for the best, looking for better wages or working conditions, better housing, or more adequately stocked stores. Labor turnover was high, absenteeism and tardiness were very common, and workers resorted to questionable practices to better their claims to such privileges, as vacations and maternity leaves with pay. In many cases managers have been tolerant of these conditions, sometimes conniving with employees in these practices so as to induce them to stay in, or come to, a particular plant faced with a labor shortage.

Beginning with the late 1930's and continuing throughout the War and immediate post-war period, the government has sought to deal with these derelictions by harsh means. Lateness of three times in one month or four times in two consecutive months was made punishable by dismissal, and dismissal carries with it the loss of living quarters—an exceedingly scarce article. Absenteeism was made punishable by not over six months of "corrective labor," usually at the regular place of work, and a wage deduction of 25 per cent for six months. Reasons for dismissal are recorded in the employee's workbook which is subject to examination by another enterprise before hiring. Before the War, eleven months' service in the *same* enterprise became a prerequisite to a paid vacation. Social insurance benefits were scaled according to length of employment in the same establishment. Paid maternity leaves were linked to a seven-month employment in the same plant. Plant managers who did not enforce these measures were made subject to prison sentences of from six months to three years. In cases of deliberate violation of shop rules, the customary penalties have been: a reprimand for the first offense; for the second offense, a trial before a "court" of one's fellow workers who attempt to get compliance with rules; for continued dereliction, a trial in a government court and, if guilt is proved, a maximum fine of 25 per cent of wages for four months.

Beginning with 1940, new decrees attempted to bind the worker more closely to his job. The Commissariats (now Ministries) were given power "to transfer workers and technicians from one enterprise to another."[81] Voluntary quitting was forbidden to "all workers and employees in state,

[81] Maurice Dobb, *Soviet Planning and Labor*, p. 99.

cooperative, and social enterprises and institutions." Permission to leave one's employment had to be obtained from the head of the enterprise and managers were prohibited from employing new workers whose workbooks did not indicate a proper separation from the last previous employment. While a manager was required to grant requests to leave employment in case of illness, admission to a school, or old age, in other cases he was free to refuse if the loss of an employee would hamper the work of his enterprise. Illegally leaving one's job was made punishable by prison sentence. Apparently these measures have been far from completely successful. Labor turnover is still high. A soviet official, referring to conditions in 1946, described labor turnover in the Leningrad plants as "very great." In one agricultural machinery plant, during the first nine months of 1946, for every 100 workers hired 88.9 per cent were released, while in the machine tool and instrument plants the figure was 118.5 per cent.[82] American industrial managers would consider such turnover rates as intolerable.

Social Insurance

One of the chief functions of the trade unions is the administration of the social insurance funds. While there is no system of unemployment insurance, portions of the workers in state industries are protected by old age, death, and disability insurance. Although the need for unemployment insurance is denied on the ground that unemployment does not and will not exist in the Union's socialized economy, the need for protection against old age, death, and disability apparently is recognized as the inevitable accompaniment of increasing industrialization and specialization. Protection against disability includes not only sickness and accident benefits, but access to rest homes and sanatoria provided from the insurance funds. While the members of collective farms and producers' cooperatives do not benefit from the Union's social insurance schemes, they have set up their own local systems which are referred to as "mutual aid funds."

The social insurance funds provide rather liberal benefits for those who are covered. Men who reach the age of 60, and have been wage earners for 25 years, draw pensions of 50 to 60 per cent of their previous earnings. Women are entitled to similar pensions at age 55, if they have worked 20 years. The pension age is reduced to 50 years and the qualifying period of service is reduced to 20 years for men engaged in occupations considered hazardous to health. In case of inability to work due to illness or accident, the benefit is from 50 to 100 per cent of average earnings, depending upon the period of employment. A trade union member receives twice the amount of disability benefit received by a non-member in an equivalent situation. These benefits begin with the first day of disability and run until recovery is complete or until the individual is classified as an invalid. In

[82] New York *Times*, January 3, 1947.

the latter case, for men, a work period of from four to ten years, depending upon age, is required to qualify for invalid pensions varying from 33 to 70 per cent of wages, according to the degree of disability and the period of service as a worker. Where disability has been caused by industrial accident or occupational disease, the benefit is 100 per cent of wages regardless of the length of service in industry. If a worker for health reasons is transferred to lighter work at a lower wage, the difference in wages is paid him from the social insurance fund. The trade union employs a physician to assist in the administration of disability benefits. Death benefits provide for funeral expenses and payments to needy survivors, the amounts depending upon the worker's service record in industry. In some cases persons who have been awarded honors for special contributions to production draw increased pensions. The cost of maternity leaves and benefits, mother's assistance, summer health camps, and aid for widowed and unmarried mothers is met from the social insurance funds. While the benefits appear liberal, there are many categories of workers in the Soviet Union who are ineligible, and, within the eligible categories, there are many who as yet do not have the qualifications entitling them to benefits.

The costs of these forms of social insurance are met by a percentage levy upon the payrolls of state industries. These collections are paid into the State Bank where they are held in the custody of the Department of State Insurance which operates under the Ministry of Finance. The disbursement of these funds through the payment of benefits is handled by the trade unions at the factory level. Many thousands of union officials and committees throughout the Soviet Union are in direct charge of the distribution of benefits and are thus obligated to protect the funds against illegitimate claims.

QUESTIONS FOR CLASS DISCUSSION

1. Why does the soviet economy need banks?
2. Differentiate between the manner in which an enterprise gets its original credits in the State Bank and the manner in which it gets subsequent credits there.
3. In what sense does the State Bank possess a continuous audit of the affairs of each economic unit? By whom is this audit used?
4. Is it not inconsistent to call the economy of the Soviet Union a socialized economy when the economic units in that economy can and do make profits?
5. Differentiate between planned and unplanned profits.
6. Does long-term credit come from the same sources in the soviet economy as it does in our economy?
7. What functions does a savings bank perform in the soviet economy?
8. How has retail marketing in the Soviet Union changed in recent years?
9. How do state stores differ from cooperative stores?
10. What functions do the collective farm markets perform?
11. How are retail prices fixed in the Soviet Union? Why are they said to be partially arbitrary in nature?

12. Explain the purposes of the monetary reform and related measures in December, 1947. Were these purposes achieved?
13. What functions are there for trade unions to perform in the soviet economy?
14. What is the significance of the fact that the trade unions are dominated by the Communist party?
15. How do collective labor contracts in the soviet economy differ from contracts arrived at by "collective bargaining" in our economy?
16. To what extent do the incentives which motivate employees to work in the soviet economy differ from those in our economy?
17. What labor disciplinary measures have been taken in the Soviet Union in recent years? Why were they necessary?

Chapter 25

ECONOMIC PLANNING; THE STATE BUDGET

PLANNING[1]

WHEN the Bolshevik party found itself in control of the government of Russia, it faced the alternatives of chaos or plan. The former governmental controls had been abrogated, and those who had guided production on the basis of costs and prices were driven into exile or liquidated. In short, the new régime possessed the power to make political *and economic* decisions. No less in the economic sphere than in the political, the possession of this power was tantamount to the obligation to use it. Indeed, "it was either plan or perish."[2]

Although the new government of Russia chose planning in preference to chaos, the beginnings of economic planning were inefficient, fitful, and disorganized. The leaders faced the problem of completely reconstructing the economic life of the nation which had been disrupted by the First World War, the Revolution, and the succeeding period of "war communism." In 1920, while planning agencies as such had not yet been finally established, a "state electrification plan" (Goelro) was drawn up. This plan set forth a general industrial reorganization program for the ensuing ten to fifteen years, based upon the development of some thirty large-scale sources of electric power.

In 1921, the State Planning Commission was set up by the government. Its first efforts were devoted exclusively to the critical and advisory consideration of plans and production schedules constructed by other economic agencies of the new government. The Commission's efforts gradually assumed a more comprehensive form, culminating in an "All-Union Plan" for the fiscal year 1925–1926. This plan included "control figures," or production schedules, for every major line of industry in the Soviet Union. The first effort at the comprehensive coordination of the specific

[1] Although this chapter refers to the economy of the Soviet Union as a planned economy, a question is later raised as to the legitimacy of considering it a "truly planned system" or a planned economic system "in the full sense of the term." See p. 577.

[2] A. R. Williams, *The Soviets*, Harcourt, New York, 1937, p. 146.

plans of many separate economic units was seriously limited, not only by a lack of experience and skill on the part of the planners, but also by the "New Economic Policy" of the government adopted in 1921. This policy temporarily favored private trade and therefore encouraged developments quite inconsistent with comprehensive planning. However, for the first time, each basic industry possessed a program approved by a central agency of the government and more or less precisely coordinated with the programs of other industries.

These efforts disclosed the vital need for similarly comprehensive, authoritative, and yet detailed plans to cover longer periods of time. Many of the specific projects planned could not be executed within one or even two years. Accordingly the State Planning Commission, with its subordinate and cooperating facilities, prepared what has become known as the "First Five-Year Plan." As drawn up by the Commission, it was to control the economic activities of the nation from October 1, 1928, to September 30, 1933. However, with the slogan "The Five-Year Plan in Four," it was brought to a conclusion on December 31, 1932. Meanwhile, the second Five-Year Plan had been constructed and was in force for the period from January 1, 1933, to December 31, 1937. The third Five-Year Plan covered the period from January 1, 1938, to December 31, 1942. Before its conclusion the War had started and the economy had been converted to a war basis. During the War the normal processes of economic planning apparently were suspended, although doubtless most of the planning techniques and agencies continued in use. On March 18, 1946, the Supreme Soviet of the U.S.S.R. adopted "The Law on the Five-Year Plan for the Restoration and Development of the National Economy of the U.S.S.R. for 1946–1950." This is known as the fourth Five-Year Plan.

General Features of Planning

All economic planning in the Soviet Union is based on the social or governmental ownership of all natural resources and large-scale industrial equipment. Even in those cases where the title to land has been transferred "in perpetuity" to collective farms, or where cooperative organizations of workers "own" an industrial enterprise, a still more basic title to these producers' goods resides in the ubiquitous state. This means, in short, that the planning and the owning agencies are the same, or, to be more precise, are extensions of the same sovereign body. This condition, the first requisite to effective economic planning, definitely prevails in the Soviet Union.[3]

[3] The nature of this relationship between the social ownership of industry and economic planning is fully comprehended by the leaders of the Soviet Union. Molotov made the following comment on this point at a Party Congress held in 1939: "Capitalism, including fascist capitalism, is powerless to counter our planned economy with anything of equal value. Capitalism with its private ownership, including capitalism in its fascist guise, is fundamentally incompatible with economic planning. Hence, at a time when a plan in national economy has already manifested its miraculous power, capitalism has turned definitely into a survival of history, into a brake on history, into a reactionary phenomenon of our times." Moscow *News*, March 22, 1939.

Economic planning in the soviet economy neither implies a willingness to accept the totality of the results of the decisions of separate economic units and then call this a "plan," nor proceeds by projecting existing trends into the future and then developing the details of the plan around these. The former idea of planning is often held by the promulgator of "economic plans" in a capitalistic economy. This may be called the "genetic" approach to economic planning. Planners under capitalism sometimes contend that an economic bureau should estimate what the totality of the decisions of the individual and competing enterprises in the economy will be, or what it ought to be if each enterprise were to follow its profit interests. This then becomes the plan, either because it is about what *will* happen, or because some effort is made *to get it to happen* by reporting these comprehensive findings back to the individual enterprises. Clearly, this is "economic forecasting," not economic planning in any real sense of the term.

Nor does soviet planning consist of pushing trend lines into the future and then labeling them "economic plans." Regardless of whether the student of soviet planning concludes that it has been a success or a failure, he must admit that its essence is the choosing of comprehensive goals (which are not merely projected trends) and the apportioning to the separate economic units of the specific tasks involved in achieving these goals. This has been called the "teleological" or "purposive" approach to planning. While it is true, of course, that the setting of comprehensive goals must be related to such things as the quantities and qualities of resources, the amounts and kinds of machinery possessed, the status of the technique of production, and the quantity and capacities of labor, soviet planning has, nevertheless, proceeded by the periodic adoption of goals which in no sense are arbitrary projections of past trends of production. In the teleological planning of the Soviet Union the plan becomes the substitute for markets, and relatively free movement of prices thereon, as these exist in a capitalist economy.[4] This distinction between the genetic and the teleological approaches to planning is fundamental to an understanding of the functioning of a planned economy as exemplified by that of the Soviet Union.

Although the term economic planning denotes a restricted scope of plans, this cannot be true in the soviet economy. In addition to production schedules, plans for capital investment, plans for domestic and foreign trade, financial plans, and taxation plans, the Five-Year Plans have included programs for public health, education, recreation, and a great variety of primarily non-economic social and cultural phases of the nation's life. Hence the expression "social-economic planning" rather than merely "economic planning" is used in the Soviet Union. Since all cultural, educational, health, and similar activities both require economic goods for their prosecution and partially determine the productivity of workers,

[4] Maurice Dobb, *Soviet Economy and the War*, p. 86.

they have a double relation to economic planning. To neglect them would be to disregard sectors of the nation's life within which unplanned developments well might throw planned portions of the economy sadly out of balance.[5] It is obvious, of course, that such activities as the development of military equipment and personnel, the construction of heavy fixed capital, and major topographical modifications such as canals have had to be included within the scope of economic plans. In fact, ever since planning was initiated, these items have accounted for very substantial portions of the planned production schedules.

The State Planning Commission (Gosplan)

The State Planning Commission, the Soviet Union's highest and most authoritative body specializing in planning, is a subsidiary of the Council of People's Ministers, which is the executive cabinet of the government. The Commission consists of 70 members and a chairman, appointed by the Council of People's Ministers. Its staff numbers over one thousand persons, about half of whom are technical experts.

The Commission has a number of divisions. Each department charged with the drawing of specific plans coincides with some definite sector of the economy or the social or cultural life of the nation. Thus, to illustrate, there are separate departments for foreign trade, mining, fuel, transportation, machine-building, health, science, education, art, and so on. Other departments are responsible for synthesizing and balancing the plans. The Commission maintains its own publishing bureau, it has close connections with the "Central Administration of National Accounting" with its thousands of statisticians and clerks, and it operates the "Molotov All-Union Academy of Planning" for the training of its present and future personnel in the theory and practice of planning. A monthly "political-economic journal" entitled *Planning*, published by the State Planning Commission, is devoted to a discussion of planning problems. The Commission maintains close contact with, and access to, such scientific organizations as the Academy of Sciences which is attached to the Council of People's Ministers. With its many research institutes, the Academy acts as scientific adviser in the formulation of the Five-Year Plans.

Functional and Regional Subsidiaries of the State Planning Commission

Under the State Planning Commission there spread out fanlike two sets of subsidiary planning agencies. One of these is organized along industrial

[5] This broad conception of planning is reflected in art. 11 of the Soviet Constitution which is as follows: "The economic life of the USSR is determined and directed by the state national economic plan, with the aim of increasing the public wealth, of steadily raising the material and cultural standards of the working people, of consolidating the independence of the USSR and strengthening its defensive capacity."

or functional lines, while the other is regional or geographical in nature. Each Ministry has its own planning department; and each subordinate division under a Ministry, whether it be a trust, enterprise, or other unit, has its planning department. Thus a planning section, board, or committee is attached to each of the factories, stores, collective farms, hospitals, schools, mines, and so on. These are subsidiary to the planning departments or boards of whatever trusts or higher units stand next above them, and these, in turn, are subordinate to the still higher planning bodies, the State Planning Commission being the apex of the pyramid of functional planning agencies. It is reported that the Ministries are becoming increasingly important functional portions of the planning machinery.

From the State Planning Commission there also spreads out an intricate organization of geographically arranged planning bodies. Each republic has its planning commission, and the same is true for each of its divisions. Each community of 20,000 or more people is said to have a planning body. The geographically less extensive bodies are subordinate to the more extensive, until, finally, the State Planning Commission is reached. This Commission is the highest geographical planning agency, just as it is the highest functional planning body. The intricate web of agencies is complicated by the temporary relationships which are constantly being established for specific purposes between functional and geographical planning agencies. Thus, for instance, a proposed housing project in an industrial city would require planning by a municipal planning commission. This agency, however, in handling the task would have to establish relationships with the higher geographical planning bodies (in order to make certain that the project was coordinated with plans for regional development), and with the local functional planning boards of local industries (to ascertain what has been planned for the local industries by way of expansion, contraction, or relocation of plants).

While there are two sets of planning agencies, there are not two plans, nor are there two planning tasks. The functional and the geographical are in reality two different approaches to the same planning problem. The functional agencies consider this task from one point of view and plan to coordinate the functions of the various parts of the economy so that the task is performed. The geographical agencies plan the development of cities and regions for cultural and social as well as industrial purposes. Obviously, since both are comprehensive, the functional planning and the planning of geographical regions must be brought together at some point and coordinated into a single plan which is both functional and geographical. It is in the State Planning Commission that this final step in taken.[6]

[6] For further details of the functional and regional planning agencies see Alexander Baykov, *The Development of the Soviet Economic System*, pp. 429–430.

The Planning Procedure

The planning procedure of the soviet economy rests upon an elaborate and comprehensive statistical base. In the first place, the day-by-day experiences of all economic units are available to the planning bodies. Since these units are extensions of the government of which the planning agencies also are parts, the latter have free access to the experience of the former. The results of a given policy, or the failure to meet a production schedule, are not the secret possessions of the one economic unit concerned. As a part of a socialized economy, each unit operates in a goldfish bowl so far as the planning bodies are concerned. Needless to say, this means that the planners possess a great body of operational experience developed by the various portions of the economy and constituting an invaluable basis for planning.

Moreover, starting particularly with the construction of the second Five-Year Plan, the State Planning Commission has drawn upon the statistical data collected by a large number of agencies and institutions in the Soviet Union. One section of this Commission is the Central Statistical Administration. Through it the Commission can acquire and interpret a mass of statistical data which is gleaned from reports of Ministries of the Union and of the republics, and from reports of trusts, enterprises, state and collective farms, the State Bank, educational and scientific institutions, and many other agencies. The fact that the Commission has hundreds of subordinate agencies scattered throughout the Soviet Union, and therefore is close to the primary sources of these statistical data, enlarge its facilities for not only gathering data but also checking their accuracy. Moreover, as has been noted in an earlier connection, the books of the State Bank contain a continuous audit of the functioning of each economic unit in the Soviet Union. The Commission, of course, has ready access to these accounts. In addition, from time to time it undertakes special statistical studies which it finds essential to its work.

The importance of this statistical base has been described as follows:

> Each economic plan, considered from the general point of view, is a comparison of what is in existence today and what has to be reached by some specified date or dates. To build up a plan, therefore, the most exact possible summary of the existing situation is a necessary prerequisite. The greater the scope and detail of the plan, the broader has to be its statistical basis. Thus a widely developed and centralized statistical organization is one of the essential formal prerequisites to regular planning, as well as to regular checking up of its fulfillment. This necessity usually is not fully appreciated by foreign observers. . . . Thus as planning makes headway, it steadily improves and enlarges the statistical base, making the intricate network of economic forces *measurable* and bringing about what Dr. Alfons Goldschmidt, formerly of Leipzig University, calls complete economic visibility.[7]

[7] Corliss Lamont, ***Socialist Planning in Soviet Russia,*** pamphlet published by the Friends of the Soviet Union.

Starting from this base of experience and statistics, each Five-Year Plan follows a procedure in general fitted to the following pattern:

1. *General goals and objectives are formulated.* The first step in setting a Five-Year Plan on its way is the establishment of the objectives which are to be attained at the conclusion of the plan. While the more comprehensive and politically and socially significant aspects of this problem are decided by the Communist party leaders, the State Planning Commission formulates a tentative draft of the plan for the nation.

2. *The tentative plan is sent out for consideration.* The Commission breaks down the comprehensive goals and objectives into their component parts and sends these to the respective Ministries with instructions concerning the way in which details are to be filled in and the time by which criticisms and counterproposals are to be made to the Commission.

3. *The tentative plan is broken down into its detailed parts and relayed to the smaller and less extensive units.* Eventually the various detailed portions of the tentative plan are received by the specific units to which they apply. Since, in this flow of plans from the Commission outward, the plan is divided up along both functional and geographical lines, each planning body down to the smallest and least significant has before it a proposed plan for the next five years of its existence. In the case of a manufacturing plant, this tentative plan would include the amount and quality of product the plant is expected to turn out, the amount of materials and power which will be supplied to it, and the amount of labor which will be available, together with estimates of the productivity of that labor and its probable living standards.

4. *The tentative plan is considered by each unit and each agency to which it applies.* While the plan for each unit is considered by that unit, and while, in theory, all of the people connected with that unit take active part in discussing the merits of the plan, there is some question as to how free and general these discussions are among the workers. One writer contends that "there exists in the U.S.S.R. a degree of democracy in the determination of economic affairs that is most impressive. It is not just during verbal discussions in factories and trade unions that the workers bring their influence to bear on the planning projects. They write letters to the newspapers, send communications to high government officials, hold mass meetings and what-not."[8] On the other hand, two other investigators report that "so far as we could ascertain, the preparation of plans in each factory is now essentially and primarily a function of the administration. There is no representation in the planning bureau either of the trade unions or the party organization, though the planning bureau may call in representatives of the trade unions and of the party for consultation."[9]

[8] *Ibid.*

[9] L. L. Lorwin and A. Abramson, "The Present Phase of Economic and Social Development in the U.S.S.R.," *International Labor Review,* January 1936, p. 28.

During the late War the trend was toward the situation described by the latter writers rather than the former. Regardless of the details of the procedure, it appears that these plans are in one way or another subjected to considerable critical examination by a great many agencies. However, these discussions center on the details of the production schedules and other minute matters, rather than on general objectives and goals.

5. *Suggestions, criticisms and counterplans are assembled for submission to the State Planning Commission.* As the period for consideration of the plan draws to a close, the various functional and geographical planning agencies begin to assemble the locally determined details and the counter proposals of the factories, farms, stores, hospitals, institutes, and other bodies under them. These are then presented to the next higher planning bodies, and so on up, until the State Planning Commission finally receives from the highest functional and the highest regional planning agencies the completed and assembled suggestions concerning the tentative plan it has sent out. In effect, this is another tentative plan sent "up from the bottom" as a substitute for the one which has come "down from the top." There is little evidence indicating how the former differs from the latter, but it appears that in a good many cases the proposed changes are in the direction of increases in the production schedules.[10]

6. *The State Planning Commission draws the final plan.* Obviously there cannot be two plans; either the original tentative plan of the Commission, or the substitute offered from the bottom, or some compromise between them must become the one single unified plan for the five-year period involved. It appears that the Commission reconsiders its original plan, modifies it where it believes the criticisms and suggestions are valid, and adopts the results as its official report. The prodigiousness of this task cannot be overemphasized. One writer has described the problem of allotting the fund available for industrial and cultural development as follows:

> How shall this be allocated? The labor unions press for a big increase in the insurance funds as well as in wages. Each Commissariat [now Ministry] likewise wants a good slice of it. Each republic puts forward its claim for the development of new railways and mines. Every city and town is clamoring for more schools, buses, sewers, clinics. From these rival claimants and the welter of conflicting interests, rigid selections must be made. Which are absolutely essential and imperative now? Which can be postponed for a year, five years, or a decade? Each claim is considered on its own merits and in the light of its contribution to the weal of the nation as a whole. In the hotly contested debates, out of the endless weighing of pros and cons, the balancing of economic, political, and military considerations, finally emerges the plan.[11]

The last sentence in this quoted paragraph is the most significant. It

[10] See V. V. Obolensky-Ossinsky, "Planning in the Soviet Union," *Foreign Affairs*, April, 1935, p. 458.

[11] A. R. Williams, *The Soviets*, p. 137.

is undoubtedly from a "balancing of economic, political, and military considerations" that the final decisions come. It is at this point, as well as with the prior shaping of the goals and objectives, that the *economic* processes within the Soviet Union receive their most deliberate and forceful shaping to domestic and international *political* ends. *Within* the plan, economic considerations of balance and coordination are uppermost, but the shaping of the *final decisions* of the State Planning Commission is far from being based upon purely economic considerations.

7. *The plan is finally adopted by the party and the government.* The final step in the drawing of the plan is its approval either by an All-Union Party Congress or by the Supreme Soviet of the U.S.S.R., or by both. The absolute control of the party over the government makes it immaterial which form of final approval is actually taken. Moreover, this final step is a mere formality at best, since not only the State Planning Commission but the other planning bodies are completely dominated by the party. It would be inconceivable that a plan ever could be formulated under the supervision of the State Planning Commission, be approved by it, and yet be rejected by either the party or the Supreme Soviet of the U.S.S.R.

8. *The finally adopted plan is subdivided and sent out to the agencies concerned with its execution.* This involves, again, functional and geographical subdivision in accordance with the dual structures of the planning machinery. Ultimately each unit involved possesses an authoritative, detailed, and yet comprehensive blueprint of its planned activities for the ensuing period of five years.

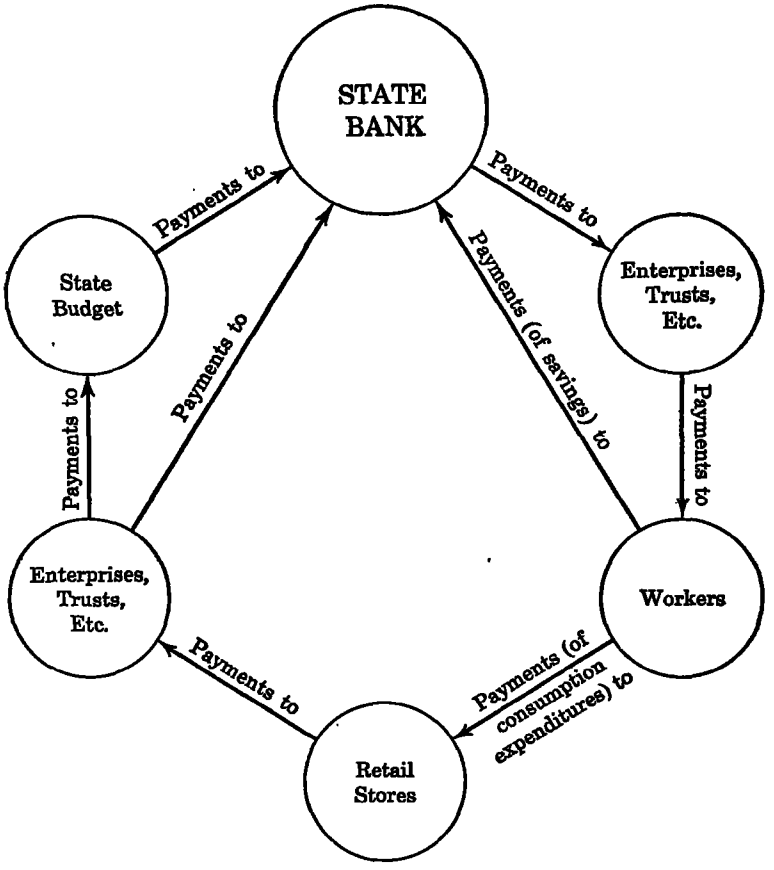
Financial Planning

In addition to the physical aspects of production, the economic plan includes the "financial plan." This has been referred to as "the production plan translated into terms of prices."[12] In effect, it constitutes a planned circuit flow of purchasing power geared to, and correlated with, the flow of goods through the processing and marketing facilities of the economy. The main channels of the circuit flow of funds may be traced as shown in the accompanying chart.[13]

This is not unlike the circuit flow of funds in our economy as portrayed by economists influenced by Keynesian thought. The important differences are two: First, in the soviet economy there is *one* banking institution, rather than many, through which practically *all* funds flow during the completion of each circuit. While some funds pass only from person to person in payment for items of purely private trade and thus miss the State Bank on an occasional circuit, private trade is so insignificant that all funds may be thought of as passing through the State Bank before the completion of

[12] Maurice Dobb, *Soviet Economy and the War*, p. 91.

[13] Based upon Alexander Baykov, *The Development of the Soviet Economic System*, p. 415.



each circuit. In this connection, it should be recalled that the State Bank is the sole credit-granting institution in the country and is the sole agency possessing the power to issue money, i.e., paper currency.

The second difference is that, whereas in our economy some governmental controls over the circuit flow of funds may be imposed at certain points, such as the control over credit policies exercised by our Federal Reserve System, the flow is fundamentally uncontrolled. Whereas in the soviet economy the flow is subject to centralized control at every point, in our economy the ebb and flow of funds at any point in the circuit are determined by relatively free forces of pricing, credit-granting, consumer spending, etc., which arise out of myriads of individual decisions by fairly independent consumers, profit-seekers, landowners, laborers, investors, and so on.

The physical production phases of the economic plan are those first determined. The financial plans are secondary in the sense that they are formulated with the object of so adjusting the circuit flow of purchasing

power as a whole, or at any selected point, as to promote the realization of the physical production plans. Payments of funds and expenditures of funds must balance, prices and wages must be kept correlated if goods are to be moved off markets, and, with all, investments in capital expansion must be correlated with postponed consumption by the masses. All these are aspects of the financial plan which is drawn up for the State Planning Commission by the Economic Planning Administration of the State Bank. The plan, of course, includes specific measures for correlating expenditures and receipts as a whole and at each particular point in the circuit flow, through the issuance or contraction of either credit or currency by the State Bank. The former is referred to as the bank's "credit plan" and the latter as the bank's "cash plan."[14]

Flexibility and Balance

Two problems vitally related to the planning procedure should be studied much more closely than is possible here. These are the problem of keeping plans flexible, and the problem of striking an original balance among all of the interdependent parts of the plan and then maintaining this balance currently as the plan is executed. They may be referred to as the problem of flexibility and the problem of balance.

In a sense these are merely two aspects of the same problem—one which is inherent in comprehensive economic planning. Not only is it absolutely essential that at the beginning of a five-year plan all interrelated portions of the economy be producing coordinated current outputs, but as various interrelated industries and groups of industries are expanded individually, the plans must provide for the coordination of the outputs of such units at every point of time during the period the plan covers. Thus, to illustrate, it is not sufficient to be sure that at the beginning of a five-year plan the coal industry is producing just as much coal but no more than is required to furnish the power necessary for maintaining the current planned production schedules of all the industries using coal. The planners must be sure that their plans for the development of the coal industry and the expansion of other industries are such that, under the plans, there never will come a time, within the period covered, at which the current output of coal will not be just adequate to meet the composite requirements for coal. But it is no less essential, once the plan becomes operative and some one or more parts of the economy currently either overfulfill or underfulfill their planned schedules, that the other portions of the interdependent economy can be adjusted to this departure from the plan.[15]

[14] For further details on financial planning as a phase of economic planning see Alexander Baykov, *The Development of the Soviet Economic System;* Maurice Dobb, *Soviet Planning and Labor.*

[15] The degree of interdependence within the economy is illustrated by the fact that prior to the War the Stalingrad Tractor Works depended upon 283 other enterprises to supply it with parts, while these in turn procured some 50,000 detailed parts from other factories. *Fortune,* July, 1941.

To draw up plans which provide for the balanced expansion of interdependent units involves relatively simple statistical problems. The difficult thing is to create flexibility as an adjunct to planning and to discover and correct unbalanced situations which are created by either underfulfillment or overfulfillment of the individual portions of balanced plans. Two devices have been adopted by the soviet planning agencies to meet these problems: "synthetic indices" and short-range plans included within the five-year plans.

Information concerning the use of synthetic indices is meager. While the need for them and their general function are quite clear, the statistical details of their construction and operation are not available. Apparently the procedure is somewhat as follows: When a five-year plan is formulated, a series of "balances" which should be maintained is also constructed and projected into the future. For instance, the balance between the production of consumers' goods and wage payments, or between the production of construction materials and the expansion of industrial equipment could be put into a planned "synthetic index" stretching out over the planned period. As the plan is carried into effect month by month a current index is kept of the actual relationship between the elements in this balance. Whenever this index departs from the index in the plan, it is clear that the planned balance is not being realized. Unless some adjustment is made on one side or the other of the "balance," an eventual breakdown will occur.

The adjustments which must be made from time to time to preserve balance require that operating plans be flexible. If a "synthetic index" showed that two important interrelated parts of the industrial system were getting out of balance, and if all industrial units concerned insistently refused to deviate from the original plans, nothing could be done but sit back and await the inevitable crash. To avoid such eventualities, the planning procedure provides that each plan is formulated in terms of yearly and even quarterly plans which are subject to continuous revision. The yearly and quarterly plans sometimes are referred to as "operational" in contrast with the five-year "directive" plans. Through such means the soviet planning machinery seeks to keep the economic wheels turning by so shaping the gear teeth that a lack of perfect synchronization will not prevent their meshing.

The Execution of the Plan

Whereas the formulation of economic plans is the special function of the planning bodies, the carrying out of the plans is the task of the entire economy. Every economic unit is expected to work according to the plan. However, even in this aspect of planning, the planning bodies themselves have their own particular function to perform. Distributed as they are,

functionally and geographically, throughout the economy and the nation, they are in particularly advantageous positions for checking up on the degree to which the specific units do or do not carry out plans. Each department of the State Planning Commission is charged with the task of checking on the fulfillment of plans in the industries for which it plans. Each subordinate planning body is required to report to its superior body at frequent intervals concerning the degree to which the plan has been carried out in the unit or units under its supervision.

The Industrial Bank plays a unique part in the execution of the plan, for through it flow all funds allotted to capital development in the national economy. As the administrator of all funds connected with industrial building it is charged with the duty of checking on the fulfillment of the plan so far as capital construction is concerned. Through its widespread branches and offices funds are advanced from time to time to Ministries for capital expenditure, only in proportion to actual completion of construction work as reported by inspectors of the Industrial Bank. This control is designed to prevent the waste of funds or their diversion to uses other than planned construction, the purchase of construction materials at other than governmentally fixed prices, and any other departure from the planned use of investment funds. While each Ministry directly manages the construction work it undertakes, the Industrial Bank "may investigate the building site, estimate the volume and cost of work actually performed, have inventories made of stocks of material and machinery, and examine all books, invoices and other documents." Irregularities discovered are reported to the Ministry concerned or to the government for disciplinary action. The Industrial Bank is "trustee and guardian of the national-economic plan, as far as capital development is concerned."[16]

The general need for attaining flexibility and balance and the devices used to these ends have been described. Several specific types of potential causes of the imperfect carrying out of plans should be noted. These are aside from and independent of the inefficiency in planning that may arise from a lack of skill on the part of the planners or from the sheer enormousness of the task.[17]

One potential cause of failure to carry out plans includes natural catastrophes such as droughts or unseasonable weather. Such phenomena as rainfall and temperature simply cannot be predicted, and yet they play most important parts in determining the yields of crops from which the economy derives its supplies of food and basic raw materials. Plans for milling wheat and baking bread cannot proceed when the wheat is lacking, nor can the textile industry plans be carried out without the expected out-

[16] *Information Bulletin of the Embassy of the U.S.S.R.*, October 27, 1945.

[17] An illustration of imperfect planning due to one or both of these causes was the costly completion of the great Dneprostroy electric power unit long before the industrial plants which were to use its power were ready to operate.

put of cotton, wool, and flax. When sectors of the economy dependent upon nature are unable to follow their planned production schedules, the plans of other portions of the economy must be revised in conformity with the realities of the situation, particularly in the absence of adequate reserves of grains and basic raw materials. Interestingly enough, an unexpected bounty of nature in this respect can play just as much havoc with an economic plan as can failure to play her normal part in production. However, for obvious reasons it is easier to deal with the former type of difficulty than the latter. An illustrative case was the 1946 drought which was the worst in fifty years. It greatly reduced the grain crop and caused serious interference with industrial reconversion plans.

Another type of interference with planning arises from unforeseen and unplanned scientific and mechanical inventions or changes in processes. While it may be true that a socialized economy is in a position to control such developments more readily than can a capitalist economy, this does not mean that they cannot throw even the best plans off balance. A socialized economy need not be expected to refrain from developing a new device or process which becomes possible early in the life of a five-year plan merely to permit the rest of the plan to work itself out undisturbed by this innovation. This is particularly the case in the Soviet Union where specific enterprises feel pressure to exceed their plans and thus make "profits," and where wage scales contain incentive differentials.

An interesting case of this type of difficulty developed during the course of the second Five-Year Plan. To a coal-miner named Stakanov is attributed the development of certain innovations in the handling of mining tools which materially increased the output in his section of the mine. His methods spread to other portions of the mining industry and were accepted by and adapted to other types of enterprises as well. In various lines of industry these changes caused actual production to get out of line with planned schedules, thus disturbing certain planned balances and necessitating revisions of plans. The government lent its hand to the spread of these methods for two reasons; first, because they resulted in increased output; and second, because, if the methods and the results thereof could be extended throughout industry, there were some possibilities of the consequences in one sector of industry automatically matching the consequences in another, thus preserving planned balances despite changes in absolute quantities of output. Beginning with the late pre-war years, the economic plan included scheduled technological changes in various industries. This constitutes an attempt to encompass within the planned sphere as much scientific development as possible.

Still another force upsetting economic plans may be the sudden need (or a sudden realization of the need) for an expansion of military equipment and personnel. Should this occur in the midst of a five-year plan, the resultant shift of industrial equipment and labor from their planned

occupations to the production of military supplies and to the Army and Navy would create numerous problems of adjustment and revision of plans.[18] Certain problems that developed during the last year of the first Five-Year Plan, when the Soviet Union suddenly decided that there was a Japanese threat to Siberia, and during the second and third Five-Year Plans, when conditions were disturbed throughout Europe, were attributed to just such circumstances. Of course, thoroughgoing socialists argue that this type of imperfection in planning could not exist if all the nations of the world had socialized economies. Regardless of the merits of their contention, military preparedness and active participation in war have constituted real obstacles to effective economic planning in the Soviet Union.

Improvement of Planning

Soviet economic planning techniques and procedures are far from perfected and are in a constant state of flux. There is experimentation, with rejection of techniques which do not work and acceptance of those that do. The essence of economic planning is the maintenance of balance and coordination over periods of time. It is in just this area that our information about economic planning in the Soviet Union is most deficient. It is known that goals for specific industries and segments of the economy often are overfulfilled or underfulfilled by wide margins. One critic of soviet planning holds that "the principle of equilibrium . . . has been neglected in the practice of planning until now, leaving a most dangerous gap in the soviet economy." He concludes that "an equilibrium in soviet economy was not and is not realized, nor is soviet planning carried on according to any specific planning theory."[19]

This critic argues that although, in this socialist economy, "the lack of economic equilibrium does not result in a crisis of production and in unemployment, but remains hidden . . . the economic losses accompanying this state of affairs constitute an important defect in the system."[20]

While it is impossible to evaluate this criticism, it is true that the problem of balance and coordination will increase in importance as the national product increases, living standards rise, and a larger portion of each family's consumption is in the non-necessity categories where tastes are fickle and demands may shift quickly and materially. If the problem of balance is serious now it may become acute in the future.

Meanwhile the government proceeds with its attempts to improve planning procedure and administration. In late 1946, a special planning agency for science was established to cope with the problem of relating

[18] It even may require a tightening of the planning procedures. In February, 1941, for instance, the soviet government issued a decree making it a criminal offense to sell or exchange machinery, tools, materials, or goods as between industrial enterprises without the approval of the proper authorities. *Foreign Commerce Weekly*, January 31, 1942.

[19] W. W. Leontief, Sr., *The Russian Review*, Autumn, 1946, p. 33.

[20] *Ibid.*, p. 34.

economic planning and scientific progress.[21] Beginning with 1947, the Ministries were ordered to assume greater responsibility for quarterly production plans in order to improve the quality of the "operational" plans. A new body within the State Planning Commission was announced to check systematically the fulfillment of the Five-Year Plan by the Ministries. More careful attention is to be given to "drafting collated plans for industrial production and correlating the production of various industries." The purpose is said to be to "link" the various branches of production more firmly and to increase the planned development of scientific and technological processes that contribute to industrial production."[22] Apparently the planning problems for the future are those of inter-industry balance and technological progress.

The Four Five-Year Plans

Three Five-Year Plans (1928–1932, 1932–1937, and 1937–1942) have been formulated and completed (not necessarily fulfilled) in the Soviet Union, and the fourth Five-Year Plan has been undertaken for the years 1946–1950. The first Five-Year Plan was designed to create the base upon which a socialized industrial economy could be built. It therefore emphasized the building of heavy equipment, the development of sources of electric power, some collectivization and mechanization of agriculture, the development of new economic regions, and the substantial reduction of illiteracy.

The second Five-Year Plan laid somewhat more stress upon expanding the output of consumers' goods, although it also called for a continuation of the development of basic equipment. It reflected the desire to shift some industrial activity farther to the east, and to extend industry into rural regions. Under it the mechanization of agriculture was to be carried further, the collectivization of agriculture was to be completed and consolidated, and the liquidation of private ownership of means of production was to be completed. Class distinctions, especially those between city workers and peasants, were to be eliminated.

While the first Five-Year Plan was completed at the end of four and one-quarter instead of the allotted five years, and the second Five-Year Plan was completed on schedule, there is much difference of opinion as to the degree to which these plans actually were fulfilled. Soviet officials contend that for practical purposes in both cases the objectives were attained. Apparently, however, this refers to an average for the entire plan, parts of which admittedly were underfulfilled while others were overfulfilled. There were serious failures to achieve production goals in certain important sections of the economy. For instance, during the second Five-Year Plan it was planned to increase the production of oil by 110 per cent over that in 1932. At the end of the period covered by the Plan the increase

[21] New York *Times*, December 24 and 26, 1946.
[22] *Ibid.*, December 26, 1946.

was only 37 per cent. Pig iron was to be increased 160 per cent but there was an increase of only 134 per cent; tractors increased only 59 per cent as compared with a planned 75 per cent; locomotives, 91 per cent, as against a planned 238 per cent; and wool fabrics, 17 per cent, instead of the expected 141 per cent. On the other hand, steel production increased 200 per cent, rather than 189 per cent as planned; and machine tools 223 per cent, instead of 167 per cent; rolled steel and trucks just reached their planned increases of 203 per cent and 737 per cent respectively.[23]

While an analysis of what fulfillment of the plan means would lead into a number of theoretical problems which cannot be treated here, it should be noted that failure to achieve perfectly each of the portions of a plan does not prove that planning has been a failure. In the first place, it is entirely possible that, even though a plan may not have been fulfilled perfectly, a better balance nevertheless may have been preserved among the interdependent parts of the system than would have existed if there had been no planning. Also, failure to fulfill certain portions of the plan can be allowed for when a new plan is begun. The second and third Five-Year Plans were formulated to begin where the first and second Plans respectively stopped. Each plan is built upon what has been accomplished under the preceding plan, rather than on what was planned to be accomplished. In fact, there is a restarting of this nature annually and quarterly as old plans are revised in accordance with annual and quarterly achievements.

The outlines of the third Five-Year Plan were not announced until well after time for it to have started. In discussing its objectives Premier Molotov claimed that, with the completion of the second Five-Year Plan, "the fundamental historical task of the plan has been solved—namely, all exploiting classes have been completely liquidated and the causes giving rise to exploitation of man by man have been destroyed. . . . The first phase of communism—socialism—has been realized." The third Five-Year Plan was to see the "completion of the construction of a classless Socialist society and the gradual transition from socialism to communism."[24] Under this plan the Soviet Union was to overtake and surpass the per capita production of the capitalist nations. However, in the production schedules consumers' goods still took second place to the production of industrial equipment, the former being planned to increase 11.5 per cent annually and the latter 15.7 per cent. Machine building, chemical plants, armament, and power plants were to be stressed. Total production was to increase, by 1942, to 38 per cent more than it had been in 1937. However, the planned *rate* of annual increase in production was somewhat lower than it had been under the other plans. This could be attributed to a variety of causes,

[23] For a table showing the percentages for other industries and comparable percentages for the first Five-Year Plan see *Fortune*, July, 1941.

[24] Reported in New York *Times*, January 31, 1939.

among which was the purge which had removed many experienced executives and engineers from their posts and had created in others fear that paralyzed their initiative. Moreover, there had been some deterioration of machines because of speeding up to set new production records. Also, labor discipline was none too good and the State Planning Commission had been thrown into some confusion by the purge of some of its higher executives.[25] It was also planned to increase labor efficiency and to create "gigantic state reserves" of fuel, electrical energy, certain defense materials, and transportation.

Before the conclusion of the third Five-Year Plan the War began, industry was converted to a war basis, and production data became war secrets. Hence, it is impossible to judge the degree to which the Plan was fulfilled. The 1940 production figures indicate that at that time progress toward meeting the third Five-Year Plan goals was unsatisfactory. Planned increases in production for 1940 had not been achieved in any important manufacturing industry and gross failures to meet production schedules were common. Indeed in some fields, production appeared to have declined from 1937 to 1939 or 1940.[26] However, the available data are difficult to interpret in the light of the impending War.

The Supreme Soviet of the U.S.S.R. on March 18, 1946, adopted the "Law on the Five-Year Plan for the Restoration and Development of the National Economy of the U.S.S.R. for 1946–1950.[27] The "principal aims" of the Plan "are to rehabilitate the devastated regions of the country, to recover the pre-war level in industry and agriculture, and then considerably to surpass that level."[28] The specific production goals for some basic commodities are included in the table on pp. 506–507. A summarization of the "tasks" included in the Plan is as follows.[29]

In the first place, to restore and develop heavy industry and railway transport, without which we could not move forward.

To create an abundance of the main consumer goods in the country.

To further technical progress in all branches of the national economy.

To further raise the defense power of the USSR and to supply our armed forces with the most modern military technique.

To construct more than 250 billion rubles' worth of restored and new enterprises, and in connection with this, to develop a powerful building industry in all fields.

To restore and build new towns and villages and to increase the number of houses in the country.

To surpass the prewar level of national income and national consumption.

To strengthen steadily cadres of workers in industry and transport.

[25] Harold Denny, New York *Times*, January 1, 1938.

[26] *Fortune*, July, 1941.

[27] The text of the fourth Five-Year Plan Law may be found in *Information Bulletin of the Embassy of the U.S.S.R.*, June, 1946.

[28] *Ibid.*, p. 3.

[29] *Ibid.*, p. 32.

To raise the productivity of labor.

To improve national education, train cultural cadres, improve public health and cultural conditions.

To increase the national wealth, State material reserves, and stocks.

To maintain strict economy, strengthen self-support and lower production costs.

The following data gathered by the Central Statistics Administration of the State Planning Commission reflect the degree to which production in various lines achieved its annual goal for the first full year and the second full year of the fourth Five-Year Plan:[30]

Ministry	*Per Cent of 1946 Plan Fulfilled*	*Per Cent of 1947 Plan Fulfilled*
Iron and Steel Industry	99.5	101
Nonferrous Metals Industry	99	107
Coal Industry of Western Regions	105	95
Coal Industry of Eastern Regions	97	100
Oil Industry of Southern and Western Regions	103	106
Oil Industry of Eastern Regions	105	107
Electrical Power Stations	99.7	101
Chemical Industry	105	114
Electrical Industry	106	108
Industry Producing Means of Communication	103	112
Heavy Engineering	105	105
Automobile Industry	92	98
Machine-tool Building Industry	98	106
Agricultural Machine Building Industry	77	100
Transport Machine Building Industry	81	94
Industry Producing Machines and Instruments	98	107
Building Materials Industry	105	101
Timber Industry	98	96
Cellulose and Paper Industry	110	98
Rubber Industry	96	107
Textile Industry	103	103
Light Industry	99.6	106
Meat and Dairy Industry	110	107
Food Industry	98	109
Gustatory Products Industry	102	113
Fishing Industry of Western Regions	100.6	104
Fishing Industry of Eastern Regions	85	96
Local Industry and Local Fuel Industry of Union Republics	102	111

Important failures are revealed by these figures. The Agricultural Machine Building Industry in 1946 had the lowest percentage of fulfillment

[30] Texts of the Communiques of the State Planning Commission on the Execution of the 1946 and 1947 State Plans, *Information Bulletin of the Embassy of the U.S.S.R.*, February 12, 1947, p. 10; February 11, 1948, p. 76.

despite the prime importance of its products, such as tractors and combines, to the food and raw material supplies of the country. Also, another key industry, that producing transport equipment, fell very substantially under its 1946 planned output. However, the State Planning Commission, at least outwardly, appeared satisfied in its declaration that in the course of 1946 the industry of the U.S.S.R. completed in the main the post war reorganization of industrial production.[31] The "gross output of the U.S.S.R.'s entire industry in civilian goods" was reported to have risen by 20 per cent in 1946 as compared with 1945. Carloadings rose 13 per cent over 1945 while capital construction was 17 per cent in excess of 1946. The State Planning Commission reported that the gross output of all industry in 1947 exceeded that of 1946 by 22 per cent.[32] These figures must be considered in the light of the low level of production in 1945 and 1946. Basing a prediction upon these statistics, and upon the previously discussed war losses of the Soviet Union, it is safe to say that the most the fourth Five-Year Plan can be expected to accomplish is a restoration on the average of the pre-war production level.

Planning Absorbed into the Economy

Less is heard within the Soviet Union than outside about soviet economic planning, the reason for this being that planning has come to be accepted as a part of the system. The description of planning in this chapter creates a false impression in one sense. Whereas the planning portions of the economy have been extracted from the other portions and have been examined as a system in themselves, they are not so considered in the Soviet Union. There planning has become merely one administrative device or procedure within the whole economy, interrelated with and dependent upon other devices and procedures, and a normal routine part of the functioning of the socialized economy. This has occurred because economic planning must constitute an inherent part of a socialized system.

THE STATE BUDGET

Significance of the Budget

In discussing the economic institutions and processes of the soviet system various references were made to the merging of all economic accounts into a single accounting of the operations of the economy, the pooling of "profits" regardless of their sources, the continuous audit of economic operations possessed by the State Bank, and the planned interdependence of all economic phenomena. The state budget is the apex of this mass of interrelated accounts. In it are summarized, from the national point of view, the most vital and meaningful results of the totality of economic operations.

[31] *Ibid.*, February 12, 1947, p. 10.
[32] *Ibid.*, p. 11; New York *Times*, January 19, 1948.

While on the surface it purports to be nothing more than a duplicate of the government budgets of capitalist nations, that is, an account of government receipts and expenditures, the socialist nature of the economy with which it deals gives it significance of a quite different order. The direct or indirect attachment of practically all manufacturing, agricultural, marketing, and financial enterprises to the state means that the state budget closely reflects the operations of these enterprises on a national scale. Moreover, the budget constitutes a continuous indicator of the degree to which the national income of the country is being utilized on a communal rather than an individualistic basis. The budget thus constitutes not only a summary of operations for the system as a whole, but also an index of the degree of attainment of the final goal of full communism. It has been correctly described as "the central accumulator and distributor of the national income,"[33] and the "channel" through which the power of the government is used "to mobilize financial resources and redirect them toward the realization of the industrial, agricultural, educational, cultural and scientific planning of the nation."[34]

During normal years about one-half of the national income flows through the soviet state budget. This figure is approached in non-collectivist countries only during war-time. Only about 10 per cent of the state budget is derived from general taxation and loans, the remainder coming from the turnover tax,[35] from profits of state-owned industries, state farms and machine-tractor stations, state trading enterprises, and in much less significant amounts from the profits of cooperatives.[36] During normal times some 90 per cent of the profits of state owned and operated enterprises pass directly into the state budget while 10 per cent are left at the disposal of the state enterprises themselves. In the cases of cooperative stores, collective farms, and producers' cooperatives only a small part of earnings is taken into the state budget, the bulk remaining with the cooperatives for reinvestment. By manipulating its price policies and thus affecting the profits of various enterprises and segments of industry, by adjusting the turnover tax rates levied on various commodities, and, to a lesser degree, by adjusting the rates of direct taxes on the population, the government can and does determine the distribution throughout the population of the real sacrifices behind the accumulation of the receipts of the state budget.

Normally some 50 to 65 per cent of the expenditures of the state budget goes into the building of new, and the repairing of old, industrial equipment in state owned and operated enterprises in the national economy. The remainder of the expenditures are for administration, defense, social, cultural, educational, health, and recreational purposes. Through the

[33] A. Yugow, *Russia's Economic Front for War and Peace*, p. 125.
[34] Theodore Bayer, *Soviet Russia Today*, October, 1938, p. 21.
[35] See pp. 539-540.
[36] See pp. 523-524.

Five-Year Plans the directions and ultimate purposes of these expended funds are subject to the guidance of the government. It is clear that the state budget is the "cornerstone" of the economy of the Soviet Union.

Budgetary Procedure

The Soviet Constitution vests in the national government the power of "approval of the consolidated state budget of the U.S.S.R. and of the report on its fulfillment; determination of the taxes and revenues which go to the Union, the Republican and the local budgets."[37] It is the duty of the U.S.S.R. Minister of Finance, working with and through the republic Ministers of Finance, to formulate annually a proposed consolidated state budget for the Soviet Union. This includes the budgets of the sixteen republics and each of these, in turn, includes all of the budgets of the territories, regions, and autonomous areas it comprises. Thus the state budget normally represents a consolidation of over 70,000 different subsidiary budgets. This consolidation is more than in name only, since a net deficit or surplus in the budget of a subsidiary body may be merged into the budget of the next higher governmental unit. Finally the state budget is passed upon by the Supreme Soviet of the U.S.S.R. All budgetary receipts and expenditures are handled by the State Bank. Again, in this connection, it should be recalled that the State Bank is the sole credit granting and currency issuing institution in the Soviet Union. Its exercise of these powers is, of course, correlated with the needs of the state budget.

While in process of formulation and adoption, the state budget undergoes a two-way correlation with the comprehensive economic plan for the nation. On the one hand, the budget draws from the planned production and marketing of goods the chief revenues required for its operation while, on the expenditure side, it allots to the various planned economic and cultural projects funds for their prosecution. Certain projects and activities are assigned to the budgets of republics and local governments and adequate revenues are allocated to them for these purposes. Revenues are pooled; specific revenues are not reserved for specific purposes.

The 1947 Budget

On February 24, 1947, the Supreme Soviet approved the 1947 state budget, totaling 391.5 billion rubles on the income side and 371.4 billion rubles of expenditures.[38] The turnover tax[39] accounts for 254.7 billion rubles, or

[37] Art. 14, sec. k.

[38] New York *Times*, February 25, 1947; *Information Bulletin of the Embassy of the U.S.S.R.*, March 12, 1947. This is the equivalent of about 70 billion dollars at the "official" rate of exchange, or about 30 billion dollars at the rate at which American diplomats can buy rubles with dollars. However, for reasons previously discussed, these dollar figures have little if any significance. The budgetary total in rubles is of real significance only when compared with other ruble amounts, such as receipts derived from various sources of revenue and expenditures for various purposes.

[39] See pp. 539-540.

65 per cent of total receipts. Profits of state owned and operated enterprises[40] merged into the state budget account for another 18.7 billion rubles, or 5 per cent of the total. Taxes on personal incomes account for 27.7 billion rubles, or 7 per cent of total receipts. These comprise direct income taxes levied on the incomes of collective farmers and city workers at graduated rates, with certain classes such as members of the armed forces, students, and workers who have achieved various distinctions wholly or partially exempt. Higher rates are levied on persons still able to make a living outside state and cooperative enterprises, such as artisans and non-collective farmers, than on those who work for or have joined such organizations. Special rates are applicable to certain groups such as artists, writers, and professional workers. As a war measure, income tax rates were increased by as much as 50 per cent for the lower incomes and 100 per cent for the higher incomes, amounting to from 10 to 30 per cent of the payers' earnings.[41] The Council of People's Ministers ordered these added war rates abolished on January 1, 1946.

Receipts from state loans amount to 21.4 billion rubles, or 5 per cent of the total receipts for 1947. Bonds representing these loans are sold to individuals, to savings banks in which individuals and organizations have their accounts, and directly to various state enterprises, organizations, and institutions such as factories, collective farms, and trade unions. They may be purchased by payroll-deduction installment payments. During the War state loans constituted an important source of government funds. State enterprises were assigned obligatory quotas of bonds and the public was under "moral pressure" to buy bonds. Similar pressures were used in connection with post-war loans to finance the fourth Five-Year Plan. The value in real goods of the principal, interest, and lottery prizes on these war bonds declined with rising prices, and the principals as expressed in rubles were scaled down, as described in the preceding chapter, by the monetary reform of December, 1947.

The most significant aspect of budgetary receipts is the relative importance of the turnover tax, which accounts for 65 per cent of the total. This is a very flexible tax which can be easily manipulated as an item in the pricing of goods.[42] Its potentialities as an instrumentality for redistributing real income and for focusing the incidence of the cost of capital accumulation cannot be overemphasized.

The largest item on the expenditure side of the budget is 131.8 billion rubles, or 35 per cent of the total, for financing the national economy. This comprises outlays for the building of capital equipment for manufacturing industries, agriculture, transportation, communications, and trade. The fact that it amounts to over one-third of total expenditures indicates the

[40] See pp. 523-524.
[41] *The American Review on the Soviet Union*, February, 1946, p. 15.
[42] See pp. 539-540.

post-war emphasis which the Soviet Union is putting on the rebuilding and expanding of the means of production. An appropriation of 107.1 billion rubles, or 29 per cent of the total, is made for "social and cultural facilities." Besides elementary, intermediate, and secondary schools, this item includes expenditures for kindergartens, political education among adults, village reading rooms, training of state labor reserves, scientific research institutes, urban and rural hospitals, rest homes, sanatoria and other health services, children's homes, grants to needy mothers, and many other welfare purposes. The tremendous increase in this budgetary item in recent years is pointed to by the Soviet leaders with pride as "possible only in the country of victorious socialism."[43] For the armed forces there are appropriated 67 billion rubles, or 18 per cent of the total. This item is for "maintenance" of the armed forces and does not include certain outlays for capital development and other purposes closely allied with defense. However, the figure of 18 per cent, as compared with 33 per cent in 1940, 59 per cent in 1943, 52 per cent in 1944, 43 per cent in 1945, and 24 per cent in 1946, does indicate the rapidity and extent of the demobilization of the armed forces after the conclusion of the War.[44] The degree of concentration of government and industry in the Soviet Union is evident from the fact that the budgets of the republics and their subdivisions account for less than one-quarter of the consolidated budget.

QUESTIONS FOR CLASS DISCUSSION

1. It has been said that economic planning is an inherent part of socialism. Does the experience of the Soviet Union tend to prove or disprove this?
2. What is the difference between planning in the soviet economy and planning by merely projecting existing trends into the future?
3. In what sense is planning in the Soviet Union more than *economic* planning?
4. What are the chief functions of the State Planning Commission?
5. What is the difference between "functional" and "geographical" planning in the Soviet Union?
6. What is meant by the "statistical base" of economic planning? Why is it essential to planning?
7. Trace the procedure through which a Five-Year Plan is formulated and made ready for use.
8. How numerous and varied are the factors which shape the State Planning Commission's decisions on the broad outlines of the Five-Year Plan?
9. Why must a plan be both balanced and flexible? What devices are used in the Soviet Union to achieve these goals?
10. What part do the planning agencies play in the execution of plans?
11. Will it ever be possible to have *perfect* execution of plans in the Soviet Union? Why?

[43] The Commissar (now Minister) of Finance, *Soviet Russia Today*, May, 1941, p. 46. He pointed out that in 1941 this item was nine times as large as it had been ten years before.

[44] *Information Bulletin of the Embassy of the U.S.S.R.*, March 12, 1947.

12. What does it mean to say that a Five-Year Plan has been fulfilled in the Soviet Union?
13. Compare the nature and significance of the state budget of the Soviet Union with the nature and significance of a government budget in a capitalist nation.
14. What are the chief sources of revenue in the state budget?
15. Explain the importance of the "national economy" expenditure item in the state budget.

Chapter 26

EVALUATING THE SOVIET SYSTEM

No completely acceptable, unbiased, and comprehensive evaluation of the collectivist system of the Soviet Union has been written. Objective descriptions of the operations of various parts of the economy are available, but the typical evaluation is severely biased for or against the system. While some writers discover almost nothing of merit in Soviet Russia, others reveal practically nothing censurable. The careful student of economic systems finds such treatises of little help, for he knows *a priori* that the real situation is neither all white nor all black.

Prior to the War, writers were rather equally divided between those who condemned and those who approved. During the War public sentiment naturally swung toward approval of the Soviet Union as our ally. The attitude generally was one of "let her have her own type of politico-economic system so long as she carries her share of the war burdens." Following the close of the War, the struggle over peace treaties, international trade, and zones of influence again split the defenders from the attackers of the Soviet Union. The attacks probably are more numerous and aggressive because of a fear of the spread throughout the world of "communist ideology," emanating from the Soviet Union.

While this welter of emotions, suspicions, allegations, and fears, with facts appearing all too seldom, is understandable, it is discouraging. However, it is not without cause, for well-nigh insuperable difficulties confront the prospective open-minded evaluator of soviet affairs. Our evaluation must start with a frank summary of the major difficulties.

Major Difficulties in Evaluation

1. *The system being evaluated is complex.* Even though one were to confine his evaluation chiefly to the *economy* of the Soviet Union and to economic phases of the existing régime, the complexities would constitute serious obstacles. While it is relatively easy, on the basis of some accepted standard or standards, to evaluate some one economic unit within an economy or some single economic process, it is far from easy to total the

sound and the unsound features of an *entire* economy and strike some balance to find where the greater weight lies. Indeed, an evaluation of the soviet economy involves complexities no less numerous and intricate than those encountered when one tries to strike a final balance disclosing the desirability or undesirability of our own capitalist economy. Anyone who has a reasonably good grasp of the principles of economics understands the staggering proportions of the latter task.

2. *The system being evaluated is young.* Just as it is always difficult and usually impossible to see the man in the youth, so it is difficult to assess the mature potentialities of the young soviet system. That it is young is a most significant fact in any evaluation. The Revolution occurred three decades ago, and after it there ensued a reconstruction period which was nothing more than the restoration of a measure of order to the disrupted social, political, and economic processes. It is scarcely possible to date the existence of a socialized economy from any year prior to 1928, the first year of the first Five-Year Plan. Even this date may be questioned, for much of the major institutional reconstruction was not completed prior to about 1933. This is an exceedingly short time in the life of a nation or an economy. What accomplishments is one to expect in such a period of time from a political and economic system almost entirely new, not only to the masses, but also to the leaders? This is a basic question which should generate much modesty in every student of soviet affairs.

3. *About one-quarter of the Soviet Union's life has been characterized by war.* The years 1917–1918, and 1941–1945, were years of active war for the Soviet Union. If one were to add the years 1939–1941, since they were years of active preparation for war, the war years constitute nine years out of the three decades since the Revolution. Again, the question is: What achievements toward socialist or communist goals may one reasonably expect during a period blanketed so substantially by war? How should the criteria of evaluation be modified to allow for the exigencies of a life-or-death struggle for national existence?

4. *Non-economic aspects cannot fairly be excluded from an evaluation.* The Soviet Union comprises a collectivist society, not merely a socialized economy. The significant consequence of this fact is that the latter cannot be segregated from all social, political, and other institutions and processes and evaluated solely in terms of economic concepts. Who can say that, should material living standards be found to be higher than before the First World War, this has not been counterbalanced by the psychological costs entailed by many persons being put at routine machine labor; or that, should these standards be found to have declined, this has not been counterbalanced by such accomplishments as an extension of literacy or a freeing of women from domination by tradition and by men? The mere posing of such questions discloses the nature of the problems the evaluator faces when he tries to weigh economic, social, political, psy-

chological, health, and other phenomena in scales whose quantitative markings are in terms of economic goods or economic utility.

5. *The accuracy of statistical data is questionable.* The problem of accuracy, of course, is not confined to the Soviet Union, but it does assume a peculiar form when applied to that nation. Whereas in the United States one finds scores of independent scientific fact-finding agencies turning out huge quantities of statistical data—particularly on economic matters—the same is not true of the Soviet Union. While many of these agencies in the United States are connected with scientific and educational institutions and are therefore less susceptible to bias than some of the others, the work of many of the others is known to be accurate. In some cases, where such independent sources of data exist, one source can be checked against another or others to develop a high degree of probable accuracy. The situation is far different in the Soviet Union, where all statistical and data-gathering agencies are parts of the unified socialist system. The control of each runs directly or indirectly to the same center—the Communist party—and the resulting lack of independence may cast suspicion upon the statistical data turned out by the various individual parts of the system.

6. *Both background and language for understanding the soviet system are deficient.* While this is just as true in reverse when the Russian tries to understand us and our institutions, here we are interested in the obstacles to *our* understanding of the Soviet Union. The extent of our ignorance of the basic features of soviet life is demonstrated by the following summary of public opinion:

> According to a survey made by Princeton University, two out of three Americans don't know that Russians can privately own homes, furniture, cars, and so on, and that farmers till individual plots. The same inquiry disclosed that about 64 per cent of adult Americans don't know that wages are not equal in Russia, but differential; 83 per cent don't know that most Russians are not members of the Communist Party. Seven out of nine Americans don't know that Russia produced most of the war materials used by the Red Army, and only one out of two knows that the avowed aim of the Soviet government is to build Russia into a socialist state. Thirty-eight million Americans of voting age "don't know at all what kind of government Russia has."[1]

Moreover, the very words which the Russian uses, or which we use to describe soviet affairs, may be entirely misleading or may convey inaccurate impressions. The mere problem of finding an English word or phrase whose connotations carry the exact meaning of a certain Russian word or phrase make the translation of Russian language materials difficult. When a soviet official makes a speech or a soviet journal carries an article on an economic or political subject it is phrased in Marxian terminology which carries one meaning to those well versed in Marx and Lenin, but often a quite different meaning to the uninitiated. It must be so, for all

[1] Edgar Snow, *Saturday Evening Post*, February 15, 1947.

statements by soviet leaders must fit Communist party doctrine which really has a language of its own. Hence, "when Molotov or Vishinsky . . . spit out common words like Fascism, imperialism, feudalism, dictatorship or collaborator, and purr over favorites like socialism, democracy and communism, they are not only talking in Russian but simultaneously using a second language which is rarely translated for the American newspaper reader."[2]

7. *Commonly accepted standards of evaluation are lacking.* In the case of a task as comprehensive as that of evaluating the soviet system, the evaluator must establish his own standards, or at least be prepared to defend whatever standards he accepts from others. What should these standards be? Should they be determined by what he personally, or those in his own group, would like to see develop by way of social institutions and social well-being? Obviously not, for these hopes and desires may be quite foreign to the people in whose interests the soviet system presumably operates.

What, then, are the ultimate ideals and goals of the masses of soviet citizens? We know that by tradition and psychology they differ substantially from ourselves; but in what ways and in what degrees do their ideals differ from ours? Moreover, do we mean to discover these goals as they were before the Revolution, and therefore uninfluenced by the propaganda of the Communist party? Possibly, yes; but were they not then under the dual influences of the tsarist régime and the illiteracy and ignorance which prevailed? Does a person who cannot read, and is therefore largely uninfluenced by the thoughts of all others except his immediate associates (who also probably cannot read) and his religious advisers (who may be part of a state church), really know more about his real long-run interests and goals than a person who can read and therefore is influenced by the propaganda of the Communist party? If we should decide that the masses do not know what their real interests are and what their objectives should be, should we conclude that the Communist party leaders *do* know, and that therefore the objectives of the party must be accepted as the standards by which the operations of the system are to be judged?

In general, students of the soviet system are inclined to evaluate it in terms of their own reactions to what goes on under it. This is a fatal error, for an evaluation of *that* system does not involve an assumption that *we* are considering adopting its counterpart. Whether or not we would like the system if it existed in the United States is not the question. It is rather a question of the degree to which it is assisting the masses in the Soviet Union to follow their own real long-run interests and to achieve their real goals—whatever these may be.

Nor is it any more legitimate to follow another procedure which is common to both the supporters and the critics of the soviet system. Com-

[2] *Ibid.*

parisons are often drawn between the present status of the Soviet Union, in terms of the current output of economic goods, and that of some one or more countries with capitalist economies. Even if we satisfactorily dispose of the statistical difficulties involved in such a comparison, it remains entirely unfair because the capitalist economies have been developing over periods measured by a century or more of time, while the present soviet economy is, at best, three decades old.

It is just as unfair to measure, again with questionable statistical accuracy, the percentages of increase in the annual output of certain basic products of the Soviet Union and to set these against similar percentages for the same period for the capitalist economies. Obviously the base from which a calculation starts may be much different in the one case than in the others. This base figure not only is the major determinant of what the respective percentages of increase will be, but is of major importance in determining the real significance of the percentage increases when they are translated into terms of human well-being. All things considered, it may be concluded that, if such comparisons are to be made, they become significant only when they are applied to much longer trends than can be calculated at present.

Despite all the difficulties which beset the evaluator's path, are any generalizations warranted? Some probably are, if they are confined to statements of specific accomplishments and failures. In listing these we must remember that the balance will show the soviet economy to be neither as strong as its well-wishers believe nor as weak as its critics contend. It is well to remember the riddle of Russia as phrased by the old Russian poet: "Thou art so powerful and thou art so helpless; thou art so poor and thou art so plentiful, Mother Russia."[3]

Accomplishments of the Soviet System

As is evident from the foregoing, the following statements are based upon certain assumptions which may not be acceptable to all students of the Soviet Union. Moreover, many students may consider them debatable because they are phrased in too general terms and in most cases are not susceptible to quantitative proof. No significance is to be attached to the order in which these accomplishments are listed, as little or no attempt has been made to assess their relative weights.

1. *A system organized along primarily socialist lines has been kept going.* The economy of the Soviet Union is a going affair, and this is no mean accomplishment. The enormousness and the complexities of the task of operating an economy without the types of price and profit controls which are so often held to be essentials have been examined in other connections. While today we are inclined to accept it as true that a socialized

[3] Quoted by a correspondent of the *Economist*, London, New York *Times*, April 15, 1947.

economy can be kept going, that its gears can be kept meshing with sufficient precision to avoid a breakdown, we forget that the reason we accept this is because the Soviet Union proved it to be true. There was almost universal skepticism on this point during, and for some years after, the Communist Revolution. In those days both the lowly and the mighty (the mighty being so unfortunate as to have their inaccurate predictions recorded for posterity) said that the soviet system could never be established on a stable basis. Its downfall was confidently predicted from month to month and from year to year until it gradually became an accepted fact that the system had proved its ability to operate.

The strength of the Soviet Union in the late War should be noted as one phase of this accomplishment. During the 1941 German thrust into soviet territory, American military experts freely and confidently predicted that the Red Army could not withstand the onslaught. As the German Army arrived at the Gates of Leningrad and Moscow the experts predicted the number of days the Red Army could hold out. Hitler proclaimed Russia defeated: "The Russian power has fallen in the dirt, never to rise again." The average Russian believes that the War was won by the Red Army's success in turning back the Germans at Moscow and Leningrad.[4] The military successes of the Red Army were based on an unsuspected power of the Soviet Union to produce military supplies. While the United States supplied some 11 billions of dollars worth of lend-lease goods, the bulk of the soviet military equipment was produced by soviet industry. During the first year of the War, plants were evacuated from the West to the East and production was relatively low. After hitting its stride, soviet industry is reported to have produced annually in the last three years of the War 30,000 tanks, self-propelled guns, and armored cars, and 100,000 mortars, and at one time to have reached a peak annual production of 40,000 planes, 120,000 guns of all calibers, 240 million shells, bombs, and mortar shells, and 7.4 billion rounds of small ammunition.[5] Stalin's evaluation of the war experience is as follows: ". . . there is no longer any ques-

[4] Pronouncements in Moscow on V-E Day, 1947, are interesting commentaries on this point. The Minister for the Armed Forces announced that two years ago the Russians had "completely routed Fascist Germany and victoriously ended the great patriotic war." New York *Times*, May 9, 1947. The army newspaper *Red Star* said: "The second front, as it is known, was opened only after the Soviet army inflicted a decisive defeat on the Germans and it became clear that the Soviet Union was able with its own forces and without the aid of the Allies to occupy all of Germany and to liberate France." Philadelphia *Evening Bulletin*, May 9, 1947. On D-Day, 1947, the publication of the Soviet military administration in Germany charged that Winston Churchill had delayed the Normandy invasion deliberately to weaken the Soviet Union and that, by the time the invasion was undertaken, the Russians had so completely defeated the Germans that the distribution of German troops was "changed little" thereby. New York *Times*, June 7, 1947.

[5] Stalin, speech delivered at a meeting of voters of the Stalin Electoral Area of Moscow, February 9, 1946, *Information Bulletin of the Embassy of the U.S.S.R.*, March, 1946, pp. 12–13.

tion today whether the Soviet social order is or is not capable of enduring, for after the object lesson of the war none of the skeptics ventures any longer to voice doubts as to the vitality of the Soviet social order."[6]

2. *A wealth of experience with economic planning has been worked out and accumulated for whomever it may serve.* Under the soviet system goals and objectives have been selected and organized efforts to reach them have been made. There has been an absolute refusal to accept as the social product whatever happened to be the totality of the results of the individual decisions of profit-seeking enterprises. In other portions of our discussion of the Soviet Union we have noted the numerous and intricate problems of technique which are involved in a planned direction of an economy toward deliberately chosen goals which are not merely the extensions of already prevailing trends. While the soviet economy has come nowhere near solving all of these problems, it has done an immense amount of experimentation with control techniques, and, by the trial and error method, has accumulated an imposing body of experience which may be drawn upon by others who may wish to profit from the soviet experience. We are warranted in saying that the great bulk of what the world knows about comprehensive economic planning, aside from the wartime planning in such nations as Great Britain and the United States, has come from the planning experiences of the Soviet Union.

3. *A substantial degree of industrialization has been developed.* Without at this time considering the cost, it is clear that prior to the War industrialization was proceeding apace.[7] Capital construction was the keynote of all plans and dominated the economy. Giant hydroelectric plants were constructed; plants for the manufacture of heavy equipment, such as tractors and trucks, and for the production of lighter equipment and consumers' goods were built; water and rail transportation facilities were extended; and the training of industrial scientists, technicians, and engineers advanced rapidly. While some engineers, technicians, and machines were

[6] *Ibid.*, p. 7.

[7] The following statement which is based upon government statistics indicates in general the degree of industrialization which the Soviet Union claimed to have achieved by 1937:

"The share of the U.S.S.R. in total world production amounted in 1926 to 4.7 per cent. In 1936 the level of the world industrial production remained at the 1923 level. But the level of production in the U.S.S.R. increased by 4.6 times, and the share of the U.S.S.R. in total world production now amounts to about 20 per cent. The U.S.S.R. has surpassed Germany in production and now occupies the second place in the world. It is interesting to note the growth in individual branches of industry: in the production of electric power, the U.S.S.R. rose from fifteenth place in the world in 1913, to third place in 1937; in machine-building, the U.S.S.R. rose from fourth to second place, having surpassed England and Germany; in tractors the U.S.S.R. occupies second place, and in the production of locomotives, cars and combines, first place in the world. In the total industrial production of Europe the U.S.S.R. occupies first place in oil, copper, machine-building, locomotives, cars, tractors, combines, sugar, shoes, soap, fisheries." *Soviet Russia Today*, November, 1937.

drawn from other countries, the real costs of this industrialization were met within the nation by sacrificing current consumption as the price of capital accumulation. During this period the Industrial Revolution had a planned advent in the Soviet Union.

The War was a period of net capital depletion. Hence the "anti-consumer outlook" of soviet planning dominates the post-war period. During the first years of the fourth Five-Year Plan, the reequipment of industry proceeded more rapidly than did the expansion of consumers' goods production. The gross output of civilian goods is reported to have increased only 20 per cent in 1946, and machine building increased 50 per cent.[8]

4. *Scientific methods and mechanical aids have been widely developed in agriculture.* At the time of the Revolution the old feudal strip system of agricultural tillage prevailed. Practically all agricultural processes were carried on with the primitive tools and processes which tradition had handed down for centuries. The state and collective farms, machine-tractor stations, and scientific agricultural institutes have made a major change in this situation. The approach to agricultural production now is to a significant degree scientific. The use of fertilizers, seed selection, and the determination of the suitability of land for specific purposes have been placed to a large extent upon scientific bases. The machine-tractor stations with their staffs of agricultural experts have been at the heart of this change. Many decisions formerly made by the individual peasant are now made by the planning agencies and are thus removed in part from the restrictions formerly imposed thereupon by the lethargic, ignorant, and tradition-steeped peasant mind.

5. *The social composition of the population has been substantially altered.* This is listed as an achievement of the soviet régime because it has been one of the principal objectives of the socialist system. Classes drawing their incomes from property ownership, private trade, and individual farming have been almost completely liquidated, and the categories of those drawing incomes from employment in state enterprises and as members of various forms of cooperative producing units have been greatly expanded. The accompanying table indicates the nature and extent of these changes since 1913 and since 1928. Under the soviet régime there has been a manifold increase in the number of people who have completed secondary and higher education. Between 1926 and 1939, the date of the latest census, the number of engineers, architects, and industrial designers increased from 32,000 to 305,000, the number of agronomists from 18,000 to 90,000, professors and university teachers from 14,000 to 93,000, school teachers from 348,000 to 1,201,000, and physicians from 70,000 to 155,000.[9]

[8] Correspondent of the *Economist*, London, New York *Times*, April 15, 1947.

[9] *Information Bulletin of the Embassy of the U.S.S.R.*, September 4, 1941. This *Bulletin* contains information on other occupational groupings.

PRINCIPAL SOCIAL GROUPINGS IN THE POPULATION OF THE U.S.S.R.[a]

	Percentages of the Total Population		
	1913	*1928*	*1939*
Workers and employees (in private factories and stores in 1913; in state enterprises in 1928, 1939)	16.7	17.3	49.7
Collective farmers and cooperative handicraftsmen	0.0	2.9	46.9
Individual farmers and non-cooperative handicraftsmen..	65.1	72.9	2.6
Bourgeoisie (landlords, merchants, kulaks)	15.9	4.5	0.0

[a] Source of data: *American Quarterly on the Soviet Union,* November, 1940, p. 92; *Information Bulletin of the Embassy of the U.S.S.R.,* September 4, 1941. Since other groups, such as students, pensioners, members of the military forces, and government officials are not included in this table, the perpendicular columns do not total 100.0 per cent. The percentages in the table are for families; those for 1939 are based on the latest soviet census which was taken in that year.

6. *General living standards probably experienced an upward trend during the soviet régime.* This statement should be limited to the period 1915 to 1940, since the War clearly brought lowered consumption. Proponents and opponents of the soviet system have battled furiously and long over the changes wrought by the soviet régime on material living standards. On only one point is there unanimity of opinion: In the immediate pre-war years living standards were far below those of such countries as Great Britain, Germany, and France. On other points some evidence for almost every possible conclusion may be found in the literature on the Soviet Union. Referring to the immediate pre-war years, one writer holds that the industrial worker's standard of living was "much lower than in 1914." To support this conclusion she finds that "in 1937, before the steep rise in 1940, the price of all food in the shops was from ten to fifteen times higher than in 1914, as against a fivefold increase in wages"; and that "the material condition of the Russian peasant has deteriorated as much or more than that of the worker.[10] Another analyst of pre-war conditions concludes that "in 1928 real wages for workers in industry were above those of 1913"; that "the standard of living of the soviet workman is undoubtedly higher than in pre Soviet years, and lately has been steadily rising"; that "real wages, from the end of 1935 to the middle of 1939, showed a rising trend, resulting in improved living conditions among the workers"; and that "fundamentally, the same trend toward improved conditions is to be noted among the peasants."[11]

To the American student familiar with various governmental and independent research studies of the size of the real national income and of material living standards in the United States it seems incomprehensible that sincere investigators could hold such divergent views about such an

[10] Freda Utley, "The Great Russian Illusion," *Atlantic Monthly,* April, 1941, pp. 472-473.

[11] A. Yugow, *Russia's Economic Front for War and Peace,* pp. 204, 210, 212, 215.

important test of the results of the soviet system. However, it is a fact that comprehensive data on this vital matter are simply unavailable. From soviet sources it is possible to obtain statistics on the size of the national income. These show it to have been in 1913 (the last pre-war year of tzarist Russia), 21 billion rubles; 1917 (the year of the Revolution), 16 billion rubles; 1921, 8 billion rubles; 1926, 21.7 billion rubles; 1930, 35 billion rubles; 1934, 55.8 billion rubles; 1937, 96.3 billion rubles; and 1940, 125.5 billion rubles.[12] These figures seem to indicate a steady and rapid rise in the national product in pre-war years. They carry the implication that, even if allowance is made for the increase in population and for the large portion of the national income which took the form of machinery and equipment, some substantial rise in per capita consumption occurred.

However, these data are "expressed in rubles of 1926–1927 prices." Since all of the rise above the 1913 level occurred between 1926 and 1940, the precise change in the purchasing power of the ruble must be known before the increase in national income in terms of rubles can be translated into an increase in real national income. But no official or unofficial index of the general price level is available. If one is calculated by government statisticians it is not made public. In the absence of such a tool, one cannot rely upon the statement that the national income is measured in terms of 1926–1927 rubles. The implication that changes in the price level have been removed from the figures quoted above must be rejected. Undoubtedly many new commodities were added to production lists after 1926, and there must have been considerable change in the composition of the national income after that date. There is no evidence as to how these changes were handled by soviet statisticians or that they were considered at all in calculating the size of the national income in terms of "1926–1927 rubles." Moreover, the fact that the price level rose is admitted by government officials.[13] Only the availability of a continuous index of the current price level made up on the basis of the goods and prices existing in each respective year would make it possible to calculate the trend in the real national income. Obviously the same difficulty arises when one seeks to convert into real income statistics the wage rates and earnings which in recent years have risen steadily in terms of rubles.

Many attempts have been made by writers on the Soviet Union to measure living standards by quoting wage rates or earnings and certain consumers' goods prices for some specific date. Putting these sets of data together indicates how many hours or days of labor it takes to accumulate

[12] *American Review on the Soviet Union*, August, 1941, pp. 12–13.

[13] The Commissar of Finance, in discussing the 1941 state budget said: "The volume of capital construction work planned for 1941—calculated at 1936 estimate prices—is 57,000,000,000 rubles. . . . The financing of this program of work, *making allowance for prices and rates*, will require a sum of 60 billion rubles." *Soviet Russia Today*, May, 1941, p. 45. Italics ours.

the purchase price of a loaf of bread, a pound of butter, a suit of clothing, and so on.[14] Such calculations cannot be sufficiently accurate and compre-

[14] For instance, the staff of the New York *Times* (see issue of December 21, 1947) compared the average number of factory hours of labor required in the Soviet Union with the average number required in the United States to acquire the rubles and dollars, respectively, to purchase certain commonly consumed commodities. In this comparison, they used the new prices fixed for state retail stores after rationing was abolished in December, 1947. For prices in the United States, Atlantic and Pacific Food Stores' prices and current Sears-Roebuck catalogue prices were used. Since the quality of soviet goods was not ascertainable, "the prices of the top grade or quality in the American commodities were used." An average monthly wage of 500 rubles, as estimated in July, 1947, by the Bureau of Labor Statistics, was used for the U.S.S.R., and was reduced to hourly earnings by assuming a 48-hour work week. An average hourly wage of $1.238, as currently reported for all industries by the same agency, was used for the U. S. The following table contains a representative sample of the items in the New York *Times* table:

THE SOVIET UNION			THE UNITED STATES		
Commodity.	Average Cost in Work Hrs.	Mins.	Commodity.	Average Cost in Work Hrs.	Mins.
Rye bread, 1 lb.	..	31	White bread (enriched), 1 lb.	..	07
Wheat bread, 1 lb.	1	10	Whole wheat bread, 1 lb.	..	07½
Rye flour, 1 lb.	..	50	White flour, 1 lb.	..	05
White flour, 1 lb.	1	19	Whole wheat flour, 1 lb.	..	08
Macaroni (top grade), 1 lb.	1	41	Macaroni (top grade), 1 lb.	..	08
Sugar, lump, 1 lb.	2	34	Sugar, lump, 1 lb.	..	05½
Salted butter (top grade), 1 lb.	10	42	Salted butter, 1 lb.	..	48½
Fresh fish (first class), 1 lb.	1	59	Salmon steak, 1 lb.	..	36½
Ground salt, 1 lb.	..	18	Ground salt, 1 lb.	..	03
Milk, 1 qt.	1	18	Milk, 1 qt.	..	10
Eggs (first class), 1 doz.	4	57	Eggs (large near-by whites), 1 doz.	..	38½
Coffee, 1 lb.	14	06	Coffee, 1 lb.	..	22½
Ice Cream, 1 qt.	7	55	Ice cream, 1 qt.	..	40
Matches, 1 box	..	05	Matches, pocket safety, 1 box	..	¼
Toilet soap, 1 bar	1	39	Toilet soap, 1 bar	..	5½
Cigarettes, 20	2	04	Cigarettes, 20	..	9
Women's cotton dresses, 1	31	51	Woman's cotton dress, 1	2	22
Women's woolen dresses, 1	252	00	Woman's woolen suit, 1	12	54
Men's semi-woolen suits, 1	178	25	Man's wool worsted suit, 1	25	20
Men's leather shoes, pr.	104	30	Man's leather shoes, pr. (top quality)	7	15
Women's shoes, pr.	107	30	Woman's leather shoes, pr. (top quality)	5	32

In presenting its table, the *Times* admitted many deficiencies in the comparison: The average earnings figure for the U.S.S.R. is an approximation, since the Soviet government does not publish earnings data; most Russian workers and many children receive one very low-priced hot meal at their industrial plants or schools daily; housing accounts for a smaller portion of the budget of the Russian worker than of American workers; medical and other social services may be cheaper in the U.S.S.R., thus supplementing money wages; the quality of soviet commodities may not be comparable to the top quality used in pricing goods in the United States. The table was presented as giving only "some indication" of the average "cost in work" of food, clothing, and other items in the two countries. Soviet sources violently attacked these comparisons as "unconscionable manipulation with figures." The figures were challenged on the ground that the earnings of soviet workers were placed at one-third of their real amount, while earnings in the United States were "exaggerated" by 25 to 30 per cent; that soviet prices were used improperly; that differences in costs of housing were not considered; that qualities of goods were not properly compared; that the number of people employed from the average Russian family was not considered; and that "the wages of the average Russian worker must be increased by 38 per cent to account for the various payments . . . made by the state to the worker," such as social security benefits, education, health and recreational services, and grants to people with large families. See New York *Times*, December 28 and 30, 1947; January 2, 11, 17, 1948. After these and

hensive to measure trends in living standards over a period of time. Moreover, even when used for current comparisons, they involve certain major difficulties. The items quoted may not be in common use or they may be used far less commonly than the investigator implies, or the masses of workers may use one quality of commodity whereas the investigator may cite the price of another quality. These relationships between prices and earnings may mean something quite different to the soviet citizen than to an investigator familiar with American standards of consumption.[15]

Despite conflicting conclusions among those who have expressed their views, the weight of what evidence there is supports the conclusion that in general living standards probably rose in the immediate pre-war years to a level somewhat higher than prior to the First World War.[16] However, the quantitative extent of the rise cannot be accurately calculated or even estimated safely, although it must be assumed to be moderate. In arriving at these conclusions due consideration has been given to the following admitted facts: (*a*) substantial expansion of industrial capacity and output occurred; (*b*) there was practically no unemployment; (*c*) the average number of workers per family rose, causing family income in a great many cases to be made up of more individual incomes than formerly; (*d*) workers' pay envelopes were substantially supplemented by "free income" derived from such facilities as below-cost meals served to employees at industrial plants, below-cost housing, and certain free health, cultural, educational, recreational and social security benefits.[17]

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other details of the comparison had been debated extensively in the press, the Commissioner of Labor Statistics of the U.S., summarizing an analysis of the table by his Bureau, concluded that (as phrased by the *Times*) "none of the data" presented in criticism of the table "succeeds in refuting the findings of the comparison." New York *Times*, January 11, 1948. However, the admissions of deficiencies which accompanied the original presentation of the table must not be forgotten.

[15] For a further discussion of some of these points, see Rose Somerville, "That Soviet Standard of Living," *American Quarterly on the Soviet Union*, April, 1940, pp. 10, 20-21. The author cites this illustration: There is a notable difference in the price of beef and fish in the U.S.S.R. and no budget estimate for a soviet family can ignore the preponderance of the latter food in the diet." See also Henry Ware, *ibid.*, July, 1938, p. 31.

[16] Some writers have contended that whatever gains of this sort may have been achieved, they would have come for Russia even though the soviet régime had never been established and the costs of the Revolution had never been experienced. Obviously, this can be neither proved nor disproved. It is an assertion having no practical and little theoretical significance. What has happened under the soviet régime may be rated as either a success or a failure of that system, but it cannot be compared with what might have happened under another kind of régime, for no one is in a position to describe what would have happened in the latter case.

[17] While the exact importance of this "free" or "supplementary" income in pre-war years cannot be estimated accurately, it was no doubt substantial in amount. It was officially claimed in 1936 that "these state appropriations . . . enable an average worker's family in large-scale industry to save not less than 24.5 per cent of its budget for other expenditures." Quoted by Rose Somerville, *American Quarterly on the Soviet Union*, April, 1940, p. 16, note.

So far as the war period is concerned, it is impossible to say more than that living standards dropped by an unrevealed, but doubtless very substantial, amount just as they did in other European warring nations. For the post-war period, the fourth Five-Year Plan calls for an increase by 1950 "in the total volume of production of the industry of the U.S.S.R. as a whole," as measured "in 1926–1927 prices," by 48 per cent as compared with production in 1940.[18] An increase of over 32 per cent in gross agricultural output is called for by the plan.[19] The output of light industry, which consists primarily of consumers' goods, is scheduled to rise by 1950 to 36 per cent over its 1940 level.[20] Again, the price-level factor injects an element of uncertainty into the true meaning of these goals. In any event, it will be a real achievement if the 1940 living standards of the masses are restored by 1950. The real test of what the collectivist economy of the Soviet Union can do for mass living standards will come after the latter date.

7. *A forward-looking emphasis upon production has been created.* This has assumed many forms. Technological improvements in machinery and in processes in both manufacturing and agriculture have been sought diligently and utilized extensively. Trade unions have been held responsible for worker cooperation in the use of new machines and methods and for the elimination of make-work practices. Academies of science and technology have been expanded to supply more engineers and technicians to improve industrial processes. The property institutions have been changed so as to make it very difficult to get an income without performing some kind of labor. The Five-Year, annual, and quarterly plans set goals for increased labor productivity and these are broken down so that each enterprise and shop has a very definite obligation to increase productivity and decrease labor cost by a stated amount in a specified period of time. The fourth Five-Year Plan sets an increase of 36 per cent in labor productivity in manufacturing industry, and 40 per cent in construction, to be achieved in 1950.[21] While the masses work for a living and not for long-run goals of raising labor productivity, the drive for productivity undoubtedly dominates the economic scene.

Three aspects of this emphasis upon productivity should be noted particularly: (1) "Socialist competition," which is struggle to excel in production, is fostered widely in industry and agriculture. It takes on many specific forms. Workers are organized in "brigades" with some honor or prize for the brigade that achieves the greatest output in the shortest time. Enterprises and departments within enterprises are encouraged to vie with each other to be the first to fulfill the monthly, quarterly, or annual pro-

[18] The Law on the Five-Year Plan for the Restoration and Development of the National Economy of the U.S.S.R. for 1946–1950," *Information Bulletin of the Embassy of the U.S.S.R.*, June, 1946, p. 4.

[19] *Ibid.*, p. 52.

[20] *Ibid.*, p. 48.

[21] *Ibid.*, p. 12.

duction plans. The same spirit of rivalry sometimes spreads to entire industries, or segments of the economy. It has given rise to the abuse known as "storming," for it encourages workers to go slowly for a time so that they may make an astounding record within some other short period of time. At the individual level, the worker is encouraged to become a Stakhanov worker by equalling or excelling the production level required for such an honor.

(2) Workers are encouraged to make suggestions for improving processes or working conditions so as to increase production. Plant managers are obligated to consider such suggestions and the union may demand an explanation in case a suggestion is rejected. The soviet press is filled with accounts of how workers' suggestions have increased production. For instance, *Trud,* the trade union newspaper, recently reported that a worker in a shoe factory suggested a plan whereby through subdividing the task and using a helper in cutting leather the cutter could increase his output substantially. The same worker suggested varying heights of steps for machine workers of varying heights, thereby increasing production through eliminating fatigue due to bending.[22] It was reported that in the Stalin auto plant in Moscow, during the winter of 1946–47, workers offered 26,000 suggested factory improvements of which 17,000 were utilized.[23]

(3) Self-criticism is encouraged. In an important political address in 1946 Molotov emphasized that "the Party has always fought ruthlessly against bureaucratic disdain for what are known as 'minor' problems. It has urged not only Bolshevik self-criticism, but active criticism of the work of inefficient executives."[24] Despite their controlled character, newspapers carry numerous items of criticism of plant and farm managements and conditions which interfere with production. In many cases the press relentlessly pursues these deficiencies until they are corrected. For instance, in early 1947 the newspaper *Pravda* sent a special correspondent to investigate conditions in the Stalin tractor plant at Stalingrad, the second largest tractor plant in the Soviet Union. He reported that the plant had fallen behind planned production schedules because of bureaucracy and poor organization of the labor force and because needed assistance had not been rendered by the Ministry of Agricultural Machine Building and the Tractor Trust.[25] Through such devices there is an attempt made to effectuate the principle that "nothing shall be allowed to interfere with production."

8. *Substantial progress has been made in the fields of education and health.* Prior to the Revolution, education was controlled by the church

[22] New York *Times,* February 11, 1947.

[23] Ivan H. Peterman, Philadelphia *Inquirer,* May 2, 1947.

[24] "Speech at a meeting of voters of the Molotov Electoral Area of Moscow, February 6, 1946," *Information Bulletin of the Embassy of the U.S.S.R.,* March, 1946, p. 10.

[25] New York *Times,* January 28, 1947.

and the tsar. While there were a few excellent institutions of higher learning, the majority of children completely lacked educational opportunities. It is estimated that before 1917 only 4.7 per cent of the population attended school and 70 to 80 per cent of the people of Russia were illiterate.[26] By 1941 some 20 per cent of the population were pupils in primary and secondary schools and the latest census (1939) showed under 20 per cent of the population to be illiterate.

The soviet régime has evidenced a continuous and intense interest in all forms of education—primary, secondary, higher, technical, occupational, scientific, and even correspondence education. In 1930 a governmental decree ordered the introduction of universal compulsory primary education throughout the nation. In 1938 the government introduced a universal seven-year program in towns with provision for this to be extended to eight to ten years by local authorities. The third Five-Year Plan, 1938–42, called for universal secondary education (a ten-year program) in the cities and extension to farm areas of the seven-year program. The Constitution[27] provides that "Citizens of the U.S.S.R. have the right to education. This right is ensured by universal and compulsory elementary education; by free education up to and including the seventh grade; by a system of state stipends for students of higher educational establishments who excel in their studies; by instruction in schools being conducted in the native language; and by the organization in the factories, state farms, machine and tractor stations and collective farms of free vocational, technical and agronomic training for the working people." Other articles provide that this right is to be equal regardless of sex, nationality, or race. Prior to the War, all education, including university and professional training, was free of tuition and some 85 to 90 per cent of the students beyond the secondary school level received stipends for living expenses. During the War, fees were imposed and living cost stipends were granted only to those who needed them and maintained a certain level of marks. The reasons given for this change were the increasing money incomes of the people and the desire to divert students into the trade schools.[28]

While it is impossible to describe completely the present-day school system of the Soviet Union, it is interesting to note the nature of the curriculum in the secondary (seven-year) schools. The following table indicates the percentage of the total hours during the entire seven years devoted to the respective subjects:[29]

[26] *Information Bulletin of the Embassy of the U.S.S.R.*, December 27, 1945. This special issue on "Education in the U.S.S.R." reviews the post-war status of, and plans for, education at all levels. The illiteracy estimate is from John Somerville, "Educational System" in E. J. Simmons (ed.), *U.S.S.R.—A Concise Handbook*, p. 325.

[27] Art. 121.

[28] See pp. 547-548. John Somerville, "Educational System," in E. J. Simmons (ed.), *U.S.S.R.—A Concise Handbook*, p. 326.

[29] *Information Bulletin of the Embassy of the U.S.S.R.*, December 27, 1945, p. 8.

Subject	*Per Cent*
Russian language and literature	28.1
Mathematics	22.0
Physics, chemistry, astronomy	8.9
Natural sciences	5.5
Geography	6.0
History and Constitution of the U.S.S.R.	8.3
Modern languages	6.8
Writing, draughtsmanship, art and singing	3.4
Physical and military training	11.0

In the field of higher education there are reported to be 34 universities operating with a total enrollment of over 65,000 students. The largest of these is the University of Moscow with an enrollment of 11,000, including some 2800 correspondence and extension students. If technical schools and small colleges are included, there are nearly 800 "higher schools," that is institutions beyond the ten-year program, with a total enrollment of between 600,000 and 700,000 students. During the early post-war period these institutions of higher learning were able to admit only about one out of every four or five applicants.

The history of the development of education in the Soviet Union indicates substantial progress. Apparently the goal is universal education for the improvement of the people of the nation and their economic and cultural living conditions. It is impossible to evaluate the quality of the education, although much of it, particularly at the technical level, appears to be high, nor is it possible to judge how much the label "progress" should be modified because of the one-sided Marxian slant given educational programs and objectives.

There is general agreement that, while much remains to be done, health conditions have substantially improved through the efforts of the soviet régime. The Constitution undertakes to guarantee "free medical service for the working people, and the provision of a wide network of health resorts for the use of the working people."[30] The free medical service is provided through medical centers established in cities, towns, and rural areas. Each center serves an area with a population of from 10,000 to 100,000. A variety of free specialized dispensaries supplements these centers for the treatment of such diseases as tuberculosis, cancer, and malaria.[31] Medical schools have increased from 13 in number in 1913 to 51 with 106,000 students in 1941.[32] Women are playing an increasingly important role in medical work. It is reported that 70 per cent of the medical students training in Moscow are women.[33] A material measure of progress in this field is the increase in hos-

[30] Art. 120.

[31] Henry E. Sigerist, "Medicine and Health," in E. J. Simmons (ed.), *U.S.S.R.—A Concise Handbook*, pp. 316–317. See this article for further details.

[32] *Ibid.*, p. 314.

[33] Ivan H. Peterman, Philadelphia *Inquirer*, May 3, 1947.

pital beds from 142,000 in 1913 to 661,000 in 1941, and, during the same period, the increase in maternity hospital beds from 6800 to 142,000, the increase in urban medical centers from 1200 to 13,000 and in rural medical centers from 4400 to 14,000, and the increase in the number of physicians from 20,000 to 130,000.[34] While the health facilities described above are free of charge, physicians also may have private practices. For a government stipend, the physician is available for public health work from nine to three each day, after which he may take private fee patients.

9. *Mass support of, and loyalty to, the existing régime and its ultimate goals have been developed.* All available evidence indicates that the soviet citizen enthusiastically defended his country during the late War. While this is far from saying that all or even most of the citizens approve everything or most of the things the existing régime has done, it does indicate intense interest in defending the nation even though successful defense was known to mean the continuance and the strengthening of the socialist system and the position of the Communist party. The party's long-run goals of full communism, both for Russia and for the entire world, apparently are accepted by the nation as a whole as highly preferable to any realistic alternative which at present can be envisaged.

While this conclusion appears sound, it must not be overemphasized. It raises certain deeper issues which, while they cannot be discussed here, merit careful thought. How much does the ordinary soviet citizen know or care about the long-run goals of the existing régime or about their implications? Is there something in these goals which portend an inevitable conflict with other forms of economic and political organization as embodied in other national units? Has the citizen been told truths or falsehoods about the accomplishments and the failings of capitalism in other countries? Is he permitted to make a fair historical comparison between fascist or national socialist totalitarianism and his own system, or is he led to evaluate recent experiences solely in terms of the "bestial" traits of the German leaders? Is the present nationalism of the Soviet Union fundamentally inconsistent with, or is it a perversion of, Marxian theory? Will the existing régime care to or be able to work out peaceful and stable world relationships with other nations possessing different systems and different long-run goals?

In connection with these questions, certain facts are notable: (1) Russian communism has a religious aspect. It contains substantial elements of dogma to be accepted by its followers without question or doubt. This is conducive to support of the régime representing that dogma without too much examination of the pertinent realities.[35] (2) Many, possibly most,

[34] Henry E. Sigerist, "Medicine and Health," in E. J. Simmons (ed.), *U.S.S.R.—A Concise Handbook*, p. 318.

[35] For a succinct description of this aspect of Russian communism see Brooks Atkinson, *Life*, July 22, 1946.

soviet citizens are more interested in food, living quarters, and keeping out of the way of the secret police than they are in the theory of communism or the long-run goals of the existing régime.[36] (3) Objective observers who travel in the Soviet Union unanimously testify to the ignorance of the masses of soviet citizens regarding the nature and present status of the capitalist economy of the United States. Through the soviet press and the *Agitator's Notebook,* a publication supplying material for political speakers, a post-war campaign of vilification has been carried on. Our nation is pictured as a "capitalist imperialist state" where intensification of the class struggle and "monopoly capital" are retarding economic progress, as threatened by imminent economic and political crises which we are trying to forestall by an expansion of exports with funds made available through the European Recovery Plan, as plagued by mass unemployment, and "wealth, luxury and the parasitic way of living" among the upper classes, as interested only in force as a means of settling international problems, and as having war designs against the Soviet Union.[37]

Failings of the Soviet System

The accomplishments which we have noted do not constitute a net evaluation of the soviet system. There have been failings—serious and too numerous to review in detail here. We may generalize on some of the more obvious and serious ways in which the soviet system has failed to achieve either what its leaders set out to do, or what its friends and defenders have hoped that it would do. Again, the order in which these points are enumerated has no significance.

1. *The Soviet Union has not become the spearhead of the world proletariat in the manner intended.* Undoubtedly the earlier leaders of the Soviet Union thought of it as a potential driving force for world revolution. Marxians throughout the world hoped this would happen and the capitalist nations feared that it would. However, up to the end of the Second World War, the ideals held by Lenin and Trotsky in the early twenties had not been realized to any significant degree. Indeed the very policies of the Soviet Union had shifted away from world revolution and toward developing a strong socialist nation at home. During the 1930's the Third (Communist) International, getting its "line" largely from Moscow, had de-emphasized world-revolution and was formally disbanded in

[36] This fact particularly impressed some of the United States correspondents who reported the 1947 meeting of the Council of Foreign Ministers in Moscow. See Ivan H. Peterman, Philadelphia *Inquirer,* April 30, 1947; New York *Times,* March 12, 1947.

[37] Numerous dispatches from the Soviet Union refer to this. See the following for illustrations: Drew Middleton, New York *Times,* February 18, 1947; January 26, 1947; April 29, 1947; Carl W. McCardle, Philadelphia *Evening Bulletin,* April 24, 1947; H. E. Salisbury, New York *Times,* Magazine Section, April 6, 1947; Edwin L. James, New York *Times,* November 17, 1946; Drew Middleton, New York *Times,* May 10, 1947; New York *Times,* January 9, 10, 1948.

1943. The working classes of the world had not to any noticeable extent come to consider the Soviet Union their "Fatherland." The absence of truly democratic institutions and the recurring violent "purges" had alienated a large body of socialists and socialist sympathizers who had looked to the Soviet Union to point the way toward a better world.

During the post-war period the internal economic problems of the Soviet Union doubtless will be sufficient to occupy the main attention of the leaders for a good many years. They have an intense fear of "encirclement" by hostile non-communist nations, and hence do all in their power to build sympathetic if not actual communist régimes in neighboring nations and to foster trade between the Union and a bloc of satellite nations, thus creating a counterpart of our European Recovery Plan. Ideologically communism is still the goal—for the world as well as for Russia—and a communist régime will be welcomed and given whatever aid is possible wherever it has a chance of being born. However, basically, the Russian communists rely upon capitalism destroying itself and thus permitting communism to move in rather than think of communism "as an article forcibly to be exported."[38] While the unsettled conditions of Europe create a tendency to try anything, the poverty of the Soviet Union scarcely can be expected to be an appealing goal for other poverty-ridden peoples unless other meaningful goals do not exist. Communism as a world force probably will advance roughly in proportion to the degree to which the Soviet Union achieves satisfactory levels of production or in proportion to the failures of other economies to achieve full employment of resources in production.

2. *The Soviet Union has failed to isolate itself from world forces.* While the earlier goals of world revolution have not been achieved, neither has the later policy of building a strong exemplary socialist isle in the midst of other systems of the other nations. Despite its adequacy of natural resources, the policy of stable socialism at home while the economies of the rest of the world disintegrated foundered on the rock of the Second World War. The myth of a strong socialist state was dispelled by the necessity of accepting 11 billion dollars' worth of civilian and war goods in order to prevent inundation from the West. Whatever are the reasons for the isolationist and obstructionist tactics of the Soviet Union during the early post-war period, her longer-run foreign policies must be shaped realistically in the light of the fact that isolation—even for a socialist nation—is impossible in the kind of a world we now have.

3. *Industrial efficiency has not developed rapidly.* Although in terms of equipment and engineering knowledge a large measure of industrialization has occurred, the masses of workers still have a long way to go to adapt themselves fully to the niceties of factory jobs. American engineers who have supervised soviet factories picture the soviet worker as relatively in-

[38] Harold Laski, *New Republic,* October 28, 1946, p. 552.

efficient and apparently unable or unwilling in many cases to grasp fundamental rules and techniques which must be followed in order to operate intricate machinery successfully. Labor turnover, absenteeism, and tardiness have been so grossly excessive in many plants that drastic measures have been undertaken to combat them. Anyone who has sensed the relation of individual efficiency, regularity, continuity, and coordination to the smooth flow of a product along an assembly line can readily visualize the results of this failing in the soviet economy.

Apparently a large part of the responsibility for the lack of industrial efficiency falls on management of both high and low ranks. Demonstrating an intense capacity for self-criticism, the soviet press is replete with the details of administrative inefficiency. Farm managements are accused of such deficiencies as "poorly organized work on the threshing floors" and tolerating long delays in the repair of badly needed agricultural machinery.[39] Plant managements are accused of hoarding unneeded labor and of failing to reduce their staffs when their production schedules decline.[40] There is a failure to master "the mass production of new machines" and the "violation of blueprints" interferes with production.[41] Production problems have remained unsolved in the very important several hundred enterprises making laboratory equipment, measuring instruments, and chemical apparatus and this has handicapped the electric power and metallurgical industries.[42] "Bad management" is accused of responsibility for breakdowns and poor quality of product in some tractor plants. In one plant one-quarter of the tractors turned out could not pass inspection.[43] The "formalistic, bureaucratic attitude to house construction" on the part of plant executives has delayed industrial housing programs and reduced the efficiency of poorly housed workers.[44] The secretary of the Communist party in Leningrad charged in *Pravda* that "flow production" is not widely adapted in plants and that "25 to 30 per cent of the new high capacity machinery remains unused in our plants." He also criticized the "storming" methods whereby management seeks to meet monthly production quotas by extreme speed during the last few days of the month. He declared that "as a rule our plants realize about 60 to 70 per cent of their month's program during the third ten days of the month." He further pointed out the consequences of the predominance of unskilled labor (40 to 60 per cent of the total) in Leningrad enterprises and of the slowness of mechanization.[45]

[39] Philadelphia *Sunday Bulletin*, February 23, 1947.

[40] New York *Times*, October 31, 1946.

[41] Philadelphia *Sunday Bulletin*, February 23, 1947.

[42] Charges made by the Chief of the Precision Instrument Section of the Administration of Machine Construction of the State Planning Commission, New York *Times*, November 18, 1946.

[43] New York *Times*, December 12, 1946.

[44] *Trud*, the publication of the trade unions, New York *Times*, December 12, 1946.

[45] New York *Times*, January 3, 1947.

Among other failures detailed in the soviet press from time to time are: Accumulations of superfluous stocks of raw materials and finished goods in the manufacturing plants; failure to keep plants clean and avoid consequent spoilage of products; failure to analyze correctly the qualities of raw materials before setting up plants to process them; neglect of the upkeep of equipment in order to achieve dramatic production records; undue emphasis upon the quantity of output at the expense of quality; defective blueprints; overleniency of product inspectors; and failure to utilize most effectively various skills possessed by workers already employed in a plant.

The most comprehensive managerial failures appear to arise from the bureaucratic management of industry. Just prior to the beginning of the War a high official of the Communist party documented this cause of inefficiency. He cited top-heavy bureaucracy, laziness, and "armchair" administration in some of the Commissariats (now Ministries). He charged that "the leading officials of the Commissariats seldom visit their factories and do not assist in the plant management, obviously preferring bureaucratic paper leadership." He attacked "conservative executives" who were unwilling to try new technological processes and he contended that "serious daily control of work in the industrial enterprises does not exist."[46] Apparently bureaucratic troubles persist since the close of the War. *Trud* has charged that "while factories in production lack skilled workers, the staffs and administrative branches of various enterprises are excessively swollen" and in some plants "scores of office workers are occupying posts not provided for by tables of organization." In some cases those listed as shop personnel actually are in office jobs.[47] In late 1946 drastic measures were undertaken to move office personnel into shop jobs, but *Pravda* reported that not all officials showed "proper initiative" in this effort and that the movement encountered "stagnancy and bureaucratic resistance" among some officials.[48] Another instance of bureaucratic trouble has been the tendency of war-time bureaus and agencies to remain in existence and staffed after the need for them has passed.[49]

Attempts to correct administrative inefficiency by subjecting managerial personnel to criminal prosecution have encountered an inherent difficulty. They have enhanced the bureaucratic and red-tape aspects of management by giving the occupant of a managerial post good reason for having at all times a file of correspondence constituting adequate proof that he was not solely responsible for any decision which might be questioned. It requires little imagination to visualize the effect of this upon the amount of "paper work" involved in making any managerial decision and upon the

[46] Report to the 18th Party Conference, February, 1941. New York *Times*, February 17 and 19, 1941.

[47] New York *Times*, October 23, 1946.

[48] *Ibid.*, October 31, 1946.

[49] *Ibid.*

willingness of a managerial official to use initiative in adopting new processes or forms of intraplant organization.[50]

The net results of failure to generate industrial efficiency, of course, are low productivity per worker and high production costs.[51] In the end these cause consumers' goods to flow from production units in lesser volume than was assumed by socialist theory and anticipated by the early leaders of the Soviet Union.

4. *The quality of manufactured goods has been low.* The drive to meet quantity goals has caused quality to be neglected. Machines often have been shipped from their points of production with parts missing or with some vital part made of such poor material that a breakdown occurs after a short period of use. Coal mixed with dirt, and steel that does not meet the standard in alloy content, have been other instances of quality deficiencies. In consumers' goods, the emphasis upon immediate production has caused such matters as finish, colors, variety, style, trimmings, durability, and other refinements to be neglected. The quality of some of the newly constructed housing has been very low. Following the currency reform and the abolition of rationing in December, 1947, another wave of criticism of the quality of retail merchandise appeared in the press. In spending his newly issued rubles at the new prices, the retail buyer apparently was examining quality more carefully. The press reminded purchasers that they could apply to public prosecutors for relief if defective goods were sold to them and reminded store managers that selling defective commodities was a crime against the state and was punishable by imprisonment of from five to eight years.

5. *Reconversion has occurred at a slow pace, particularly in key industries.* While the speed of reconversion from wartime industry cannot be measured with precision, it was incomparably slower than in the United States. One observer finds that "in the victorious Soviet Union the devastation and unsettlement of the war are being overcome at a pace not much quicker—so far—than the rate of economic rehabilitation in western Germany."[52] Gross civilian production was reported 20 per cent higher in 1946 than in 1945 but, since the diversion of plant and labor to civilian production must have been more than 20 per cent, the results indicate a

[50] It is sometimes held that bureaucracy constitutes the fatal weakness in the soviet system. M. T. Florinsky has summarized this position as follows: "Divorced from their natural environments and entrusted to the hands of Soviet bureaucrats and workers, both laboring in the strait-jacket of planned economy under the threat of arbitrary and severe penalties, up-to-date machines and refined industrial processes are shorn of much of their seemingly inherent virtues. Bureaucratic fetters are incompatible with business efficiency, and it is the major tragedy of Soviet industry that bureaucratism is the very essence of the Communist State." *Political Science Quarterly,* March, 1941, p. 50.

[51] The president of the State Planning Commission is reported to have estimated prior to the War that soviet labor turned out only about one-half or two-fifths of the average output of an American worker. *Fortune,* July, 1941.

[52] Correspondent of the *Economist,* London, New York *Times,* April 15, 1947.

"steep decline in productivity."[53] Reconversion has been reported as seriously delayed in such key industries as coal, precision instruments, construction of industrial housing, automobiles, ball bearings, and agricultural machinery. In addition to the severity of the war losses, the principal reason for the slowness of reconversion appears to be the managerial inefficiency described above. Also, the difficulties in the key industries raise some question about the efficiency of the planning agencies in coping with the reconversion problem.[54]

6. *Individuals have not been socialized in their motivations.* In fact, if one excludes the Communist party members—a relatively small but important group of local and national leaders—it becomes difficult to discover substantial differences between the incentives which actuate the mass of soviet workers and those which operate under our capitalist economy. Both groups work to get a living, and both are stimulated to exert their best efforts by incentive wage scales supplemented by a fringe of economic and non-economic prizes and awards. Without denying that the existence of socialized property in producers' goods may have changed the individual's attitude toward property in the direction of "not mine for me but ours for us," the reliance upon economic incentives to stimulate the individual to engage in *daily productive activities* does not seem to be giving way to a social motivation under which work is undertaken for the benefit it bestows upon the group as a whole.

All of this is scarcely in accord with the fundamental assumptions, hopes, and plans of the soviet system. While the dreams of a sudden and complete socialization of the individual were abandoned early by the leaders of the Communist Revolution, the entire theory of the system involves a steady, even though slow, increase in the social motivation of the individual, at some distant point (full communism) achieving complete domination over all individual economic incentives. There is no evidence that this development is occurring in the Soviet Union in any degree at all significant to the underlying theory of the system or the plans for an eventual full communist system.

Reports from the Soviet Union indicate there may be something of a post-war "crisis in the morale of the working population . . . due to disastrous housing conditions, to shortages of food and consumers' goods, and also to general post-war frustration."[55] If the soviet press reports are to be taken seriously, dishonesty, bribery, and favoritism are far from rooted

[53] *Ibid.*

[54] For instance, it is pointed out that, although the coal industry fulfilled its plan for 1946, there still was a coal crisis. This may indicate that "the planners in Moscow have not been bold enough." Correspondent of the *Economist,* London, New York *Times,* April 15, 1947. Available facts contradict the soviet claim that "the smooth processes of reconversion" are "due to the fact that Soviet industry is directed in accordance with the unified State Plan." *Information Bulletin of the Embassy of the U.S.S.R.,* May 9, 1946. See also issue of April 16, 1946.

[55] Correspondent of the *Economist,* London, New York *Times,* April 15, 1947.

out of the socialist system. These failures to socialize motivations result in "lack of principle, efforts to place personal welfare above that of the state, violations of labor discipline and the tendency to take as much as possible from the state while returning as little as possible."[56] Falsification of records and reports is a common charge in the soviet press. For instance the manpower in a plant is reported to supervisory authorities as greater than it is, or production data will be falsely reported to indicate achievement of planned goals.[57] *Trud* reported the amusing incident of the director of a farm attached to an industrial plant officially reporting they had raised sixteen cows weighing a total of 405.6 tons, which would be 25 tons for each cow, and twenty-three pigs with a total weight of 147.5 tons, or over 6 tons each.[58] The press has called for the elimination of "thieves and parasites" who "feather their nests" by dishonest and illegal practices in the . . . trading organizations, and there are reports of bribes accepted for overlooking infractions of rules.[59] There have been reports of death and prison sentences for stealing and squandering grain on collective farms.[60] The newspaper *Culture and Life,* in demanding improvement in the soviet film industry, cites the "criminal squandering and pilferage of state property in many studios" and the choosing of actors and actresses for roles on the basis of "friendly and domestic relations."[61] While such reports give no measure of the extent of motivation deficiencies, they corroborate the conclusion that motivations of the masses have experienced no major change in the direction of socialization.

7. *Economic and social inequality has continued to exist and has assumed new forms and patterns.* While the social composition of the population has been altered fundamentally, major elements of economic inequality persist and the population is far from being in a classless state. The average economic position of office employees and manual workers in manufacturing enterprises probably is materially better than that of the members of collective farms. Among the latter, the members of some collective farms are much better off than the members of the "poor" collectives and the same variation appears among the producers' cooperatives. On each collective farm, the incomes of managers, technicians, and brigade leaders are substantially higher than those of the run of the members. In state industrial enterprises, highly skilled workers earn as much as six times the lowest earnings in the plant while the earnings of foremen, technicians, and managers may range as high as three or four times the earnings of skilled workers, and be supplemented by special privileges in the form of

[56] Drew Middleton, paraphrasing reports in *Trud,* the publication of the soviet unions. New York *Times,* November 13, 1946.

[57] New York *Times,* February 8, 1947; August 26, 1946.

[58] *Ibid.,* December 27, 1946.

[59] *Ibid.,* November 21, 1946; February 8, 1947; July 8, 1946.

[60] *Ibid.,* December 26, 1946.

[61] *Ibid.,* January 3, 1947.

the use of an automobile or access to better living quarters. While, prior to December, 1947, the differential price system greatly reduced the significance of differences in ruble earnings, it is probable that the *real* wages of some employees were ten or even twenty times as high as the wages of others. If the goal of a one-price marketing system approaches achievement these ruble differences in earnings will take on added significance and inequalities in real incomes will be increased.

Certain other relatively small groups in the population, such as successful authors, musicians, playwrights, and actors, achieve economic levels comparable to and even above those of the high income industrial managers. Apparently standing high above all these classes in ability to live well are the trust managers, the ranking officials in the Ministries and planning agencies, heads of trade unions, and high government and party officials. Although there are no reliable data on their incomes in terms of rubles they unquestionably are many times as high as the wages of the low-rank government employees who receive about the same compensation as do the lower ranks of industrial workers. There seems to be little doubt that high government and party officials occupy privileged positions enabling them to possess personally such scarce commodities as automobiles, country homes, fine clothing, and other luxuries. While it would require intimate contact with soviet life properly to assess the significance of these economic differentials and to decide whether they are becoming a counterpart of pre-soviet class distinctions, there is some evidence that they constitute a trend quite foreign to the socialist theory of a classless society.

In connection with the matter of economic inequality the inheritance laws of the Soviet Union merit special attention. The Constitution states that the rights of citizens to "personal property" in their savings, their dwelling-houses and subsidiary "home enterprises," their household furniture and utensils and articles of personal use and convenience, as well as the right of inheritance of personal property of citizens, "is protected by law."[62] Thus, durable consumers' goods, producers' goods used within the family, and such claims to wealth as government bonds and government savings bank deposits are inheritable at the death of the owner. Heirs with prior claims are "children (including adopted children), the spouse and incapacitated parents of the deceased, as well as other incapacitated persons who have been dependent upon the deceased for not less than one year prior to his death."[63] No testator can deprive his minor children or incapacitated heirs of the shares they are entitled to under the law. In the absence of such heirs, the next in line are able-bodied parents and, if there are none, then brothers and sisters of the deceased. In the absence of legal heirs, a testator may bequeath his property to any person or organ-

[62] Art. 10.

[63] U.S.S.R. Inheritance Law of March 14, 1945.

ization he chooses. If there are no legal heirs and the owner dies intestate, his property goes to the government. Apparently the institution of inheritance fosters inequality in a socialist economy, but it is too early to judge its exact significance in this respect in the Soviet Union.

8. *It is doubtful whether a planned economy, in the full sense of the term, has been constructed.*[64] While the state undoubtedly has achieved control of and authority over the economy and set its tempo of operations, and while economic planning techniques unquestionably have been utilized, there remains a substantial doubt as to whether a *truly planned system* now exists in the Soviet Union. There have been wide differences in the degree to which respective portions of the comprehensive plans have been fulfilled. Industry has been advancing "unevenly, joltingly, disproportionately," whereas a truly planned system would give evidence of a coordination of interdependent constituent parts with "harmonious development free from crises."[65] Certain failures may be excused by showing that in many instances the plans have been so ambitious that they could not be realized. However, this fact casts doubt upon the attainment of a *planned system,* for "the strength of a planned economy lies in its system of foresight" and "the ability to foresee has turned out not to be inherent in the Soviet economy." A planned economic system means something more than using "centralized management," the "vigilance," "insistence," and "driving force" of government, and "shock methods" to operate the industrial system.[66] Moreover, the increasing emphasis upon both the flexibility of plans and their practical administrative problems at the expense of theoretical aspects of planning creates some doubt as to whether there is an effective trend toward a fully planned economic system.[67]

9. *There has been no tendency to emerge from certain features of the "dictatorship of the proletariat."* While soviet leaders contend that "full socialism" has been achieved and the liquidation of the owning class has been completed, certain of the developments which, speaking doctrinally, were to accompany these achievements are conspicuously lacking. If, during the period of socialization and the liquidation of the owning class, the state was needed solely as an agency of oppression to these ends, and if these ends are claimed achievements, one might legitimately expect to find substantial evidence of the progressive "withering away" of the machinery

[64] This doubt has been most ably discussed and substantiated by A. Yugow in his book, *Russia's Economic Front for War and Peace.* The treatment here is a summary of his more detailed analysis. See pp. 8–10, 24–25, 31, 38–39, and all of Chap. 11. Various other analyses of the Soviet Union touch upon this point. See, for instance, a review of Memorandum No. 12, Birmingham Bureau of Research on Russian Economic Conditions, in the *Economist,* January 6, 1940, p. 5.

[65] A. Yugow, *Russia's Economic Front for War and Peace,* pp. 38, 236–237.

[66] *Ibid.,* p. 239.

[67] *Ibid.,* pp. 8–9, 236, 242.

of the state. Apparently nothing has happened which can be referred to by this phrase.

On the contrary, the arms of the government seem to have become longer and more powerful, while the Ministries, boards, commissions, etc. have tended to multiply and to absorb the energies of a constantly increasing body of officials and their staffs. Nor can the oppressive activities of the state machinery be said to have withered. Although the dramatic treason trials of 1936 to 1938 have not been repeated, managers and workers have been made criminally responsible for the efficient carrying out of their duties. Numerous severe penalties have been meted out to those found guilty of dereliction.

Tangible evidence of the continuation of oppression is the existence of the ubiquitous secret police. This organization is closely controlled by the Politburo and presumably does its bidding. Reports indicate that its agents are everywhere and are vested with powers of detention, questioning, and search incomparably greater than those of our own police agencies. Another piece of evidence is the "political prisoner." Practically nothing is known about this agency of oppression except the fact of its existence. "Corrective labor camps" are reported to have been established in 1923 and to have grown in size during the 1930's when the government was actively searching out political offenders and non-conformists. Political prisoners, both men and women, are reported to be used as laborers on such public construction work as building railways, highways, and canals, drainage projects, and so on. No reliable estimate of the number of political prisoners has ever been made but guesses as to the present number run from 6 to 17 million with the most frequent guess being about 11 million. Apparently any political dissenter who is sufficiently important personally, or whose anti-government activities appear important, is a prospective political prisoner.[68]

The suggestion that the soviet system has failed in this respect is not adequately refuted by the contention that the government must liquidate the "Trotskyist traitors," "foreign spies," and "wreckers," who in motive and deed are none other than the transfigured owning classes. This redefinition of the parties in the class struggle appears to go on endlessly as the never failing justification of a strong oppressive state with highly centralized power vested in a small group of "pure" communists. During the early post-war period the "enemies" of the "working-class state" have been defined as the "capitalist imperialist states" which attempt to "encircle" the Soviet Union and which "plot" against her. Such ideas both justify continuance of drastic governmental policies and appeal to the ordinary citi-

[68] For further details see *Communism in Action,* House Document No. 754, 79th Congress, 2nd session, 1946, pp. 54–58. This document is based on secondary sources indicated therein.

zen who appears to have an "inherited fear of the lands beyond his border."[69] With such an approach, any difference of opinion between the Soviet Union and another nation can be interpreted as an enemy attack on the socialist state of the U.S.S.R.[70]

10. *Certain long-promised and hoped-for institutions, commonly held to embody the spirit of real democracy, have failed to develop.* This statement is not to be confused with a charge that the system is basically undemocratic. The person who issues the latter challenge at the soviet system must be prepared to defend the precise definition of the term "democratic" upon which his contention is based. The literature of political theory offers ample proof that defining "democracy" is a disconcerting task. While the mind of the western world is inclined to define it in terms of the specific institutions and processes which by tradition and intimate contact it has come to believe synonymous with that concept, a little critical reflection will show that democracy cannot be conceived of in terms of electoral eligibility and rules of representation in legislative assemblies. Democracy, if it is to be a meaningful term, must refer to the

[69] See H. E. Salisbury, New York *Times,* Magazine Section, April 6, 1947. In December, 1947, *Pravda* warned citizens against "imperialist" spies as follows:

The methods and tactics of subversive activities, foreign agents, spies, diversionists and terrorists sent into the Soviet Union have changed, but the substance and character of their work have remained unchanged.

An imperialist program is aimed at undermining the military and economic might of the U.S.S.R., at restoring a capitalistic regime on Soviet soil and bending the Soviet people to the yoke of colonial exploitation. (New York *Times,* December 21, 1947.)

[70] Thus, it is interesting to note that, whereas Stalin, in November, 1936, is reported to have said: "In the U.S.S.R. we have not had antagonistic classes for a long time," it is reported that four months later he said: "It is necessary to remember that while there are capitalistic neighbors, there will be wreckers, spies and terrorists working at our rear on behalf of foreign governments." In the latter speech, referring to the Trotskyists, Stalin also said: "They have degenerated into an unprincipled gang of wreckers, murderers and hired agents of foreign secret service agents. We must formulate new methods for uprooting and dispersing these enemies." Reports of two speeches by Stalin, New York *Times,* November 26, 1936, and March 29, 1937. At a still later date he suggested that the Marxian doctrine of the withering away of the state has been misinterpreted, saying that "all the Bolsheviks, all of us without exception, have sinned to a certain extent in this respect." He attributed this to "our unpardonably heedless attitude to matters pertaining to the theory of the state, in spite of the fact that we have twenty years of practical experience in matters of state which provided rich material for theoretical generalizations. . . ." He urged that theoreticians give attention to this problem since, "given the desire, we have every opportunity of successfully filling this gap in theory." Report of Stalin to the 18th Party Congress, Moscow *News,* March 16, 1939. In 1947, in a talk with Harold Stassen, Stalin similarly commented: "As for Marx and Engels, they were unable to foresee what would happen forty years after their deaths." Text of Conference, New York *Times,* May 4, 1947. One of the official objectives of the fourth Five-Year Plan is "to further enhance the defensive power of the U.S.S.R." "The Law on the Five-Year Plan for the Restoration and Development of the National Economy of the U.S.S.R. for 1946-1950," *Information Bulletin of the Embassy of the U.S.S.R.,* June, 1946, p. 4. Thus, any interference with the Plan becomes treason to the state, defense against "encirclement" by capitalist enemies comes to the fore, and necessarily the "withering away" of the state again is postponed indefinitely.

substance rather than the form. In short, it must refer to the degree of response of government institutions and processes to the popular will.

Defining democracy in such terms gives it a certain fundamental and yet subtle character which reveals the careless and loose manner of its customary use. The existence or non-existence of democracy in *this* sense cannot be tested by reviewing the mechanical structure and processes of government. Response to popular will lies much deeper than these. Effective and infallible means for ascertaining its presence or absence in a given situation have not as yet been invented. Hence, it is almost meaningless to say that the soviet system is undemocratic or that Stalin and his immediate aides are remaining in power undemocratically. Who, if anyone, has made observations sufficiently numerous and objective to enable him to say that the currently prevailing policies and practices of the government of the Soviet Union are not in accord with the popular will of the soviet citizens?

Without any implication that they constitute conclusive or even substantial proof of the dominance of the popular will in the policies of the Soviet Union, several facts are worthy of note in this connection. These are generally agreed to by students of soviet affairs. First, there exists in the Soviet Union an intricate web of connecting links through which Communist party leaders, if they care to do so, may sample mass opinion. In this maze of connections are the following: the party organization itself which, despite probable domination by its leaders, affords some potential channels whereby opinion may travel up as well as down; the elaborate elected government bodies stretching from the local soviets to the Supreme Soviet of the U.S.S.R.; the network of trade union organizations whose membership includes practically all of the workers in large-scale industries; and a variety of cultural and other types of organizations which are linked to the party leadership in numerous ways at numerous places.

Second, it should be noted that the treason trials which featured in the soviet news during the late 1930's, particularly those which dealt with accusations of political treason in high places, did not indicate any mass participation in these alleged activities. In each case the accusations revolved about a small group of insiders who apparently were acting as unconnected and unorganized saboteurs or pretenders to the throne.

Third, it is significant that neither in the immediate pre-war nor the post-war period have there been reports of widespread dissatisfaction with the existing régime. Despite the censorship imposed upon outgoing information, there are various ways in which reports of dissatisfaction, if it existed, could be expected to leak out. Numerous newspaper and periodical correspondents have left the country apparently not expecting to return. Hence, they have written freely and, while they have criticized many features of the soviet system, they have denied the existence of popular dissatisfaction with it. The New York *Times* correspondent, writing during

the disturbed years of the late 1930's, persistently reported the absence of widespread dissatisfaction with the government.[71]

During the War the strength of the soviet military forces indicated at least general support of the government by the masses. Following the close of the War, correspondents again have consistently reported that the existing régime has mass support. One, who was so generally critical as to arouse the ire of soviet leaders, reported that "as far as a foreigner can tell, the Soviet leaders are in a strong position. . . . Apart from normal grumbling about the hardness of living, the people seem to believe in their government. . . . As far as I know, the government is not imposed on the people against their will nor is it a corrupt government that puts the interests of any one group ahead of what are regarded the true interests of the State."[72] Returning from the 1947 Moscow meeting of the Council of Foreign Ministers, another correspondent held that "it would be folly to say that the Soviet has been kept in power by terroristic tactics alone. Whether the system is good or bad, the people in Russia seem to believe in it, and, by and large, accept it matter-of-factly and trust the vision for the future that the Kremlin has pictured for them."[73] Another reports that "the Communist party survived the war in excellent shape" and "was never in danger of losing power to the army." He further reports: ". . . the Government remains supreme. In it, one gathers from all types of sources, the people repose huge confidence and give it obedience—even if they quietly, as in so much of the unhappy world today, grumble to each other."[74] Dr. John M. Hazard, a most careful student of soviet affairs has concluded that "the U.S.S.R. has passed through its turbulent stage and is entering upon a period of relative stability. Major political and economic issues have been settled."[75]

This is significant evidence. How accurately it reflects the degree to which the soviet government's specific policies represent the popular will must be left to be determined by him who feels competent to define the "popular will" and to establish means of ascertaining its devious modes of expression.

Nevertheless, to return to the opening statement in this section, certain promised and hoped-for forms, which are commonly assumed to be the

[71] In September, 1937, he wrote: "As far as one can see, the only active dangerous discontent has been among the old ideologists, and they are gone now." *International Conciliation,* December, 1937, p. 839. Still later he reported as follows: "At a private unofficial dinner of foreign diplomats last week there occurred a conversation that would probably have startled the Kremlin. . . . This group of diplomats—probably as intelligent and well-informed a neutral group of observers as could be found—agreed that if a completely free election were held tomorrow with Stalin as candidate for president, Stalin would be elected." New York *Times,* May 3, 1938.

[72] Brooks Atkinson, *Life,* July 22, 1946.

[73] Carl W. McCardle, Philadelphia *Evening Bulletin,* April 24, 1947.

[74] C. L. Sulzberger, New York *Times,* May 1, 1947; April 29, 1947.

[75] New York *Times,* December 28, 1946.

outward evidences of democracy within, have not been developed. In general, they include freedom to organize legally recognized political parties representing all manner of opposition to government policies currently holding sway; the right and privilege of choosing from among independently nominated candidates the officials who are to enact, interpret, and execute the laws of the land, and who are to administer justice; and the right of, and facilities for, criticizing openly, either independently or as organized groups, the current policies and practices of a government. Nowhere have these generally accepted requisites of real democracy been completely possessed by any people. This, however, is beside the point. The question is this: Has the Soviet Union in any real sense or substantial measure met its friends' hopes and its own promises by creating these forms and instilling into them the spirit and vitality necessary to their realistic, even though imperfect, functioning? If it has not, by what other objective evidence can a measure of real democracy be *proved* to exist?

In fact, it is within this sphere that the soviet system has fallen most short of expectations. The student must not be misled by the promises of the Constitution. This document grants to the citizens of the Soviet Union "freedom of speech; freedom of the press; freedom of assembly, including the holding of mass meetings; freedom of street processions and demonstrations. These civil rights are ensured by placing at the disposal of the working people and their organizations printing presses, stocks of paper, public buildings, the streets, communications facilities and other material requisites for the exercise of these rights."[76] In defining the political rights of the citizen, the Constitution further provides that "voting at elections of deputies is secret. . . . The right to nominate candidates is secured to public organizations and societies of the working people: Communist party organizations, trade unions, cooperatives, youth organizations and cultural societies."[77] While these constitutional provisions apparently grant liberal civil and political rights to every citizen, it is notable and of the utmost importance that he is not given the right to organize politically outside, or in opposition to, the Communist party. Without this right he is politically helpless. Whatever civil liberties he thinks he has are only in reality those which the single legal party admits are derived from the words contained in the Constitution, and even these words qualify the granting of civil liberties by the phrase "in order to strengthen the socialist system."[78] What such phrases mean may be the subject of academic debate, but, in effect, no interpretation aside from that of the Communist party leaders has any practical significance in the Soviet Union.

The realities are quite different from the high-sounding constitutional phrases. Never does a candidate other than one from, or approved by, the

[76] Art. 125.
[77] Arts. 140, 141.
[78] Art. 125.

Communist party stand for election. Assemblies which presumably are legislative meet to approve decisions made by more restricted bodies, which in turn approve decisions made by still smaller bodies, which eventually derive their policies from the Politburo—the innermost sanctum of the Communist party. Within the party the major decisions appear to flow from the top down, from the few to the many. Strategic government bodies such as the State Planning Commission, the State Bank, and the Council of People's Ministers unquestionably are completely dominated by the party. The same is true of the court system and the powerful State Procurator of the Soviet Union and his extensive subordinate staff. American newspaper correspondents are unanimous in their opinion that the soviet press is controlled and utilized by the existing régime for propaganda purposes. While many correct factual items are published, "it is in their selection and emphasis, their 'angling,' their shading, that the reader is led by the nose."[79] This control is relaxed only enough to permit the principle of "self-criticism" to bring to light *detailed* failures to carry out economic policies and achieve industrial goals. It never extends to a free discussion of *policies*. Indeed, one newspaper correspondent finds that the Russian really has no concept of "a press which is individualistic, a press which reports events upon a canvas of its own choosing."[80] Another, finding the Russians "badly informed and thoroughly misled by their controlled political press," divides them into two classes so far as world outlook is concerned: "(1) Those who cannot or will not read and know nothing; (2) those who see only what the Kremlin crowd permits and are consequently far off the beam."[81]

Clearly these are not the attributes of a real democracy as that concept has substantive meaning for the mind of the western world. The essence of the situation is that, aside from a revolution, there is no means whereby the existing government can be replaced, nor is there any means of installing another party in place of the Communist party. Whether real democracy in a basic but subtle sense may inhabit the bones and sinews of the soviet system, despite our inability to see it through our concepts, will be a matter upon which sincere and able students of the Soviet Union will continue to disagree. However, we do not believe that the substance of real democracy can flow through the existing forms and processes. Indeed, this fact casts some doubt on whether it is legitimate to call the system "socialist."[82]

[79] Edgar Snow, *Saturday Evening Post*, February 22, 1947.

[80] H. E. Salisbury, New York *Times*, Magazine Section, April 27, 1947.

[81] Ivan H. Peterman, The Philadelphia *Inquirer*, April 30, 1947.

[82] See definition of socialism on p. 260. It is interesting to note that the American Institute of Public Opinion, Princeton, New Jersey, in 1947 conducted polls in various countries to determine where people *thought* democracy existed. In the results summarized below it is notable that in the United States only 5 per cent thought democracy prevailed in Russia and that in Sweden and Holland the percentages were 14 per cent and 11 per cent respectively, while in France where a strong Communist party exists

It would be unfair to leave this point without calling attention to the fact that soviet leaders defend their system as more democratic than ours. While we have labelled their press "controlled" they refer to it as "free" and "objective" because it acts in the interest of the working class. On "Press Day" in the Soviet Union *Pravda* contrasted the soviet press controlled by "the working class and the people" with the capitalist press, controlled "secretly from unclean sources." The newspapers of "big business" do not "express the opinion of the people," said *Pravda*.[83] The claim is that soviet information "is objective because we have nothing to hide. We have no monopolist press which pays generously for lies. American and British broadcasting companies follow the methods of the reactionary press which believes in slandering."[84]

Likewise a "two-party" political system in a capitalist country is held to be less democratic than a one-party system in a country where natural resources and industries are owned by the whole working class. In his conversation with Mr. Harold Stassen in 1947, Stalin said: "It is all the same to us. We do not see any big difference between the Republicans and the

only 24 per cent answered affirmatively. The only country receiving a smaller percentage of affirmative answers than Russia in all four countries was Spain.

The question asked was: "Do you think there is democracy in the following countries?"

Results in U. S. A.

	Yes	No	No op.
U. S. A.	88%	8%	4%
England	48	35	17
France	32	40	28
Holland	28	30	42
Argentina	12	59	29
Poland	9	63	28
Russia	5	83	12
Yugoslavia	4	59	37
Spain	4	72	24

Results in Sweden

	Yes	No
Sweden	95%	5%
England	86	14
U. S. A.	85	15
Finland	65	35
France	59	41
Poland	25	75
Russia	14	86
Spain	3	97
None	2	98

Results in France

	Yes	No	No op.
Switzerland	82%	4%	14%
U. S. A.	74	12	14
England	71	15	14
France	65	22	13
Russia	24	57	19
Poland	16	40	44
Yugoslavia	15	39	46
Greece	6	50	44
Spain	2	86	12

Results in Holland

	Yes	No	No op.
Netherlands	67%	15%	18%
England	68	10	22
U. S. A.	59	15	26
Belgium	51	16	33
France	47	19	34
Russia	11	66	23
Spain	3	70	27

In England no list was presented, the voters being merely asked whether they think England has democracy. The vote was yes 50 per cent, no 32 per cent, no opinion 18 per cent.

In Canada, the vote on whether Canadians have a democracy was yes 57 per cent, no 15 per cent, no opinion 14 per cent, with another 14 per cent giving qualified answers. The Philadelphia *Sunday Bulletin*, May 4, 1947.

[83] New York *Times*, May 5, 1947.

[84] Account of a Moscow radio broadcast, New York *Times*, May 9, 1947.

Democrats."[85] Since to the Russian communist both parties are capitalist parties interested in preserving an economic system which exploits the laboring masses, his one-party system controlled, he contends, by the working class itself represents a "higher" form of democracy. He likes to cite the fact that practically all qualified voters cast ballots in soviet elections while only 48 million of the 60 million qualified voters cast ballots in the 1944 presidential election in the United States.[86] In the United States the parties choose the candidates whereas in the Soviet Union the *people* choose them; in the United States the heavy costs of campaigning mean that "the parties with the most money have better opportunities,"[87] whereas in the Soviet Union no such expenditures are necessary. In the United States some minority groups are excluded from voting, the election machinery is operated by small groups of officials rather than by millions of citizens serving on election commissions as in the Soviet Union, and there is no "gerrymandering" in the Soviet Union. These and other contrasts are constantly cited by soviet writers to prove that "soviet democracy" is freer and rests on a broader base than does any other "democratic" system in the world. The final answer to criticisms of the one-party system always is: "Where the people are as one, there is no room for fierce struggle among various sections of society over major questions of policy,"[88] or, as put by Molotov, "How can it be helped if the Soviet people have formed bonds of close kinship with the Communist Party?"[89] The weight of these arguments which of course, stem directly from Marxian theory, must be judged for himself by the individual student.

QUESTIONS FOR CLASS DISCUSSION

1. Assuming that one were to evaluate only the economic aspects of the soviet system, what difficulties would he encounter?
2. Would it be legitimate to base an evaluation of the soviet system solely on its economic aspects?
3. Why is it so difficult to establish standards by which the soviet system can be appraised?
4. In what sense could it be considered an accomplishment just to keep a socialized system going, even though it operated inefficiently?
5. Has the soviet system contributed anything to the world's knowledge of world economic problems and possible ways of solving them?
6. What progress has been made under the soviet system in "heavy" industry and agriculture?
7. Is it safe to say that living standards have risen substantially under the soviet system? What difficulties are encountered in answering this question?

[85] Text of Conference, New York *Times*, April 15, 1947.
[86] Cited from *Pravda* by Brooks Atkinson, New York *Times*, February 10, 1946.
[87] *Information Bulletin of the Embassy of the U.S.S.R.*, January 7, 1946.
[88] N. Kareva, *Information Bulletin of the Embassy of the U.S.S.R.*, March 6, 1946.
[89] Speech at meeting of the voters of the Molotov Electoral Area of Moscow, February 6, 1946. *Information Bulletin of the Embassy of the U.S.S.R.*, March, 1946, pp. 3–4.

8. In what ways has the soviet system failed to achieve both its earlier and its later goals with respect to its international relations?
9. How can you account for the fact that the efficiency and productivity of the soviet economy have not developed as rapidly as expectations and promises indicated they would?
10. Of what significance is it that individuals have not developed socialized motivations as rapidly as had been hoped by soviet leaders?
11. Has economic inequality been eliminated in the Soviet Union? What is the significance of this fact?
12. Why is there a question about calling the soviet economy a truly planned system?
13. Would you classify the Soviet Union as a democratic state? Why is it so difficult to answer this question?

SUBJECTS FOR STUDENT REPORTS FOR PART VII

1. The Chief Events Leading up to and Comprising the Communist Revolution.
2. The Theoretical Issues Involved in the Struggle Between Stalin and Trotsky.
3. An Analysis of the Chief Provisions of the Soviet Constitution.
4. The Life of Stalin.
5. The Relation of the Government and the Communist Party of the Soviet Union to the Third International.
6. An Analysis of a Recent Government Budget of the Soviet Union.
7. An Analysis of a Five-Year Plan of the Soviet Union.
8. An Appraisal of the Soviet Union's Published Statistics of Production and National Income.
9. The Financial and Commercial Relationships Between the Soviet Union and Other Nations.
10. The Problems Involved in the Recognition of the Soviet Union Government by the Government of the United States.
11. A Comparison of the Soviet Constitution with the Constitution of the United States.
12. The Housing Problem in the Soviet Union.
13. The Lend-Lease Agreement Between the United States and the Soviet Union and Its Settlement.
14. Problems Connected with the Post-War Economic Relations Between Other Nations and the Soviet Union.

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Part VIII

Fascism in Italy and Germany

Chapter 27

THE DOCTRINES OF FASCISM

PRECEDING chapters have treated the philosophy of the socialist and communist movements and its translation into practical movements. The present chapter and the two which follow will treat the doctrines of fascism[1] and will summarize the economic experimentation under the fascists in Italy and the national socialists in Germany.

Although the chief fascist powers are at present under control as a result of military defeat there are several reasons why this review is important. In the first place, there is no evidence that the extremes of nationalism, racialism, and militarism in Germany which led to the rise of fascism there have disappeared from the German mind. Given opportunity, a revival of the national socialist system can be foreseen. Second, the set of ideas which fascists held in common represent a recrudescence of the "great state" of unlimited powers over individuals. This is offensive and dangerous to societies based on individual liberty. Third, residents of the Western Hemisphere have watched with alarm the transplantation of fascist ideas and personnel from Germany, Spain, and Italy to Argentina and the development there of a state similar to the fascist states in Europe. If the Peron government should succeed in organizing the remaining nations of South America under its leadership, a threat to Western Hemisphere solidarity would exist. Finally, during the brief fascist régimes in Germany and Italy a great amount of experimentation in the organization and operation of economic systems was carried out. Since the present volume is a comparative study of types of economies these systems deserve independent study.

[1] The terms fascism and fascist will be used to describe the economic systems of both Italy and Germany. In Germany the phrase national socialism might be used, but there is a growing usage of the term fascism to indicate the movement in general rather than merely its Italian manifestations. The word fascism is derived from *fascio* (plural, *fasci*) meaning a group or bundle. In the days of Rome a bundle of sticks with a battle-ax in their center was the symbol of the lictors. In Italy the fable of the father who taught his sons that the bundle could not be broken if the sticks were tied together, but might easily be broken one by one, is recalled in connection with the symbol. The lictor's symbol appears on the reverse of United States ten-cent coins.

The Place of Fascism in Modern Economic Movements

To a large group of liberals the years following the First World War seemed to hold promise that there would develop some adequate world state in which cooperation by agreement would replace conflict. In addition, the self-determination of peoples was held to be a desirable goal. Hence after World War I most of the new governments of Europe began as constitutional democracies. This picture of the future held that small nations were to be safe from the aggression of larger nations. Minorities were to be protected from the oppression of the majority. The "new freedom" was to protect the weak from the strong. After centuries of masculine domination women were given the suffrage, and feminine counsels were heard in the affairs of state. Labor was to be protected from exploitation by employers. Coercion was to diminish and civilization was to advance with civility rather than violence. Although such hopes were idealistic they indicated the direction in which progress was to be hoped for.

To the socialist and communist the lines of progress were to be somewhat different, although the ends were similar. The socialist's kind of freedom was to be economic as well as political. "Industrial democracy" became not only a slogan, but a toast to a new social order. The interpretation of "majority rule" meant that, since working people were the largest group in industrial populations, they were to hold the economic and political balance of power. This meant a basic distinction between those who worked and those who owned. Violent means of attaining this goal could be "justified" only because it constituted the workers' utopia of economic as well as political equality. Furthermore, world-wide workers' states would permit no more international war. That workers of one country should fight workers of another country was held to be an absurdity.

These hopes were badly shocked when the fascists acquired control of the government of Italy in 1922. Mussolini soon designated the twentieth century as the century of fascism. In another decade Hitler was building a state which was to "last for a thousand years." Each leader began as a common man and attained preeminence on the crest of the wave of social and economic changes which followed the First World War. Different personalities leading different nations, the two men reached a common ground in many respects. Each contended that democracy and economic liberalism had reached high tide in the early years of the present century and that fascism, not socialism or communism, was the "natural" successor. Each openly despised democratic majorities and berated the notion of an opposition party or the exercise of freedom of thought and speech. The ancient processes of public discussion were regarded as a source of disturbance. Each praised a militant minority bundled into a violent *fascio* which held the power and ruled the majority.

Frames of Reference for Economic Movements

Popular usage has established a convenient reference frame in which conflicting economic movements and systems can be placed. Socialism and communism are considered movements to the "left." Their chief characteristic is the intention of vesting ownership of land and capital in society as a whole, with democratic control of production, exchange, and consumption. Democratic control would necessarily mean considerable influence from those who work rather than own, since voting by all the citizens would give political and economic control to the majority.

The existing democracies, characterized by liberalism (that is, individual freedom and liberty), occupy a position somewhere near the "center." The means of production are privately owned; this is regarded by the historic liberal as "the first essential of freedom." Concentration of economic and political power is to be prevented by an honored system of checks and balances. Since such systems attempt to protect both private property and personal freedom they are subject to the attacks of both "right" and "left."

In turn, the fascist systems are classified as being on the "right," a reaction against both socialism and democracy. Fascism is a reaction against socialism because it officially denies control of the means of production to the workers. It opposes democracies by denying freedom to individuals. The socialist who reasons with Marx that capitalism is foredoomed to a complete and final collapse considers fascism the last desperate stand of "finance capitalism."

Fascist Criticism of Democracy

Although fascism in Italy and Germany came to power before any substantial set of doctrines was worked out, it had a background of theoretical purposes and justifications. In part these were criticisms of the economic and political systems which fascism displaced.

Fascists in Italy and national socialists in Germany denied that the majority of citizens should possess the uncontrolled right to vote. They held that the average individual's capacity for judgment is insufficient to determine public policy. Most citizens are fit only to be led. Emphasis was placed upon duties and not upon rights (as well as duties) as in democratic ideology. The free election of representatives to popular assemblies was condemned because it involves vesting citizens with the sovereign power and subjects representatives and officials to popular recall. Denying political equality among individuals, Mussolini urged that "the immutable, beneficial and fruitful inequality of mankind . . . can never be permanently leveled through the mere operation of a mechanical process such as universal suffrage." He quoted with approval the following passage from the nineteenth-century French philosopher, Ernest Renan:

Reason and science are the products of mankind, but it is chimerical to seek reason directly for the people and through the people. It is not essential to the existence of reason that all should be familiar with it; and even if all had to be initiated, this could not be achieved through democracy which seems fated to lead to the extinction of all arduous forms of culture and all highest forms of learning. The maxim that society exists only for the well-being and freedom of the individuals composing it does not seem to be in conformity with nature's plans, which care only for the species and seem ready to sacrifice the individual. It is much to be feared that the last word of democracy thus understood (and let me hasten to add that it is susceptible of a different interpretation) would be a form of society in which a degenerate mass would have no thought beyond that of enjoying the ignoble pleasures of the vulgar.[2]

Mussolini expressed further his own opinion of democratic forms of government in terms which need no further elaboration:

After socialism, fascism trains its guns on the whole block of democratic ideologies, and rejects both their premises and their practical applications and implements. Fascism denies that numbers, as such, can be the determining factor in human society; it denies the right of numbers to govern by means of periodical consultations; it asserts the irremediable and fertile and beneficent inequality of men who cannot be leveled by any such mechanical and extrinsic device as universal suffrage. Democratic régimes may be described as those under which the people are, from time to time, deluded into the belief that they exercise sovereignty, while all the time real sovereignty resides in and is exercised by other and sometimes irresponsible and secret forces. Democracy is a kingless régime infested by many kings who are sometimes more exclusive, tyrannical, and destructive than one, even if he be a tyrant.[3]

Hitler no less emphatically criticized democracy and proposed the abolition of majorities:

The national state must work untiringly to set all government, especially the highest—that is, the political leadership—free from the principle of control by majorities—that is, the multitude—so as to secure the undisputed authority of the Individual in its stead.

. . . . . .

There must be no majority decisions, but merely a body of responsible persons, and the word "council" will revert to its ancient meaning. Every man shall have councilors at his side, but the *decision* shall be made by the one Man.

. . . . . .

The principle which once made the Prussian army the most marvelous instrument of the German people has to be some day in a transformed meaning the principle of the construction of our whole State constitution: *authority of every leader towards below and responsibility towards above.*[4]

[2] Benito Mussolini, *Fascism: Doctrine and Institutions,* Ardita, Rome, 1935, pp. 22, 23.
[3] *Ibid.,* p. 21.
[4] The first two paragraphs are from *My Battle,* Houghton, Boston, 1937, pp. 186–187. This was the greatly abridged translation of the original German edition of *Mein*

These attitudes toward democratic forms were derived largely from the short experience which Italy and Germany had with democracy under the trying conditions which followed World War I. A working democracy requires a high level of public education and a reasonable degree of national solidarity, particularly in times of crisis. These conditions never existed in Italy. Illiteracy was excessive and both schools and press were extremely poor. The Italian was provincial-minded rather than national-minded. Consequently a dozen political parties existed, no one of which had a majority, and the government was intolerably inefficient. In the Chamber of Deputies there was much talk but little of the constructive legislation and action which critical post-war times demanded.

In Germany, the level of public education and literacy was high. However, the cumulative effects of a lost war, disastrous inflation, and reparation debts created a national sense of futility. While the German Reichstag functioned much better than the Italian Chamber of Deputies, there was growing conflict among the twenty-six parties represented. Fascists criticized elected parliaments as inefficient, and demanded "action, not talk."

Fascist criticisms of democratic forms of government thus began with doubts concerning individuals' capacities to choose their representatives and extended to the inefficiencies of elected assemblies in Italy and Germany.

Fascist Criticism of Competition and *Laissez faire*

Recent decades offer profuse illustrations of the difficulties which develop in economic systems. Despite economic progress which has resulted in higher living standards, there have been periodic breakdowns. Into these breaches in the competitive order government controls have been thrust. Mussolini stated his beliefs concerning such tendencies in competitive economies and the resulting necessity for state control. In his address to the Chamber of Deputis in 1934 on the Law Establishing the Corporations he described three evolutionary phases of capitalism. The period from 1830 to 1870 he termed the *dynamic period*—rapidly developing manufacturing industry and expanding markets. In this period of *laissez faire* the role of the state was minor. There followed a *static period* in which large-scale production developed trusts and monopolies that largely replaced competitive business. The third period, which began with the First World War, he called the *period of decline.* It was then that big business ran

Kampf, when publication of the book was not permitted outside of Germany. Since that time two complete editions have been published in the United States. The third paragraph is quoted from the edition published by Reynal & Hitchcock, New York, 1939, p. 670. This is a fully annotated edition containing valuable information essential to the understanding of Hitler and his book.

into difficulties and threw itself into the arms of the state. The conclusion drawn from this analysis is that modern business requires the strong intervention of the state in order to survive; hence the plan for state direction of the Italian economic system. It should be noted that Mussolini's description of the evolution of modern capitalism is essentially socialist theory.

In Germany, natonal socialists contended that capitalism as a system had failed to achieve stability, provide employment, and utilize its capital resources completely. They argued that this failure was due not to the *nature* of the system but to lack of central direction by a strong central governmcnt. The lack of unity of effort on the part of the various economic groups and classes was also blamed for the failure of the system to function properly. Moreover, national socialists wished to restore Germany economically and nationally to the role of a first-rate power. Since this was not considered possible under the existing system, there was a demand for direction from the national point of view.

Fascist Criticism of Socialism and Communism

In both Italy and Germany the fascists raced the socialists and communists for the control of the government. For purposes of opposition it was necessary for the fascists to deny certain fundamental doctrines which their opponents favored. Once the state was under their control, it became important to organize the economic system on principles substantially different from those of socialism and communism.

Mussolini argued specifically against several Marxian socialist doctrines. Without regard to his early socialist training, he contended that economic developments alone are insufficient to explain the course of history. Fascism instead "believes in holiness and in heroism; that is to say, in actions influenced by no economic motive, direct or indirect." The following statement by Mussolini illustrates the intensity of fascist opposition to Marxian doctrines:

> Fascism is now clearly defined not only as a régime but as a doctrine. This means that fascism, exercising its critical faculties on itself and on others, has studied from its own special standpoint and judged by its own standards all the problems affecting the material and intellectual interests now causing such grave anxiety to the nations of the world, and is ready to deal with them by its own policies.
>
> First of all, as regards the future development of mankind—and quite apart from all present political considerations—fascism does not, generally speaking, believe in the possibility or utility of perpetual peace. It therefore discards pacifism as a cloak for cowardly supine renunciation in contradistinction to self-sacrifice. War alone keys up all human energies to their maximum tension and sets the seal of nobility on those peoples who have the courage to face it. All other tests are

substitutes which never place a man face to face with himself before the alternative of life or death. Therefore all doctrines which postulate peace at all costs are incompatible with fascism. Equally foreign to the spirit of fascism, even if accepted as useful in meeting special political situations—are all internationalistic or League superstructures which, as history shows, crumble to the ground whenever the heart of nations is deeply stirred by sentimental, idealistic or practical considerations. Fascism carries this antipacifistic attitude into the life of the individual. "I don't care a damn" (*me ne frego*)—the proud motto of the fighting squads scrawled by a wounded man on his bandages, is not only an act of philosophic stoicism, it sums up a doctrine which is not merely political: it is evidence of a fighting spirit which accepts all risks. It signifies a new style of Italian life. The fascist accepts and loves life; he rejects and despises suicide as cowardly. Life as he understands it means duty, elevation, conquest; life must be lofty and full, it must be lived for oneself but above all for others, both near by and far off, present and future.

The population policy of the régime is the consequence of these premises. The Fascist loves his neighbor, but the word "neighbor" does not stand for some vague and unseizable conception. Love of one's neighbor does not exclude necessary educational severity; still less does it exclude differentiation and rank. Fascism will have nothing to do with universal embraces; as a member of the community of nations it looks other peoples straight in the eyes; it is vigilant and on its guard; it follows others in all their manifestations and notes any changes in their interests; and it does not allow itself to be deceived by mutable and fallacious appearances.

Such a conception of life makes fascism the resolute negation of the doctrine underlying so-called scientific and Marxian socialism, the doctrine of historic materialism which would explain the history of mankind in terms of the class struggle and by changes in the processes and instruments of production, to the exclusion of all else.

That the vicissitudes of economic life—discoveries of raw materials, new technical processes, scientific inventions—have their importance, no one denies; but that they suffice to explain human history to the exclusion of other factors is absurd. Fascism believes now and always in sanctity and heroism, that is to say, in acts in which no economic motive—remote or immediate—is at work. Having denied historic materialism, which sees in men mere puppets on the surface of history, appearing and disappearing on the crest of the waves while in the depths the real directing forces move and work, fascism also denies the immutable and irreparable character of the class struggle which is the natural outcome of this economic conception of history; above all, it denies that the class struggle is the preponderating agent in social transformations. Having thus struck a blow at socialism in the two main points of its doctrine, all that remains of it is the sentimental aspiration—old as humanity itself—toward social relations in which the sufferings and sorrows of the humbler folk will be alleviated. But here again fascism rejects the economic interpretation of felicity as something to be secured socialistically, almost automatically, at a given stage of economic evolution when all will be assured a maximum of material comfort. Fascism denies the materialistic conception of happiness as a possibility, and abandons it to the economists of the mid-eighteenth century. This means that fascism denies the equation: well-being = happiness, which sees

in men mere animals, content when they can feed and fatten, thus reducing them to a vegetative existence pure and simple.[5]

This passage contains a repudiation of the socialist doctrines of the economic interpretation of history, the class war, and the international appeal of the socialist movement based on the common working-class interests of all countries.

Fascist opposition to the Marxian theory of the state is most pronounced. According to Marxian doctrines, the state throughout history has been an instrument of force used for the suppression of the working classes by the owning classes. The socialist contends that this is what the totalitarian states were. During the period of proletarian dictatorship the state is forcefully to establish and confirm the economic and political control by the proletariat. Once socialism is safely achieved, the state as an instrument of force will wither away because it will no longer be necessary in a classless society. In contrast to this, the totalitarian state sets itself up as a permanent, forceful state which is to enforce its spiri and will on a naional citizenry. Fascism and socialism differ further on the matter of internationalism. To the fascist, the strong state has a "will and purpose of its own," and therefore must expand. The socialist holds that the workers' societies of the several nations should peacefully cooperate. Nationalism, not international cooperation, is the fascist doctrine.

Finally, fascism and socialism divide on the issue of the private ownership of property. Under socialism the instruments of production are to be socially owned and democratically controlled. Article VIII of the Italian Labor Charter states clearly the official attitude toward private property and private enterprise: "The corporate state considers that private enterprise in the sphere of production is the most effective and useful instrument in the interest of the nation."

In Germany there has been a similar defense of private property. In fact, much original support for the national socialists came from property owners and members of the middle class who suffered losses in the inflation in the years following World War I.

THE TOTALITARIAN STATE

The most significant fascist concept is the totalitarian state. Most of the practical results of dictatorships follow from this. The totalitarian state is a more inclusive entity than were the old tyrannies of kings. While the latter claimed to rule by divine right, the totalitarian state claims this right by its very nature. In democracies sovereignty is distributed among the citizens; the fascist state is *total,* it is the sole sovereign. Such a state is a greater power than "government." The often-quoted dictum of Mussolini: "Everything in the state, nothing against the state, nothing outside the state," is meant to be taken literally. The totalitarian state recognizes no

[5] Benito Mussolini, *Fascism,* pp. 18–21.

power greater than its own. As one author has phrased it, this kind of state is "Omnipotent, Omnipresent, Omnicompetent."[6]

On many occasions Mussolini emphasized the all-inclusive character of the fascist state.

> The keystone of the fascist doctrine is its conception of the state, of its essence, its functions, and its aims. For fascism the state is absolute, individuals and groups relative. Individuals and groups are admissible in so far as they come within the state. . . .
>
> The state, as conceived and realized by fascism, is a spiritual and ethical entity for securing the political, juridical, and economic organization of the nation, an organization which in its origin and growth is a manifestation of the spirit. The state guarantees the internal and external safety of the country, but it also safeguards and transmits the spirit of the people, elaborated down the ages in its language, its customs, its faith. The state is not only the present, it is also the past and above all the future. Transcending the individual's brief spell of life, the state stands for the immanent conscience of the nation. . . .
>
> Fascism desires the state to be strong and organic, based on broad foundations of popular support. The fascist state lays claim to rule in the economic field no less than in others; it makes its action felt throughout the length and breadth of the country by means of its corporative, social, and educational institutions, and all the political, economic, and spiritual forces of the nation, organized in their respective associations, circulate within the state.
>
> A state based on millions of individuals who recognize its authority, feel its action, and are ready to serve its ends is not the tyrannical state of a medieval lordling. It has nothing in common with the despotic states existing prior to or subsequent to 1789. Far from crushing the individual, the fascist state multiplies his energies, just as in a regiment a soldier is not diminished but multiplied by the number of his fellow soldiers.
>
> The fascist state organizes the nation, but it leaves the individual adequate elbow room. It has curtailed useless or harmful liberties while preserving those which are essential. In such matters the individual cannot be the judge, but the state only.[7]

Sovereignty

The most fundamental feature of any form of government is the location of sovereignty. The location of sovereignty determines who holds the power to compel. In both Italy and Germany this power was held by the state. Since the state is an abstraction and not a person, the persons who control the state are the ones who exercise sovereignty. Control was in the hands of the single legal political party. Where the party was responsible to a Duce or a Fuehrer power was exercised by the "dictator."

In Germany the ultimate source of law and authority was concentrated through the oath of "blind loyalty" to the "Leader" which members of the

[6] Robert C. Brooks, *Deliver Us from Dictators*, University of Pennsylvania Press, Philadelphia, 1935.

[7] Benito Mussolini, *Fascism*, pp. 27, 29, 40.

National Socialist party took. In contrast to this assumption of sovereignty by a single party and a "Leader," the sovereignty in democratic countries resides collectively in its citizens. They are subject to the law, but they as a group create the law. Under socialist and communist doctrines the sovereignty is presumably to be held by the workers. When fascists proposed the worldwide spread of fascist forms of government they proposed (without saying it) a relocation of the existing sovereign power.

Nationalism

If the fascist state is the sole possessor of sovereignty, it follows that the nationalistic basis of the state was to be emphasized. In both Italy and Germany this occurred. Mussolini drew the attention of Italians to the past greatness of Rome and to the possible expansion of the territories and powers of the *new* Rome. In Germany the basis of appeal was not only national, but racial. Pride in being a German was cultivated, and only Germans were admitted to citizenship. This emphasis upon race went to the limits of claiming the loyalty of persons of German blood who were citizens of other sovereign states. The expansion of Germany as a nation was emphasized and asserted to be a necessity.

The emphasis upon nationalism had vast international implications. The totalitarian states extolled the virtues of their own particular nations at the expense of other nations. Thus, it was a part of Italy's national policy to direct against the democratic countries propaganda which emphasized their "decadence." Likewise in Germany, the "racial impurities" of the populations of other countries were claimed to be indications of their weakness. Furthermore, Hitler and Mussolini pronounced themselves to be the "saviors" of Europe and the world from communism as expressed in the soviet system in Russia.

Nationalism, as a form of expression of the totalitarian state, was blunt in its demands. To Mussolini the Mediterranean was an "Italian lake." Totalitarian states which recognized no higher power than themselves, and no interests equal to their own, justified their hopes and their actions against other nations by appeal to force. This was no new doctrine; it had been applied in the past by all imperialist powers. The significance is to be found in its open expression in the face of former membership in the League of Nations and movements for "collective security." The following statement by Hitler emphasizes this principle:

> No nation on earth holds a square yard of territory by any right derived from Heaven. Frontiers are made and altered by human agency alone. The fact that a nation succeeds in acquiring an unfair share of territory is no superior reason for its being respected forever. It merely proves the strength of the conqueror and the weakness of those who lose by it. This strength alone constitutes the right to possess.

Therefore, just as our forefathers did not receive the land in which we live as a present from Heaven, but had to fight with their lives for it, so in future nothing will grant us land and life for our nation, except the power of a victorious sword.[8]

The State and the Individual

In democratic countries the individual holds rights guaranteed by constitutional statute. Furthermore, since the sovereign power is legally vested in the citizens collectively the individual *precedes* the state. The power of governments is limited, and officials, regarded as public servants, are subject to recall. It must be admitted that this system works imperfectly. Political equality does not mean economic equality and political parties are sometimes controlled by relatively small groups, but the basic attitude toward the rights of individuals is clearly defined. The socialist and communist movements propose to enlarge these individualistic rights in an economic way to achieve industrial as well as political democracy by collective action.

The totalitarian state reverses the democratic relationship between the state and the individual. When the state *precedes* the individual, the latter has rights only in so far as the state admits them; he has duties in so far as the state sees fit to, and can, impose them. Should the individual oppose the wishes of the state, the situation becomes one of the state versus the individual. An Italian fascist philosopher has stated the relation of the state to the individual as follows: "For fascism, society is the end, individuals the means, and its whole life consists in using individuals as instruments for its ends."[9]

Liberty was a conception usually interpreted in terms of the relative freedom of individual persons. Such an ideal was renounced by fascist doctrines. In its place a new kind of "liberty" is offered. The state to be admired is one which enforces discipline, law and order, and, above all, conformity among its citizens. Its citizens are free to exercise their rights to assist in developing a strong state, and their reward lies in being members of a strong state. Liberty is to be found not in obedience but in subjection to the law created by the state. A one-sentence statement by Giovanni Gentile, perhaps the leading Italian philosopher of fascism, expresses this unique understanding of liberty: " . . . the maximum of liberty coincides with the maximum of state force." Mussolini went still further and declared that history is progress from more to less liberty: "If historic fact exists it is this, that all the history of man's civilization, from the caves to civilized or so-called civilized man, is a progressive limitation of liberty."[10] Alfredo Rocco, one of the most nationalistic of the Italian writers, expresses fascist anti-

[8] Adolf Hitler, *My Battle*, p. 280.

[9] Alfredo Rocco, "The Political Doctrine of Fascism," *International Conciliation Bulletin, No. 223*, New York, 1926, p. 19.

[10] Herman Finer, *Mussolini's Italy*, Holt, New York, 1935, cited, p. 199.

individualism in these words: "For liberalism, society has no purposes other than those of members living at a given moment. For fascism, society has historical and immanent ends of preservation, expansion, improvement, quite distinct from those of individuals which at any moment compose it; so distinct in fact that they may even be in opposition. Hence the necessity, for which the older doctrines make little allowance, of sacrifice even up to the total immolation of individuals, in behalf of society. . . .[11]

The Single Political Party

Assuming that the total state is to exercise complete control over the nation, this control must be made effective through a political party. Since the state is of one mind and one policy only, a single party is necessary to enforce decisions which are made. In fact, an opposition party would involve the re-creation of the principles of liberalism which fascists denounce. The "party" takes its place in fascist doctrines as performing two functions. One is to provide a necessary mechanism for the *discussion and solution* of problems confronting the state.

Although the governments and economic systems of Germany and Italy bore sharp imprints of Hitler and Mussolini, it is a mistake to assume that dictators do their dictating from isolated towers. Instead, the party is the machine in which controversies may be permitted in the party "caucus" and in which policies may be determined. It also feeds information to the executives. In both Italy and Germany the government relied upon advisers in specialized fields to confer with government executives on ways and means of meeting problems. That this takes place only within the inner circle is plain; once decisions are made, the "party line" is binding. However, there is one further characteristic of the single party.[12] Its head is the Duce or Fuehrer, and final decisions on disputed points rest with the leader.

The second function of the single party in the totalitarian state is to enforce decisions of the dictatorship. To do this it was necessary to place party men in key posts. Since party members were considered to be in the service of the state, they were expected to occupy the important political posts to which they are appointed by the party. They were also to assist in ferreting out opposition and in securing enforcement of government decrees.

FASCIST ECONOMICS

The primary principle of the fascist economies in both Italy and Germany was that the economic interest of the nation, as conceived by the

[11] Alfredo Rocco, "The Political Doctrine of Fascism," p. 20.

[12] Information received since the end of the Second World War indicates that both Hitler and Mussolini became increasingly isolated from advice of subordinates as time progressed.

state, must be paramount. Whatever may be the official statements concerning the protections granted or assurances given to the various economic groups, they were always made with the proviso that the interests of the state may subsequently require changes in these assurances of protection.

What resulted from this was a regulated and controlled economy. The concepts of individual (and corporate) enterprise were retained, and property was in general privately owned. The government was not the sole enterpriser and employer, as in Russia, but an insistent controller of the direction production was to take. Inevitably this brought a steady invasion by the state of rights of free enterprise, free consumers' choice, and private property. How this came about can be demonstrated by the relationship between the state and the various economic institutions.

Private Property and Private Enterprise

Fascism in Italy and Germany officially encouraged the private ownership of property and private initiative in production. Article VIII of the Italian Labor Charter of 1926 read:

"The corporate state considers that private enterprise in the sphere of production is the most effective and useful instrument in the interest of the nation."[13]

However, the following paragraph placed restrictions upon this conception which greatly modified ordinary understandings of private property and enterprise. It is to be noted how clearly these limitations flow from the original idea of the totalitarian state:

"In view of the fact that the private organization of production is a function of national concern, the organizer of the enterprise is responsible to the state for the direction given to production. Collaboration between the forces of production gives rise to reciprocal rights and duties. The worker, whether technician, employee or laborer, is an active collaborator in the economic enterprise, the direction of which rests with the employer who is responsible for it."

Article IX elaborated the role of the state in the direction of production:

"State intervention in economic production arises only when private initiative is lacking or insufficient, or when the political interests of the state are involved. This intervention may take the form of control, assistance or direct management."

A further characteristic of the fascist attitude toward the economic system is found in Article II:

"Work in all its forms—intellectual, technical and manual—both organizing or executive, is a social duty. On this score, and only on this score, is it protected by the state.

"From the national standpoint the mass of production represents a

[13] Benito Mussolini, *Fascism*, p. 135.

single unit; it has a single object, namely, the well-being of individuals and the development of national power."

Every statement assuring protection of private property and enterprise is followed by the qualification that this institution must operate in the interests of the nation. This, again, is the totalitarian principle at work.

The Nationalist Socialist party program in Germany was written in 1920. It presented a curious assortment of proposals which were primarily political, racial, and national, and only secondarily economic. The latter provisions offered sufficient latitude for a variety of interpretations. However, the dominating position the state was to hold in the economic system was foreshadowed by the statement that the "first duty" of the state was "to promote the industry and livelihood" of its citizens. This was clarified by the further explanation that "the activities of the individual must not clash with the interests of the community but must be realized within the frame of the whole and to the advantage of all." The program was to be effectuated by "the creation of a strong central authority in the Reich with unconditional authority by the political central parliament over the entire Reich and all its organizations and the formation of chambers of classes and occupations to carry out the laws promulgated by the Reich in the various states of the federation." In addition, the program called for various measures of socialistic tendency such as the abolition of unearned incomes, the confiscation of war profits, the nationalization of trusts, profit-sharing in large concerns, the extensive development of old age pensions, and the improvement of the public health through the protection of mother and child.

This program foreshadowed a number of changes in the German economic system which were quickly effected after the national socialists achieved control. Placing the general welfare above the interests of individuals and calling for a strong central authority were indications of the totalitarian state which was to be created. Furthermore, the suggestion for the formation of chambers of classes and occupations was a sketchy blueprint of the corporate type of national economic organization later formed.

Fascism and Economic Classes

Since fascism began as a reaction against democracy and socialism, it is important to understand the fascist attitude toward economic classes. Here the conflict between fascists and socialists and communists is clear-cut and diametric. The Marxian socialist considers class conflict with ultimate victory by the workers to be a cornerstone of the movement. The form of society which would follow would, in theory, be classless.

In general, a capitalist society may be thought of as being divided into upper, middle, and lower classes. This division is made on the basis of, first, the relative amounts of wealth owned and income received, and second, the

existence or non-existence of class consciousness. In both Italy and Germany, the fascist movement had the sympathy and active support of the upper and middle classes. The early fascists in Italy included property owners, returned soldiers, nationalist sympathizers, small business men, landowners, and students of the professional and business classes. In Germany, there was similar upper- and middle-class support. The latter support probably was even more pronounced after the inflation of 1923–1924 had driven many middle-class families unwillingly into the ranks of the proletariat. This "de-classing" created in the dispossessed a smoldering resentment against the system which had lowered their status and against the proletariat into which they had been pressed. The national socialist platform made a direct appeal to small business men by calling for the "creation and maintenance of a healthy middle class, immediate communalization of department stores and their lease at cheap rates to small merchants, and extreme consideration for all small merchants in purchases by the federal government, states, and municipalities." It made a similar appeal for support from small landowners and farmers by proposing the abolition of land interest and the prevention of speculation in land.

The Corporate State

The corporate state is the solution which the fascists proposed for the frictions among the various economic classes and groups. Its purpose was to establish a national economic framework through which national solidarity would replace opposing group interests. All producers, whether enterprisers, property owners, or workers, were to bend their efforts toward the common interest of increased national production. Each class—upper, middle, lower, farm laborer, factory worker, clerk, member of a professional occupation, and government employee—was to acquire status within the larger structure of the totalitarian state. Since the interests of the state were considered primary and all-inclusive, natural resources, labor, and capital could have no purpose of their own; they must produce with the national interest in mind. What resulted was a national organization of production based upon an enforced syndicalism of all classes. The vast groupings of employers and employees into syndicates in both Italy and Germany constituted the working machinery for welding the classes into an operating economy for national purposes. There is ample evidence that the authoritarian control of these economic groupings descended from the top, and that the influence of the upper and middle classes was paramount. Nevertheless, the interests of *all* classes were subjected to the national purpose.

This organization of economic groups along the lines of the corporate state has its roots in syndicalism and guild socialism. The syndicalist movement proposed the organization of workers by occupations and industries. Syndicalism was especially strong in Italy where it was proposed to have

the syndicates of workers seize the factories and farms and then operate them collectively by democratic control. Guild socialism proposed organization upon economic lines and provided for representation in national assemblies to be based upon occupational groupings instead of political divisions. If fascism has borrowed this framework from the syndicalist or guild socialist movements, it has left the democratic principles of those movements behind. Syndicates were to become free associations of workers. In Germany and Italy enrollment was made almost compulsory. Moreover, the corporations were operated by orders issued from above rather than by policies determined from below. This illustrates once more the totalitarian state's use of compulsion in making the adjustments which are ordered in the economic system.

Economic Incentives Under Fascism

An economic system which must call forth the daily energies of millions of persons requires goals which inspire effort. Fascism and national socialism sought to provide carrots to induce the mythical donkey to draw the cart, but these carrots appear to be of a somewhat different variety from those ordinarily considered economic. The time-honored incentives of private gain which have been supposed to move the historic economic man were minimized.

In place of individual gain the Spartan spirit of self-denial and service to the nation was preached. These appeals were highly emotional and were supported by constant parading, endless speech-making and propagandizing, and mass demonstrations upon celebrated days. Strong appeals were made to national histories, racial unity and purity, force, national will, and blind unswerving loyalty. Beyond these positive social appeals for solidarity was the list of "whipping boys" which impelled people to conform (if not to work) because they opposed something. Thus, the population of Germany was organized against the Versailles Treaty, the foreign nations which imposed the treaty, Russian communism, the Jews, and the democracies. In Italy similar negative incentives were used. Perhaps one of the strongest incentives was the appeal to future national power. This was based in part upon the promise of acquiring foreign sources of raw materials and establishing "order" and work at home. In Germany the second Four-Year Plan asked for temporary Spartan denial for future security and prosperity. In Italy the lowering of living standards under fascism was regarded by fascist leaders as "a preparation for tomorrow by the renunciations of today."[14] Mussolini provided a backlog of inverse economic incentive by stating in 1934: "We are probably moving toward a period of humanity resting on a lower standard of living. Humanity is capable of asceticism such as we perhaps have no conception of."

[14] Witt Bowden, Michael Karpovich, and A. P. Usher, *An Economic History of Europe Since 1750*, American Book, New York, 1937, cited, p. 797.

Considering the depressed national psychology of post-war Germany and Italy, there is no question that the new national incentives had considerable effect in promoting production. In addition to these incentives, there were others of the usual capitalist sort. Both German and Italian property owners had been left in possession of their property. Avoidance of the expropriation advocated by socialists left a residue of loyalty to the régime which preserved this property. Business men in both countries were straitjacketed in the national interest, but they still managed their factories. In Germany in particular the business man appeared to occupy a somewhat favored position under the operation of the leader principle. This principle placed the head of a business in control as its leader, with authority over his workers. The operation of the profit motive, however, in the sense of freedom to seek the greatest total net profit, was severely restricted both as a method of directing production and as an incentive for risk-taking enterprise.

For the workers and farmers there were other incentives. Wage and salary differentials existed, and individual employees could "work up." In Germany unemployment, except for the "hard core," was practically abolished by 1938 and there was a scarcity of skilled labor due, in large part, to the rearmament program. Farmers in both countries were taught improved methods of production, and this furnished some stimulus to intensive cultivation. A greater incentive in Germany, however, was the promise of the creation of a landed peasantry in which tens of thousands of farmers were promised their own small holdings. This promise extended to the hereditary possession of land by "racially pure" German families who proved their worth as farmers.

In summary, it can be said that the economic incentives in the two fascist countries were primarily those in use in capitalist countries. However, there is the strong exception that they were required to operate in the national interest. This new doctrine of economic harmonies held that each individual or class in seeking his own self-interest is compelled by the hand of the state to promote the interest of the nation. This is socialization of economic incentives in the sense that supposedly the general welfare is placed above individual gain.

Twentieth-Century Mercantilism

A comparison of the aims of the fascist states with those of the mercantilist governments in the several centuries before the appearance of the system of *laissez faire* brings to light a number of compelling similarities. In this instance it can be said truly that there is little that is new under the sun.

The objective of the mercantilist states of the sixteenth, seventeenth, and eighteenth centuries was an increase in national power. To this end their economic systems were subjected to an old-fashioned kind of national

economic planning. A large population was desirable because it meant an abundance of soldiers for large armies and a similar abundance of labor. Imports were restricted and exports encouraged so that an adequate supply of gold and silver could be obtained for circulating media within the country. These metals were also international money and were necessary for the purchase of war supplies from abroad. The merchant fleet was subsidized and protected by a navy. National self-sufficiency in necessities was much sought after. Unremitting labor was encouraged, and the consumption of luxuries (for ordinary citizens) discouraged. To accomplish these ends an intricate system of regulation was necessary. The state controlled the establishment of new industries, conditions of apprenticeship, wages, and place of residence, and issued a multitude of regulations "in the national interest." To run such a system required a great bureaucracy which swelled with each new regulation and traded political for economic favors.

The mercantilist system capitulated to its own obsolescence, its inefficiency, and the thrusts of the new business and manufacturing class. Out-of-date laws and regulations were simply ignored and finally overridden by wholesale evasion. Smuggling defeated the regulation of international trade. Commercial bootlegging circumvented prohibitions concerning manufacturing and trade and broke down the outworn domestic regulations. Adam Smith gave formal statement to the arguments against trade restrictions and in favor of *laissez faire* in 1776, but the substitution of the new system of economic freedom for the old restrictions was already a matter of practice.

When fascist economic and political doctrines are compared with mercantilist doctrines a striking similarity appears. Extreme nationalism, rigid control of foreign exchanges and of imports and exports, and wholesale regulations on commodity prices, wages, interest, rents, profits, and hours of work, were part and parcel of the fascist régimes. Furthermore, as fascism became more firmly established, the state's penetration into the economic system increased steadily. The result was a corresponding restriction of the area of free enterprise and individual action. Perhaps the outstanding economic feature of the fascist states was the deliberate organization of the economic system on the basis of a *war economy* in peace-time. This resulted in heavy diversion of the national income from the production of consumers' goods to the production of war materials, and inevitable pressure on living standards. This economic choice of the state flowed from the doctrine previously stated—that war is inevitable. Hence, the striving for economic self-sufficiency became part of the doctrine of necessity. Whatever was regarded as important appeared "necessary" to the fascist mind.

FASCIST PHILOSOPHY

There is no fascist philosophy in the sense of a set of principles resting upon stated assumptions and leading to conclusions supported by proof.

As has been demonstrated in the preceding sections of this chapter, a set of fascist principles exists, but these principles are assertions which busy fascists did not bother to support with evidence. It is not surprising that this lack of "philosophy" or "theory" appears, because the fascists themselves boasted of being anti-intellectual and derided careful philosophic methods. If the tedious Marxian dialectic made *Capital* the Bible of the socialist, the emotional qualities of Hitler's claims made *My Battle* the Bible of the Nazis. The tracing of Mussolini's philosophy from his early days as a socialist through contradictory statements to an almost complete reversal of his earlier faith is not an exercise calculated to win the respect of consistent thinkers. Mussolini at one time denied that fascism possessed or needed a philosophy; later he ordered one created within two weeks.

This lack of philosophy may result from the peculiar situations under which fascism and national socialism came to power. Both Mussolini and Hitler acquired power in revolutionary crises. Having the power, each had to act to meet practical situations. The demand for action preceded the demand for proof of principles, and the justification of "necessity" made proof unneeded. This fascist emphasis upon necessity is important because necessity is a thing in which there are no degrees. A quotation from Gentile, who as the organizer of the fascist educational system in Italy speaks with authority, shows why fascism in Italy had doctrines without philosophy.

> The doctrine of fascism is not a philosophy in the ordinary sense of the word, and much less is it a religion. It is not even an elaborated and final political doctrine, which articulates itself in a series of formulae. The truth, the significance of fascism, is not measured in the special theses which it assumes from time to time, theoretically and practically. As we have said, at its commencement it did not issue with a precise and determinate program. Often having set up a target to be reached, a concept to realize, a way to follow, it has not hesitated, when tested, to change course, and to reject as inadequate, or repugnant to its own principle, that aim or that concept. It has never wished to bind itself, engaging the future. It has often announced reforms when the announcement was politically opportune, but to the execution of which it, nevertheless, did not believe itself to be obliged! The true resolutions of the Duce are always those which are both formulated and carried out.[15]

The General Background of Fascist Philosophy

If fascism is without a coherent philosophy, it is still possible to distinguish the mental tracks of fascist dictators from those of thinkers who have philosophized about democratic and socialist forms of economic and political organization. Properly to orient fascist doctrines it is necessary to eliminate the types of philosophy which have not exerted significant influence upon fascist doctrines in Italy and Germany. Exponents of demo-

[15] Giovanni Gentile, *Origini e Dottrina del Fascismo,* 1934, p. 38, cited by Herman Finer, *Mussolini's Italy,* p. 18.

cratic, liberal, and equalitarian philosophies fall into this class. Also excluded is the "natural rights" philosophy of the American and French Revolutions as well as the philosophy of the Federal Constitution of the United States, and the series of documents which constitute the English Bill of Rights. Adam Smith and his principle of *laissez faire,* with the "simple system of natural liberty," are outside the picture. The humanitarian doctrines of New Testament Christianity elevate the individual to an importance that challenges the fascist doctrine of the complete submergence of the individual. Also excommunicate from the fascist fold are the proletarian philosophers, Marx and Lenin. Whatever forms of economic organization the fascists may have borrowed from the socialists and whatever tactical methods of dictatorship they may have copied from the Russian Bolsheviks, the doctrines of class war, working-class control, abolition of private property, and internationalism can be little less than stench in fascist nostrils.

A single contrast expresses the difference between fascist philosophy and the general character of other modern philosophies. The philosophies embodied in democracy and socialism belong to modern *rationalism.* The rationalist tenor of modern philosophy underlies modern science. It is objective and inquiring. It relies primarily upon observation and the logical process of induction in order to establish scientific truths. It is persuasive rather than violent, since it seeks to convince with facts and argument rather than to compel with force. Following logical rules, it endeavors to reach conclusions supported by facts. If these conclusions run counter to presumptions or prejudices, the rational philosopher regards it as a moral duty to hold to them. The rational method was first applied to the physical sciences, and its great success established the natural laws of the universe. Later, the application of the same method to the study of human society resulted in the development of the social sciences, which promptly set afoot social reforms for the amelioration of the lot of the human race. Rationalist philosophy despises ignorance and hopes to replace it with knowledge; it refuses to accept authority without proof and asks for evidence; it encourages the thought processes of the individual mind and uses education in place of propaganda.[16]

In sharp contrast to *rationalism* as a basis for a philosophy is the *irrationalism* of the fascist philosophy. This modern form of irrationalism despises the intellectual qualities of reasoning. In fact, one philosopher of the rational school has referred to fascism as a "revolt against reason."[17] This is because fascists emphasize will rather than thought, and feeling rather than intellect. They are emotional and mystical rather than reasoning. In addition, they prefer force in place of argument, settlement of

[16] It is well to recall the role which the idea of progress has played in the modern world. See above, chap. 6.

[17] Bertrand Russell, "The Revolt Against Reason," *The Atlantic Monthly,* vol. clv, February, 1935, pp. 222–232.

disputes by war rather than peaceful compromises, and propaganda in place of the impartiality of science. Furthermore, self-denial is conceived as a means of achieving domination over others rather than as a means of developing individual personality. In the economic sphere power is preferred to the gratification of want, and glory is substituted for personal pleasure. Likewise, struggle is admired, but it takes the form of race or national conflict rather than competition among individuals. Among philosophers in the fascist background who have held these ideas in common are Fichte, Nietzsche, and von Treitschke among the Germans, with Carlyle and Mazzini supporting similar philosophic attitudes in England and Italy. It is this difference between rationalism and irrationalism (in the technical philosophic sense) that accounts for the gulf between fascist and other economic philosophies. Most of the founders of these modern irrational philosophies wrote and died before the time of Mussolini and Hitler and their supporters. But these men provided the philosophic antecedents of the fascist doctrines. Their ideas became acceptable when political and economic conditions disposed masses of people to look for a new kind of social salvation.

Philosophic Background of Italian Fascism

Though Italian fascism dated history from A.D. 1922, Italian and other philosophers stood in the shadows cast by the pre-fascist years. Only those philosophies influenced Italian fascism which reached the eyes and ears of Mussolini, for Italian fascism was, after all, Mussolini. At one time or another a considerable list of modern philosophers have been credited with such influence, among them Schopenhauer and Nietzsche, Georges Sorel, William James, Henri Bergson, and Vilfredo Pareto. Karl Marx deserves separate mention because his philosophy was the springboard which Mussolini used in his leap to fascism. Machiavelli also deserves special attention because his doctrines appear to have had direct influence on Mussolini and because he is the only non-modern philosopher in the list. Since fascism presents no coherent system of philosophy, the influence of the philosophers must be treated under three separate headings.

First are those philosophers whose ideas are found scattered through fascist doctrines or actions. Here the pragmatism of William James can, if somewhat misinterpreted, be stretched to mean "that which works is right." This would fit into the fascist scheme of the necessity for action and the unwillingness of fascists to tie themselves to doctrines so firmly as to dictate future lines of action. Likewise, the mysticism of Bergson is to be found in the preachings of the "destiny" of the Italian nation.

Nietzsche

A second group of philosophers are those known to have had some direct

influence on Mussolini or fascism. One of them is the German Nietzsche. At the age of twenty-one Mussolini wrote an *Essay on the Philosophy of Force* which was based on Nietzsche's *Will to Power*. Nietzsche, like his master Schopenhauer, was a pessimist. Most human beings he regarded as essentially weak and worthless. In his time he saw democratic forms of government, Christianity, pacifism, and equality merely as devices by which the weak and miserable protected themselves against the strong. But hope was to be found in the superman who would have a will to power and dominate a nation which needed direction, compulsion, and energizing force. In view of Mussolini's personal characteristics, it is not difficult to see the possible influence of this philosopher upon his life.

Machiavelli

A similar influence upon the future dictator may have been exercised over the span of four centuries by Machiavelli. One of Mussolini's biographers relates the story of Mussolini's father reading Machiavelli to the boy. After he became dictator Mussolini began a thesis on Machiavelli, of which only the introduction was completed and published. Since Machiavelli was also a pessimist with regard to human nature, his influence was similar to that of Nietzsche. Men were naturally vicious and never did good deeds except by necessity. They could not be trusted with liberty because this results in "confusion and disorder." Furthermore, Machiavelli believed that those who govern must take into account this base nature of men and govern accordingly—by the exercise of force.

Sorel

The doctrines of Georges Sorel, the French revolutionary syndicalist, were widely distributed in Italy during the period when Mussolini was a socialist. In fact, Mussolini accepted the general strike as the instrument of revolution. To Sorel parliamentary tactics for achieving socialism were a failure, and there remained only the organization of the working class for the purpose of seizing control of the economic system through a great general strike. Individual strikes were regarded as dress rehearsals for the final day of victory. This syndicalist attitude dominated Italy after the First World War when factories were occupied by workers. Sorel stressed the importance of the general strike as a *myth* to inspire the workers to organize into syndicates (trade unions) and finally achieve control. The term *myth* can be interpreted to mean an objective or goal which provokes sentiments of loyalty and solidarity of workers to their own class. In this process of revolution Sorel justified violent methods as the necessary means of progress. Three possible sources of Mussolini's doctrines are to be found in Sorel. The first is the use of the myth, that is, some outstanding hope or purpose or objective to capture the imagination of masses of people. Here

Mussolini substituted the great state for the general strike. The second is the use of syndical organizations as a framework for the control of the economic system. This was represented in the syndicates of employers and employees which formed the base of the corporate state. The third possible borrowing from Sorel is the justification of violence as a means of gaining political and economic ends. However, this last could have been acquired from many other sources.

Pareto

In recent years much attention has been given to the works of Vilfredo Pareto, the Italian sociologist. When he was in Switzerland before the First World War, Mussolini attended some of Pareto's lectures and thus may possibly have been directly influenced. Efforts have been made to give Pareto credit for being the basic fascist philosopher. However, he approved some fascist doctrines and disapproved others, maintaining his independence as a sociologist. Mussolini thought well enough of him to offer him a senatorship, but he refused this and other offers of positions in Italy. He remained in Switzerland until his death in 1923.

Pareto's *Trattato di Sociologia Generale* is a bulky treatise on human society. Although a number of his theories may have influenced fascism, it is hardly possible to agree that he is the "Karl Marx of fascism" because fascism is not definitely based on his theories. At least four parts of Pareto's system may have influenced the doctrines of fascism. The first is his distinction between "residues" and "derivations." "Residues" are the fundamental, permanent, constant interests of man. In economic terminology self-interest would be a residue. "Derivations" are the rationalizations of man's deep underlying interests by which actions are excused or justified. Residues are therefore innate or fundamental tendencies in mankind which exist in all times and places. But derivations in the form of theories, moral codes, forms of government, religions, etc., vary with time and place. This emphasis upon the somewhat fictitious character of the derivations by which human action is justified stresses the *non-logical behavior* of human beings. This, in turn, leads to the conclusion that the people to be governed will respond more readily to sentiment, myths, and patriotic appeals than to cold logic. The former were, of course, the fascist methods of control.

The second of Pareto's theories which may have influenced fascist doctrines is the theory of the "circulation of the élites." The term "élites" refers to the administrative and governing classes. More particularly, it means the number of persons in a given society who have sufficient intelligence and capacity to govern. This number is limited but not confined to the governing class. Hence, when the governing class becomes weakened by the presence of individuals with little ability, pressures for change begin

to develop in the lower classes and are led by the "élite" of those classes. Sometimes the ruling class is overthrown and the "circulation of élites" takes place. There are two possible applications of this theory in Italy: the weakness and instability of the government, and the pressure of the fascists (or perhaps the socialists) for a change by revolution. The fascists would have been quick to claim that they were the "élite."

There is a third possible influence in Pareto's discussion of force and consent between governors and governed. He points out that force is used both by governments which wish to maintain themselves in power and by dissatisfied elements who wish to usurp the governmental power. "If among the governed there are a certain number of individuals disposed to use force, and if they have capable leaders, one often sees the governing class dispossessed, and another take its place. This comes about easily if the governing class is moved by humanitarian sentiments. . . ."[18] As a philosophical matter Pareto does not advocate force as does Sorel; he implies that since the use of force may be resorted to by both governors and governed, it might as well be used by the government to maintain itself in power. The implication is clear that an established fascism should not be too "humanitarian."

A fourth tenet of Pareto may be used to explain the fascist avoidance of set theories. This is his statement of the nature of scientific laws. These laws are not, as is popularly assumed, a new kind of sure-fire magic. Instead, they are only probable laws which rest upon certain contingencies. Furthermore, they are subject to change as new conditions arise. This applies particularly to laws in the social sciences. While not an original discovery of Pareto, this theory received wide currency in Italian literature through his writings. In general, this attitude toward the laws of the social sciences can be used to explain or justify the swift changes in fascist policy. However, this increases the difficulty of understanding the dogmatism with which each new policy was presented.

Post-Revolution Philosophers

A number of other Italian philosophers belong to the nationalist school of philosophers in Italy. After 1922 they made some effort to give a philosophic base to what the fascists created. While most of this was of a *post hoc* variety, the fact that the group supported the idea of the great state and its role in history inclined them to accept the fascist régime and to provide it with a philosophic fabric once it was established. Among these men were, Enrico Coradini, Luigi Federzoni, Alfredo Rocco, and Giovanni Gentile.

[18] Quoted by Herman Finer, *Mussolini's Italy*, p. 33. Within the limits of several pages Finer gives an excellent summary of Pareto which has been followed here. See also G. C. Homans and Charles P. Curtis, Jr., *An Introduction to Pareto*, Knopf, New York, 1934. The standard work on Pareto in English is Arthur Livingston (ed.), *The Mind and Society*, 4 vols., Harcourt, New York, 1935.

Gentile occupied the position of leading fascist philosopher, largely because of his influence on the educational system. Among Italian economists Corrado Gini deserves mention as outstanding, particularly as he contributed to the philosophy of fascism.[19] Mention should be made of the Italian scholars who refused to accept fascism—for example, Gaetano Salvemini, Benedetto Croce, and Silvio Trentin. One of Italy's former premiers, Francisco Nitti, and Count Carlo Sforza may also be counted among the critics of fascism.

Philosophic Background of German Fascism

German fascism, like its Italian cousin, showed no well-knit philosophy. In fact, a common criticism of the national socialist movement was its lack of support by the intellectuals. However, many elements of German philosophy appear to have united to form the modern German *Weltanschauung,* now known as the national socialist *Weltanschauung.* German philosophy has focused upon this "world-view" or "world-outlook" for more than a century. The word itself is hardly translatable into English with its German meaning; it expresses the German's belief in the greatness of his country, and implies the necessity of Germany's having a place in the sun. The *Weltanschauung* was not a creation of German fascist doctrine, but it fitted neatly into the national socialist scheme for a great Germany.

If national socialist philosophy can be traced to a single source, it is to be found in Johann Fichte. Fichte was the immediate successor of Kant among the great German philosophers. His *Addresses to the German Nation* (delivered in 1807) set a tone of nationalist feeling which was to grow throughout the nineteenth and twentieth centuries. The practical purpose of the *Addresses* was to lay plans for the building of a great Germany. Fichte based his belief in German superiority on the purity of the German language, not on racial grounds. He contended that German was the only pure language, and that, for this reason, Germans alone were capable of clear and profound thought.[20] To protect the German nation from degenerating foreign influences and to mold Germans into a single unit as a "corporate body" a national educational system was proposed. Emphasis was to be placed on "will," and the major purpose of education was to destroy completely "freedom of the will" of individuals so that they could be molded into a homogeneous national unit. Universal military service was to be compulsory, not only to create a great army but to teach the "higher patriotism" through which "noble" individuals would be prepared to sacrifice themselves for the nation. "Ignoble" men would be

[19] See his "The Scientific Basis of Fascism," *Political Science Quarterly,* vol. xvii, 1927, pp. 99–115.

[20] Anthropologists report that Russian, Turkish, Chinese, Eskimo, and Hottentot are also pure languages. See Bertrand Russell, "The Revolt Against Reason."

compelled to sacrifice themselves also, since they exist only for the sake of the aristocracy of "noble" men. It is to be noted that this distinction between those who are "noble" and those who are "ignoble" was the essence of fascist attacks on democracy, which attempts to treat all men as political equals. Instead of political equality, Fichte saw a nation ruled by a superior few. National self-containment was to be carried to the point of limiting foreign trade to imports and exports which were absolutely necessary. There appears to be no evidence that national socialists borrowed directly from Fichte, but had they wished to do so, they could have found many of the policies which they put into practice after 1933.

Other German philosophies form a further background for the national socialist philosophy. Schopenhauer and Nietzsche, with their pessimism and their belief in force, offered elements which appeared in the national socialist state. The outstanding German philosopher of the authoritarian state is Hegel, from whom Marx took a conception of history as a developing, unfolding process. Hegel did not think in terms of the totalitarian state, but he did glorify the state as a great creation. He thought that individuals would achieve their maximum development by being part of a great national community. He also believed that the state was aristocratic by nature and that privileged ruling classes were necessary. Here again the importance of Hegel is not that national socialists drew sustenance directly from him, but that he characterizes widespread conceptions of the state which are native to German soil.

The intense racialism in the national socialist doctrine also had possible roots in the past. While Fichte emphasized the German language as the source of superiority, national socialists emphasized race. The belief in the superiority of the Nordic race (called Aryan in Germany) originated with a Frenchman, Count Arthur de Gobineau, in the nineteenth century, and was "imported" into Germany. This theory of Nordic superiority received its fullest statement in Houston Stewart Chamberlain's *Foundations of the Nineteenth Century,* which had considerable influence in Germany before the First World War. An interesting sidelight on this racial theory is the fact that Chamberlain was a Scotchman who lived in Germany a large part of his life and was known as the favorite anthropologist of Wilhelm II.

Oswald Spengler's philosophy never became a part of the accepted national socialist doctrine, but it deserves attention because it is more extreme than national socialism itself. The *Decline of the West* was pervaded with the gloom of a cyclical theory of history. The western world had reached the end of a cycle and was scheduled for decline. But a great struggle for world supremacy was approaching and in this struggle the winner would be a great leader at the head of a magnificent army. Spengler suggested that Germany might give the world this new Caesar for the great and final world struggle. Such conceptions fit naturally with Spengler's

conception of man as an "animal of prey." Thus war is considered man's normal activity, and peace only an interlude.[21]

The National Socialist "Intellectuals"

Even if national socialism in Germany, like Italian fascism, is regarded as a "revolt of the instinct against the supremacy of the intellect,"[22] it was necessary to fill the new movement with philosophic ideas. In addition to Hitler, a dozen or more persons contributed the ideas from which the new system was formulated. The contributor of the economic philosophy was Gottfried Feder, a Munich engineer who wrote the party program and was designated by Hitler as its official interpreter. In the first year of the national socialist government Feder was Undersecretary of Economics. It was his economic philosophy which gave the "national socialist" aspect to the movement. While Hitler and others blamed the Jews for being both capitalists and socialists and hence both having control of the German economic system and threatening the introduction of communism, Feder attacked German "big business." His distinction between "exploiting capital" (*raffendes Kapital*) *and* "productive capital" (*shaffendes Kapital*), although never made entirely clear, became the basis for the radical leanings of the party through its criticism of the German counterpart of Wall Street. This expressed a tendency toward state socialism. It should be noted that national socialism showed "right"—and "left"—wing tendencies. Dr. Hjalmar Schacht, who stood for controlled capitalism against the state socialism of the party "radicals," won his point.

While the intense racial principles of national socialism were expressed by many leaders of the party, especially Hitler, Alfred Rosenberg gave them systematic expression in a new form in his *Der Mythos des XX. Jahrhunderts* (The Myth of the Twentieth Century). The outlines of this book were laid down in 1917, and it was finished in 1925, but not published until 1930. After that time the book went through many editions and was extremely influential, although it was not an official statement of party principles. Rosenberg was designated by Hitler in 1934 as his confidential adviser on the national socialist *Weltanschauung*. According to Rosenberg, there is one supreme creative race—the Nordic. The ideals and spirit of this race are those of the old Germanic gods—heroism and virtue. But in modern times the racial blood and old spirit of this race have been threatened by the infiltration of the blood of other races. The result is that inferior blood has been mixed with the pure Nordic strain. Furthermore, the "natural" Germanic culture has suffered invasions from Asia and the

[21] To indicate that Spengler was more extreme than national socialists, it should be noted that he published in Germany in 1934 a book criticizing the new government. The English title is *Years of Decision* (Knopf, New York, 1934). This book brings out the differences between Spengler and the national socialists.

[22] Fritz Ermarth, *The New Germany*, Digest Press, Washington, 1936, p. 39.

Orient. Communism is explained as an Asiatic culture which is foreign to German culture. Likewise, Christianity, coming from the Orient and founded by a Jew, has weakened the stern strain of German culture because of its ideals of love and pity and of universal human brotherhood. It is obvious that Rosenberg's philosophy forms a basis for the national socialist attitudes toward communism, and also provides one basis for the conflict in Germany between Christian churches and the national socialists. It is probable that the German racial theory will continue to be emphasized. In fact, Nordic racial theories were being systematized by Professor Hans Gunther, professor of social anthropology at the University of Jena. Mention should also be made of Walter Darre, the former Minister of Agriculture, who planned to protect German racial purity by specially favoring the German peasantry through encouraging hereditary farm ownership by racially pure Germans. The purpose of this policy was to protect the "source" of the stream of pure German blood. The final form of racial philosophy in Germany was not determined. It is difficult to see how certain national socialist leaders could have subscribed to a philosophy of purely "Nordic" supremacy. Hitler and Goebbels, for example were not "Nordics." Hitler always used the term "Aryan" (without definition), which properly refers to language and not race.[23]

Geopolitics and National Socialist Philosophy

Although geopolitics has been applied to a mixture of political, geographic, and philosophic doctrines for more than twenty years, its place in the national socialist philosophy was realized only after German plans for international aggression became clear. In Germany the philosophy of geopolitics is connected with the name of Karl Haushofer, once professor of geography and military science at the University of Munich and mentor of Rudolf Hess and Hitler. A geopolitical research organization in Munich developed and propagated Haushofer's ideas.

There is no easy definition of geopolitics. As the term implies, it has to do with the relation of geography to political control. There are several great natural regions in the world. Looking at a map of the world, one sees that the continents of Europe and Asia are dominated by the "heartland"—an area which is centered in European Russia. This center dominates the "world-island," i.e., the continents of Europe, Asia, and Africa. The "world-island" dominates the world. There are, however, two other regions in which domination from a "heartland" is possible. One is Greater East Asia, of which Japan is the "heartland." The other is Pan-America, of

[23] Perhaps the most systematic presentation of the Nazi principles of race is to be found in Harwood L. Childs (trans.), *The Nazi Primer, Official Handbook for Schooling the Hitler Youth,* Harper, New York, 1938. This volume is the result of the work of an official commission on what German youth should be taught. See also Z. F. Kneller, *The Educational Philosophy of National Socialism,* Yale University Press, New Haven, 1941.

which the United States is the "heartland." According to this theory, national states, the British Empire, free world trade, and sea power are dying forms of international organization because they have no geographic "heartland" as the dominating center.

The result of this kind of geopolitics is a world dominated by several giant states each centered in a "heartland" and each dominating the other nations and races within its own natural region. One practical result of German geopolitical theory may have been the invasion of Russia in 1941, for if Haushofer's theory is followed, control of Russia is necessary to control the "heartland" and the "world-island." While it is not possible to give here a full criticism of German geopolitics it may be indicated that the theory has three serious defects. The first is that the whole earth, not three continental areas, is a geographical unity. The second is that the whole earth can be dominated not by a continental land system but by the possession and rise of a new instrument—air power. The third defect is one of point of view. German geopolitics assumed the domination of lesser states to the advantage of the great state. It ignores the possibility of an international organization for the benefit of all nations.

The essentials of geopolitics reach far back in German political literature. Friedrich List, in *The National System of Political Economy* (1842), argued for a protected national economy for the German nation based upon most of the continent of Europe. Friedrich Ratzel, German geographer of the late nineteenth century, emphasized the importance of space in relation to the development of nations. Oddly, the origin of German geopolitics is likely to be found in Sir Halford Mackinder's lecture to the Royal Geographic Society in London (1903) entitled *The Geographical Pivot of History*. Mackinder was famous as a British geographer and was one time director of the London School of Economics. In this lecture he formulated the theory that the land-locked populations of central Europe and Asia would tend to expand at the expense of nations on the edges of the continents. He used the terms "world-island" and "heartland." He reaffirmed his geographical ideas in 1919 (*Democratic Ideals and Realities*, London, 1919) and stressed his belief that German domination of Europe or a German-Russian alliance would be dangerous to the control of the balance of the world. The term "geopolitics" was first used by Rudolph Kjellen, Swedish professor of history and government, from whom Haushofer borrowed the word.[25]

Spread of Fascism to Other Countries

Since the defeat of Germany, Italy, and Japan there remain but two countries where fascism, as a set of political and economic ideas, is entrenched. The first of these is Spain where General Francisco Franco took

[24] For further reading on geopolitics, see Robert Strausz-Hupé, *Geopolitics*, Putnam, New York, 1942. This author does not accept the doctrines of geopolitics.

control of the government following the revolution of 1936. This present régime in Spain shows the chief characteristics of fascism in Italy and Germany. The only legal political party is the fascist Falange, which is composed of conservative groups representing property owners, the monarchy, the nobility, the clergy, and army officers. Franco occupies the position of "El Caudillo"—the Director—and has final powers over the approval of new legislation and over executive functions. Ultimate plans call for preparation of a new system of law which would establish the dictatorship legally and for the development of a system of representation similar to the syndicates of employers and employees in Italy. It is obvious that since the defeat of Germany and Italy the present government of Spain has found itself in a weakened position.

In Argentina the election of President Juan Domingo Peron to office in 1944 was a signal for intensified development of a fascist state in Argentina. There is ample evidence of Argentine collaboration with the Axis during the Second World War and the resulting infiltration of German funds and personnel. Fascism has thus been transplanted to the Western Hemisphere and German political ideas, as well as funds, have found a "safe haven."

Since 1936 the Peron government has followed the fascist pattern in making wholesale arrests of political opponents including university faculty members and students, in penalizing the opposition press, in allowing public violence to be perpetrated on political enemies with police connivance, and in many other ways. Control over education was established with the appointment of a national director and the displacement of staff members loyal to the traditions of academic freedom. Independent labor unions have been abolished and government-controlled unions organized on the "corporative" scheme of Italy have been substituted. There is a familiar ring to the statements made by President Peron upon the establishment of a chair of National Defense at La Plata University. He then called for "a nation in arms" and demanded the "creation of a thoroughly regimented totalitarian state dedicated to the pursuit of a warlike life and a war economy."[25]

In the economic sphere the military dictatorship has acquired control over private banking and over imports and exports. The country is to be "developed" by a vast Five-Year Plan calling for a regimented economy and greatly increased military expenditures. In addition a large public works program is expected to stimulate production. Under the Plan labor is subject to virtual conscription since all persons are required to register with the government and any person under forty-five who is defined as an "essential technician" can be called into national service.

[25] *Consultation among the American Republics with Respect to the Argentine Situation,* United States Department of State, Publication 2473, Inter-American Series 29, Washington, 1946, p. 79. This source should be consulted for further information.

This development, on an easily recognized pattern, appears to have serious implications for South America. An expanding Argentina seeking economic and political control over neighboring countries can become a threat to peace in the new world.

QUESTIONS FOR CLASS DISCUSSION

1. Compare and contrast the fascist theory of the state with the Marxian theory of the state.
2. Lincoln epitomized democracy with the phrase "government of the people, by the people, for the people." Contrast the implications of this phrase with statements in the text from Hitler and Mussolini.
3. What is meant by "sovereignty"? What does "the sovereign people" mean? Where is the sovereignty located in the government of the United States? Where was sovereignty located in the fascist government of Italy? In the national socialist government of Germany?
4. How would economic incentives differ under fascism, communism, and capitalism?
5. Compare the fascist criticisms of competition and *laissez faire* with socialist criticisms.
6. Fascism attempts to solve the problem of class conflict by welding classes into an organic national whole. Does this remove the source of class conflict? Is this an adequate and permanent solution of conflicting interests between classes?
7. Compare and contrast the fascist states with the mercantilist systems of the seventeenth and eighteenth centuries.
8. Do you agree that fascism shows no "philosophy in the sense that philosophy is a set of principles resting upon stated assumptions and leading to conclusions supported by proofs"?
9. Which philosophers have contributed common ideas to German and Italian fascism?
10. Which philosophers have contributed ideas that may apply to either Germany or Italy, but not to both?
11. Distinguish between "rational" and "irrational" philosophy.

Chapter 28

FASCIST ITALY

THE preceding chapter explored the fundamental doctrines of fascism in contrast to the philosophies of other types of modern economic systems. The present chapter concerns itself with the application of these doctrines in Italy while the following chapter deals with the application in Germany.

It is a safe generalization that any economic, political, or social movement which appeals to broad groups in a given population will be found to have some roots in the past and in the economic and social conditions which give it soil. This is true in the case of Italy. The fascist movement achieved control of Italy not because it was a movement of slow growth, but because it brought one of several possible answers to the uncertainties which Italians had faced for years. Deep in Italian life were a number of conflicts which rent the country asunder and created disunity.

One of the strong currents in modern Italian life is expressed by the word *risorgimento,* a word meaning "resurrection." This expresses Italy's long struggle for independence during the late nineteenth century when the process of nation-making was a world-wide influence. The great Italian leaders of the nineteenth century—Cavour, Mazzini, Garibaldi—were connected with the effort to achieve nationhood and freedom. It can remain a matter of debate whether fascism merely extended the *risorgimento* or created something different but the stage was set for such a nationalistic exhibition as was offered by the fascists. Extreme nationalism is, of course, one of the doctrines of fascism.

Another conflict which disturbed Italy for many years was the conflict between the state and the Roman Catholic Church. Each claimed temporal power and for many years no adequate compromise could be found. In 1870 the Italian government declared the Pope's temporal power at an end. The Law of Papal Guarantees of 1871 attempted to separate spiritual and temporal power and the Pope voluntarily confined himself to the Vatican in protest. However, in 1919 a Catholic political party was organized under Don Sturzo and a new voice was added to the political scene. Under Mussolini an agreement was reached in 1929 which was known as

the Lateran Accord. Under this agreement the Church accepted diminished temporal powers but was assured of its independence from the state. This was hailed as an early achievement of the fascist régime.

A third factor was the confusion in Italian politics which was intensified by Italy's disappointment in not gaining more from her participation with the Allies in the First World War. Italian politics was characterized by numerous political parties. Most governments were coalitions and were short-lived. From 1871 to 1922 there were thirty-five cabinets, their average life being one year and five months. The reasons for lack of political unity were to be found in the conditions of Italian life. Religious conflict has been mentioned above. In addition, the high rate of illiteracy, the division between North and South, the intense localism of Italian communities, and a growing class conflict between landowner and peasant, and employer and employee all led to disorder and insecurity.

The Founding and Growth of Fascism

Mussolini, having broken with his socialist associates over the entrance of Italy into the First World War, founded the forerunner of the Fascist party at Milan in 1919. This small original group was known as the *Fasci di Combattimento.* At the same time small bands were forming throughout Italy, having a common bond of nationalistic spirit and contesting with socialists and other groups by engaging in rioting and street fighting. During this period of disorder when the socialists were the strongest party in the House of Deputies and appeared to have the opportunity to establish a proletarian government, groups of *fasci* multiplied rapidly. The first Fascist party congress was held in 1921 and several hundred thousand members were claimed. As the membership grew the party began making outright demands for power. Violence between fascists and socialists increased as the new party increased its membership. The March on Rome occurred in October, 1922, and Mussolini was offered the portfolio of the Prime Minister in a coalition government by the King. While the Fascist party rapidly extended its power after 1922, the period between 1922 and 1926 was a perod of internal violence almost equal to civil war. However, the new party was firmly established by 1926 and fascism began the erection of new institutional forms which was to result in the Corporate State.

The Fascist Government

The reform which the fascist government of Italy began in 1923 ultimately resulted in a nation organized as a *totalitarian* state in terms of the political control and as a *corporative* state in terms of its economic organization. A one-sentence summary of the tendency of these changes is that they concentrated legislative power in the hands of the executive branch

of the government and that they also concentrated economic power in the government.

Under the fascist régime the government was based upon the original Statute of 1848 making Italy a kingdom. The fascists' revolution was more in the nature of a *coup d'état* than a revolution because it did not abolish the old state and substitute a new one. However, sweeping changes in government were introduced within the old legal framework and important changes in basic law were made. Under the original Italian constitution the people were not stated to be sovereign but parliamentary practice and the electoral system recognized such sovereignty. Under the fascists the sovereignty was held by the *state*. As explained in the preceding chapter, this is the legal basis of the totalitarian state. It is on this basis that the rights of the state always take precedence over the rights of individuals.

The Government—Executive Branch

The Italian King was the Head of the State. His throne was hereditary. He had the right to appoint the Head of the Government, to call into session or dissolve the Senate and the Chamber, to place his signature upon laws. He was also commander-in-chief of the Army.

The position which Mussolini occupied was that of Head of the Government. This contrasted with the King's position as Head of the State and emphasized Mussolini's executive powers. Since the executive had largely absorbed the legislative power, this was an even more important position than it appears. Mussolini was responsible only to the King, and this satisfied the requirement of the statute that the King maintain a "responsible" government.

In the executive branch of the government there were eighteen ministries, not counting the Head of the Government. Mussolini recommended the ministers to the King for appointment. There was nothing to prevent the head of the Government from recommending himself, and it was Mussolini's practice to hold several of the portfolios at one time. The ministers were definitely subordinate to the Head of the Government, and there were frequent and wholesale "changing of the guards" to suit the dictator's purpose.

The great concentration of power at the top of the government was duplicated in provincial and local governments. The executive head of each of Italy's 98 provinces was the *prefect*. "The prefect is the source of all provincial activity, which receives its impulse, coordination and direction from him."[1] This official, who corresponded somewhat to the governor of one of the United States, was appointed by the Minister of the Interior—Mussolini. Similarly, each municipality had an executive officer called the *podesta* who was also appointed by the Minister of the Interior. Thus, the

[1] Law on Communal and Provincial Government (1934).

central government exercised its control over local government through a highly centralized bureaucracy. This tended to unify the nation and to promote the power of Rome over what were formerly local governments that had a local instead of a national point of view. The only remnants of democratic representation in local governments were the *consulta*—a form of advisory council in communes of 10,000 population or over. Members of the *consulta* were appointed by the provincial prefect except that in municipalities with more than 100,000 population the appointment was made by the Minister of the Interior. Nominations for membership were made by the local syndicates of employers and employees. In the provinces the corresponding vestige of free representation was the "rectory," which resembled the *consulta* and was supposed to deal with strictly provincial affairs. Its functions were also only advisory. Members of the "rectories" were appointed by the Minister of the Interior.

The Chamber of Fasces and Corporations

For more than eighteen years after the March on Rome the fascist government retained the Chamber of Deputies in form. Although its membership was composed almost entirely of members of the Fascist party, its functions as a legislative assembly in the representative sense steadily diminished. In its last five-year session the Chamber of Deputies passed 2686 of 2705 bills introduced by the executive branch of the government. Only four private-member bills were introduced and only thirty-four interrogations of the government were made. On December 14, 1938, the Chamber of Deputies voted itself out of existence and established the new Chamber of Fasces and Corporations. When the Senate ratified the new law five days later, the last survival of democratic government in Italy disappeared.

There were a number of important differences between the legal status of the former Chamber of Deputies and that of the new Chamber of Fasces and Corporations. First, elections for the legislative positions were abolished. Second, members of the new Chamber were incumbents of some office to which they were appointed by the Head of the Government and they therefore became members of the Chamber *ex officio*. It was the office which was entitled to membership; the individual held membership only as long as he had his official position, and the approval of Mussolini for his membership in the Chamber. Third, the term of the Chamber was not fixed but indefinite and could be ended by royal decree upon recommendation of the Head of the Government. Fourth, the membership was not fixed but variable, although it approximated 650. Finally, most of the work and powers were delegated by law to commissions of the legislature whose acts did not require formal approval by the whole Chamber.

The official title of members of the Chamber was "National Councilors." Councilors could be appointed only by a decree—a law signed by the Head

of the Government. The membership was made up of four categories of offices. First was the Duce of the Fascist party and the Head of the Government, both offices being held by Mussolini. Second were the members of the Grand Council of Fascism, numbering approximately 25. Third were the 120 members of the National Council of Fascism. This Council existed before the reform of 1938 but had few functions. In that year it was given a more definite place in both the party and the government organizations. Ninety-eight of its 120 members were federal secretaries of provincial divisions of the Fascist party. These first three categories provided the *political* representation in the Chamber.

The fourth category provided the *economic* representation. It was composed of the members of the National Council of Corporations (which was in turn made up of the 500 *active* members of the twenty-two economic category Corporations) and the 50 members of the Central Corporative Committee. This latter body had the chief responsibility for the planning and management of the Italian economic system. Since the Corporations were organized by specific industries it is apparent that the new Chamber rested largely upon an economic base. This is important because it means that the "corporate state," i.e., a state whose government is based largely on economic representation, was established in Italy. Study of the list of category Corporations and the chart of economic organization which follows will make clear the relationship of the economic organizations to the government.

The new Chamber was not intended to be a deliberative body in the sense that democratic assemblies are deliberative bodies. Laws were seldom considered by the whole Chamber. Instead, the principle of specialization was followed by dividing the Chamber into fourteen Legislative Commissions. The following list of these commissions shows the division of legislative responsibility: (1) rules, (2) general budget, (3) foreign affairs, (4) internal affairs, (5) Italian Africa, (6) justice, (7) armed forces, (8) national education, (9) public works and communications, (10) agriculture, (11) industry, (12) exchange and customs legislation, (13) popular culture, (14) professions and arts. Each commission was expected to prepare new laws in the field of its competence. These laws were sent to a similar Commission in the Senate without being acted upon by the whole Chamber. When passed in the Senate, they were signed by the President of the Chamber and the President of the Senate and transmitted to the Head of the Government for delivery to the King for his signature. This legislative scheme was intended to set up numerous small legislative bodies which were expected to become expert in their respective fields of authority. This is not an uncommon device in democratic forms of government, for specialized committees prepare legislation, frequently with the assistance of the executive departments. In the United States, for example, the Ways and

Means Committee of the House of Representatives prepares tax bills in cooperation with the Treasury Department.

The leadership principle was applied in the Chamber of Fasces and Corporations. It was not an elected body. Mussolini controlled the appointments to all the offices which were entitled by law to membership in the Chamber. An individual lost his membership in the Chamber if he was removed from his office. Furthermore, appointment as a National Councilor depended on a decree of the Head of the Government. This provided a dual control by the dictator over the Chamber's membership. The President and Vice President of the Chamber were appointed by royal decree. The president in turn appointed the Presidents of the Legislative Commissions of the Chamber. From the Head of the Government down to the Legislative Commissions the principle of leadership was followed. In this way the executive branch dominated the legislative branch although the law stated simply: "The Senate and Chamber of Fasces and Corporations *collaborate* with the Government in making laws." Control over legislation by the executive was established by a provision of the 1938 Law that no bill may be introduced in the Chamber or the Senate without the approval of the Head of the Government.

The Senate

The Italian Senate, the "upper house" of Parliament, consisted of about 400 members appointed for life by the King upon the recommendation of the Head of the Government. Of the various institutions of government, it was the least changed by the innovations of the fascists. In a sense the members of the Senate were supposed to represent the élite of Italian society, and for this reason men of royal birth or high economic, social, or political status were chosen. The Senate was a continuing body like the Chamber. Because it received new legislation from the Chamber for action, the Senate was divided into eight Legislative Committees somewhat similar to the committees of the Chamber.

The Fascist Party

Regardless of the formal instruments of government control, actual control was vested in the Fascist party. It was through the party that Mussolini maintained the dictatorship. What was the party? The statute of the party said: "The National Fascist Party is a civil Militia, at the orders of the Duce, at the service of the Fascist State." All other parties were illegal, and thus the Fascist party became the only medium through which Italy could be governed. At the apex of the party organization was the Grand Council of Fascism, which in 1928 was brought into the state and thus became a part of the government. It was composed of about 25 members

divided into four categories. In the first category were Mussolini as president, and the party secretary. The second category was composed of the two surviving quadrumvirs of the March on Rome: de Bono and de Vecchi. The third consisted of fourteen ministers of the government, who were *ex officio* members of the Grand Council. The fourth was composed of five or more members appointed by the Head of the Government.

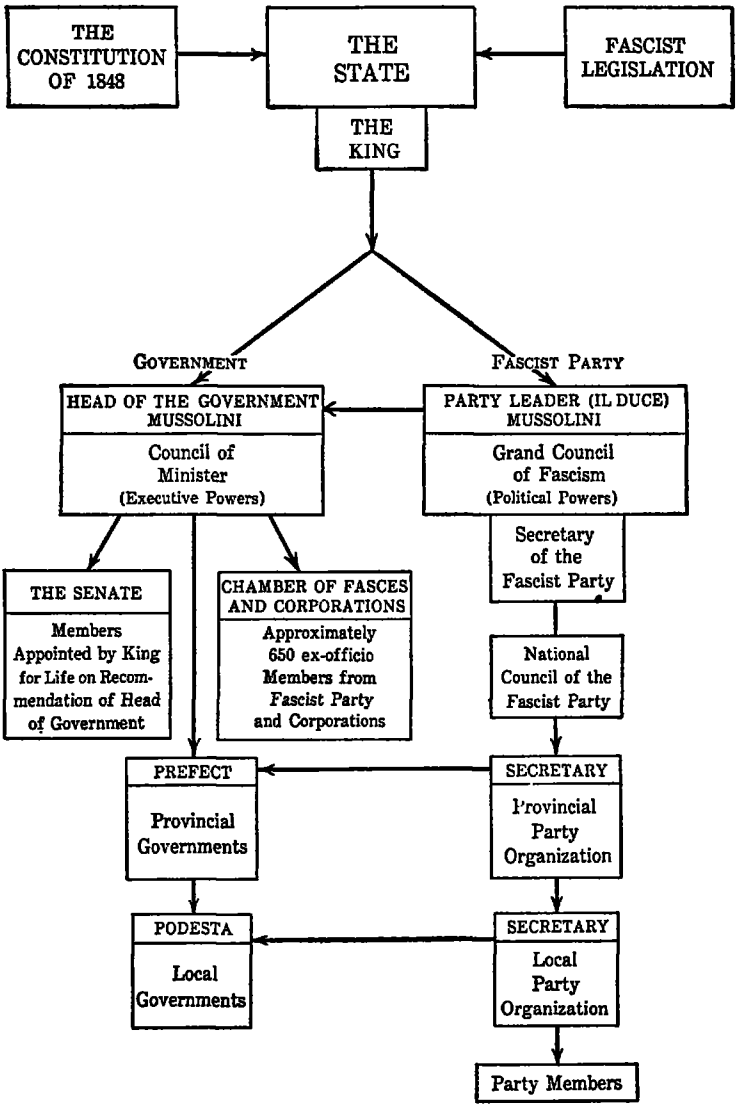
One power of the Grand Council deserves particular attention. In a dictatorship it is important that the method of succession to the dictatorship be settled. Under the law the Grand Council maintained a list of names from which Mussolini's successor was to be chosen by the King for appointment as Head of the Government. Since this list might have consisted of but one name, the choice of succession actually rested with the members of the Grand Council.

This description of the Grand Council indicates that the fascist government of Italy, composed of the various ministries under the Head of the Government, and the Fascist party were practically the same. Mussolini was not only Head of the Government but also president of the Fascist Grand Council. Similarly, most of the ministers of the government were also members of the Grand Council. The relationship between party officials and the government officials thus gave the appearance of a stage army in which each actor took more than one role.

From the Grand Council the party organization extended fanwise through all the provinces, municipalities, and rural districts in Italy. The accompanying chart shows that the party control, strongly centralized in the Council, extended downward until it reached the local *Fascio*. This made the party a well-organized hierarchy in which the orders originating at the top were transmitted to the most remote fascist groups. The authority in the political organization descended from the Grand Council to the National Directorate of the Fascist Party, of which the Secretary was the leader. The Directorate supervised the National Council composed of 98 provincial secretaries and 22 other appointees. In turn, there was a Directorate of the party in each province of Italy, and the Secretary of this Directorate appointed members of the Provincial Council who were also the secretaries of the local *Fasci*. Once more, each local fascist organization had a directorate of five members. The Fascist party members belonged to the local *Fasci* and thus became subject to the discipline of the political hierarchy.

Membership in the Fascist party was regarded as an honor and was much sought after. To become a member was to acquire prestige. To be an official was to be a person of prominence. Furthermore, the party had at its disposal thousands of positions in the government service. These attractions made competition for membership brisk. Fascists submitted to a severe discipline which required that the following oath of loyalty to Il Duce be taken: "In the name of God and of Italy I swear that I will

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follow the order of the Leader without questioning, that I will serve the cause of the fascist revolution with all my power and if necessary with my blood." Membership was subject to an annual review, since new membership cards were given out each year. This afforded an opportunity for a regular "purge" of the membership in the interest of greater solidarity. In 1942 the press reported a wholesale purge which resulted in the dismissal of upwards of 66,000. It was charged that many party officials were using their offices to obtain extra food which they sold on the "black market." Others were expelled for infringement of rationing regulations, refusal to take part in voluntary militia work, failure to wear the fascist badge, and failure to take a proper interest in party affairs.

In 1939 the membership of the party was reported as follows:

Members of the male *Fasci*	2,633,574
University fascist groups	105,833
Italian *Littorio* youth (boys and girls)	7,891,547
Women members of the female *Fasci*	744,181
Rural women	1,481,321
Working women and home-working women	501,415
Total	13,357,871

The table probably gives an exaggerated conception of the membership since it lists only 2,633,574 members of the male *Fasci* who were under strict party discipline and were likely to provide material for officials and the fascist militia. Nevertheless, the total of 13,357,871 considered as members shows the party's great extent and its pervading influence.

The foregoing material on the government of fascist Italy is necessary to an understanding of the economic changes which fascists made in the Italian economy. In this connection it should be noted that the fascist economic organization developed a managed, controlled capitalist economy which called for a very large amount of state direction and a very great increase in collective, rather than individual, economic action.

THE CORPORATE STATE

The economic problems of Italy revolve around overpopulation and a scarcity of natural resources. Some 45,000,000 Italians live in an area a little larger than New York State and the New England States combined. The population density is 368 persons to the square mile as contrasted with 43 per square mile in the United States. The country lacks the prime essentials of a modern industrialized economy—coal, iron ore, and petroleum. Agriculture is the chief industry and the land is worked beyond the point of diminishing returns. Whatever form of government or of economic organization such a country has, the economic problems appear to be insurmountable. The method of dealing with these problems by the

fascist government was the development of an economic structure known as the "corporate state."

The Labor Charter

The fundamental economic document of the corporate state was the Labor Charter of 1926. The first two articles of the Charter state:

> The Italian nation is an organism having ends, a life and means superior in power and duration to the single individuals or groups of individuals composing it. It is a moral, political and economic unit which finds its integral realization in the fascist state.
>
> Work in all its forms—intellectual, technical and manual—both organizing or executive, is a social duty. On this score and only on this score, it is protected by the state.
>
> *From the national standpoint the mass of production represents a single unit;* it has a single object, namely, the well-being of individuals and the development of national power.

This statement of aims and purposes makes it clear that the economic system was to be considered from the national point of view and that national interests preceded the interests of any individual or group. The purpose of work and production was to develop a strong state. This was the cardinal principle of Italian fascism and applied to labor, property owners, business, and all other special interests in the economic system.

On the basis of the Labor Charter and other laws the following principles can be regarded as fundamental to the Italian fascist economy:

1. "The corporate state considers that private enterprise in the sphere of production is the most effective and useful instrument in the interest of the nation."
2. "In view of the fact that private organization of production is a function of national concern, the organizer of the enterprise is responsible to the state for the direction given to production."
3. "The worker, whether technician, employee, or laborer, is an active collaborator in the economic enterprise, the direction of which rests with the employer who is responsible for it."
4. Strikes and lockouts are forbidden. Fines are provided for both employer and employee in case of violation.
5. Labor Courts are provided for the settlement of controversies between employer and employees.
6. Professional associations of employers and employees are to insure legal equality between employer and employee, and to improve conditions of production and work.
7. Corporations are *organs of the state* and represent the integration of the various economic interests in their sphere of production.
8. "State intervention in economic production arises only when private

initiative is lacking or insufficient, or when the political interests of the state are involved. This intervention may take the form of control, assistance or direct management."

With these guiding principles as a basis the fascist government set about the organization of the economic system of Italy. The first step was to bring both labor and capital under the control of the state by setting up official confederations of employers and employees on a nation-wide basis.

The Confederations of Employers and Employees

Under the Confederations capital and labor were organized into separate local, provincial, and national groups. Organization was carried out in five divisions of the economic system: Industry, Agriculture, Commerce, Credit and Insurance, and Professions. Over the local and provincial organizations of employers and employees was a National Confederation. This means there were nine National Confederations: one for employers and one for employees in Industry, Agriculture, Commerce, Credit and Insurance, and a single one for the professions where self-employment was the rule and there was no necessity for a dual organization of employers and employees.

In each industry so organized the National Confederation had branches known as Federations. Thus the National Confederation of Industry had 45 Employers' Federations and 20 Employees' Federations as constituent organizations. In turn, the Federations had provincial branches known as syndicates. The requirement for legal recognition was that the association of employees include 10 per cent of the labor group it sought to represent. In the employers' syndicate it was required that the association include employers who employed 10 per cent of the workers in their branch of production. Once an association was recognized it became the sole representative of the labor, or of the employers, in its branch. Dues had to be paid by all workers or employers regardless of whether they were members.

The Labor Charter provided that "there is complete freedom of professional or syndical organization"; but since organizations not legally recognized would have no opportunity to perform the functions of a labor organization, there was little reason for them to exist. Certain classes were forbidden to organize. These were "members of the army and navy, police magistrates, professors, students, and employees or agents of the Ministries of the Interior, Foreign Affairs, and Colonies."[2]

The relation between the number of employers, employees, and members of the Confederations is shown in the accompanying table.[3] It will

[2] Herbert W. Schneider, *The Fascist Government of Italy*, Van Nostrand, New York, 1936, p. 79.

[3] William G. Welk, *Fascist Economic Policy*, Harvard University Press, Cambridge, 1938, p. 131. The figures are from *Sindacato e corporazione*, April, 1937, p. 729.

be noted that a fairly high degree of organization had been accomplished by 1936, although by no means were employers and employees completely "organized." Nevertheless, enough were included in the organizations to give the government effective control over the "labor and capital" branches of the economic system.

Confederations	*Number Represented*	*Number of Actual Members (December 31, 1936)*
Employers		
Industrialists	157,334	82,380
Artisans	731,562	272,065
Owners of real estate (buildings)	4,343,510	91,557
Agriculturalists	3,850,352	873,500
Merchants	886,024	590,136
Credit and insurance enterprises	15,036	8,367
Total	9,983,818	1,918,005
Employees		
Industry	3,570,462	2,387,521
Agriculture	2,790,145	2,392,748
Commerce	537,164	431,530
Credit and insurance enterprises	61,019	47,678
Total	6,958,790	5,259,477

The National Confederations and Provincial Federations had a type of constitution which provided for a president (or secretary), a council, and a board of directors. The council consisted of the chief officials, usually the presidents, of the various syndicates which were members. It met once a year and elected a board of directors for a term of two years. Although these officers were elected and it seemed that the Federations and Confederations were democratically controlled, the Ministry of Corporations approved elections of officials and could remove them. The associations had some self-governing capacities, and the fact that they had representatives in the Corporations is of some possible democratic significance. However, there was nothing to prevent the government from appointing, or controlling the appointment of, such representatives. Since the officials of the Confederations and Federations were government appointees, control was simplified.

Collective Labor Contracts

What kind of work did the National Confederations, the Provincial Federations, and the local syndicates carry on? In the first place, they rep-

resented administrative organizations through which government policies could be executed. In the second place, the National Confederations and Provincial Federations developed and administered the collective labor contracts which were drawn between the Employers' and Employees' Federations. These contracts were actually negotiated by the larger associations, and were seldom the result of a bargain struck between local employers and local labor. The contracts usually covered a whole province or sometimes a larger area. Between 1926 and 1936, 1420 collective labor contracts were drawn which applied to national areas or to more than one province. In the same period 16,026 contracts covering provinces were drawn.[4] The percentages of the contracts which applied to the different groupings of occupations were as follows: about 60 per cent covered employment in Industry, about 20 per cent employment in Commerce, 15 per cent in Agriculture, 2 per cent in Credit and Insurance, 3 per cent in the Professions.

Most of the collective contracts stipulated wages, hours of work, apprenticeship conditions, promotions, seniority rights, reasons for dismissal and dismissal wages, and rights to medical attention and insurance. It is reported that there was wide violation of the contracts on the part of employers until a government inspection system was organized for enforcement. As might be expected, the subject of most frequent dispute in the contracts was wages. There were no minimum wages in Italy, but the precepts of the Labor Charter served as a general standard for wage determination. The Charter stated that wages shall be fixed on the basis of "normal needs of life, the possibilities of production, and the labor return." Such a principle is subject, of course, to a wide variation in interpretation.

Machinery for Settling Labor Disputes

A system of Labor Courts was provided to settle disputes which could not be settled without legal action. *Individual* labor disputes were taken to local magistrates, but *collective* disputes went to the Labor Courts, which were sections of the regular Appellate Courts. The bench was composed of three judges of the sixteen Appellate Courts plus two appointed experts in the fields of industry and labor respectively. Individual disputes usually concerned wages, hours, and conditions of work, while collective disputes arose over collective contracts. The Labor Courts heard only disputes involving collective contracts, i.e., disputes between employers' syndicates and employees' syndicates.

In collective disputes an attempt at conciliation was first made by the proper Federation and Confederation. If this was unsuccessful, the matter was sent to the Ministry of Corporations. If no agreement was reached there, the case went to the Labor Courts. Between 1927 and 1933 the Min-

[4] Cf. *ibid.*, pp. 79–80.

istry of Corporations received 498 disputes, of which 68 per cent were settled, 19 per cent undecided, and 13 per cent taken to the Labor Courts.[5] About two-thirds of the disputes concerned manufacturing industries, the balance involving agriculture, commerce, and land transportation.

Other statistics on labor disputes give some idea of the work done by the courts. During the period from 1926 to November 30, 1933, 145,289 labor disputes were submitted to the local magistrates. These were disposed of as follows: 29,144 were settled by the local magistrates through conciliation, 86,471 were settled by decisions of the magistrates, 20,191 were withdrawn, 9449 were still pending, and 34 were referred to the Labor Courts. Nearly all of the disputes were individual, not collective, for only 34 were submitted to the Labor Courts. Of these, 20 were settled by conciliation and 14 were decided by the Courts.[6] This machinery for settling disputes was important because strikes and lockouts were criminal offenses and a method of arbitration was therefore necessary.[7]

The Corporations

The local syndicates, Provincial Federations, and National Confederations provided a *vertical* framework for the organization of employers and employees. These organizations had to do primarily with the establishment and maintenance of employer-employee relations. The Corporations provided an economic framework of a different sort. As reorganized in 1934 they had to do with the improvement of industry and the solution of problems of production and industrial development.

The Italian economic system was conceived in terms of three "production cycles"—agricultural industries, manufacturing, and public services. Six Corporations were set up in the agricultural industries, ten in manufacturing industries, and six in the public service industries. A study of the accompanying table shows the specific Corporations in each of the major "production cycles."

It will be noted that the membership of the Corporations totaled 1000,

[5] *Ibid.*, p. 81. Later statistics are not available.

[6] *Ibid.*, pp. 82 ff.

[7] Nevertheless, strikes and lockouts did occur. Between 1926 and 1934, 564 strikes in industry and agriculture were reported to judicial authorities; 33,524 indictments resulted. In the same period there were 58 lockouts resulting in 212 indictments. The number of strikes and lockouts after 1926 was few in comparison with those in the preceding decade and in general tended to diminish after 1926. *Ibid.*, pp. 88-89. See also *Civil Affairs Handbook, Italy*, sect. 9 on "Labor," Military Government Division of the Office of the Provost Marshal General, p. 84.

[8] This table shows the Corporations after they were reorganized in 1938. The chief changes were in the number of representatives in the Corporation Councils and in the number of Corporations in the different "cycles." Thus the number in the "agriculture cycle" was reduced from eight to six by consolidation, and the number in the "industrial" and "commercial cycle" was increased from eight to ten.

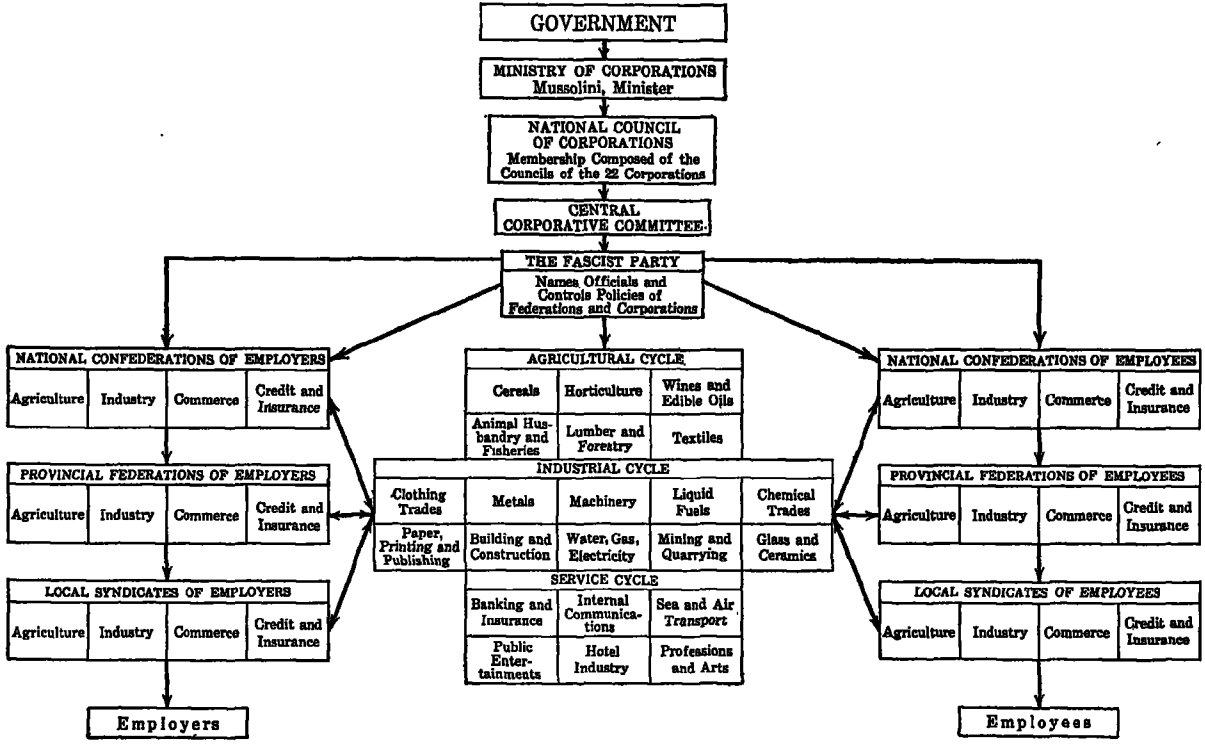
which was composed of 500 active and 500 associate members. The chief distinction between the types of membership was the fact that only active members were eligible to be members of the National Council of Corporations and the Chamber of Fasces and Corporations. In matters that concerned only the Corporation, there was little apparent difference in duties and privileges as between active and associate members. It should be noted that the majority of the members of the twenty-two Corporations were chosen from National Confederations of Employers and Employees. The balance were chosen from cooperatives, the Fascist party, and "other categories" such as independent public institutions. Since the 500 active members of the Corporations were ex officio members of the Chamber of Fasces and Corporations, they occupied important positions in both economic and political structures.

The Corporations were agencies for the execution of the national policies of the fascist government. As such they developed expert staffs for solving the economic problems in their particular industries. After the invasion of Ethiopia in 1935 and the economic sanctions applied by the League of Nations, the work of the Corporations was intensified and they became important instruments in Italy's attempt to achieve self-sufficiency. In particular, the Corporation of Grains played an important part in the "battle of wheat," the object of which was to make Italy self-sufficient in wheat; it surveyed land available for the expansion of acreage and introduced better seeds and improved methods of cultivation. As Italy's economic problems became more serious the Corporations' activities expanded. They advised the Ministry of Corporations on matters in their particular fields and issued rules and regulations for the industries over which they had authority. They later entered the field of price-fixing and studied costs of production in relation to prices. In so far as the Italian economy was a planned economy, the Corporations assisted in the formulation and execution of plans. Their acts, it should be remembered, were subject to approval by the Ministry of Corporations.

The National Council of Corporations

The 500 active members of the Corporations constituted the majority of the members of the National Council of Corporations. In addition the Council included the principal ministers of the government and other officials who were not officials of any of the twenty-two Corporations. The Council was originally intended to be the "economic general staff" of the Italian economy. It was to govern the twenty-two Corporations and to supervise the operation of the various local syndicates, the Provincial Federations, and the National Confederations. It was expected to discuss major questions of economic policy. However, it proved to be unwieldy and most

THE CORPORATE STATE IN ITALY



CORPORATIONS	ACTIVE MEMBERS CHOSEN FROM									ASSOCIATE MEMBERS CHOSEN FROM							
	Confederations									Confederations							
	Industry	Agriculture	Commerce	Banking and Insurance	Professions and Arts	Cooperatives	Fascist Party	Other Categories	Total	Agriculture	Industry	Commerce	Banking and Insurance	Professions and Arts	Cooperatives	Other Categories	Total
Total	132	132	60	34	58	10	66	8	500	10	313	83	26	31	9	28	500
Group I. Agricultural Cycle																	
1. Cereals	4	16	4	—	1	1	3	1	30	—	4	4	—	1	—	—	9
2. Horticulture	6	16	4	—	1	1	3	—	31	2	8	4	—	1	—	—	15
3. Wines and edible oils	6	16	4	—	1	1	3	—	31	4	10	6	—	1	1	—	22
4. Animal husbandry and fisheries	4	16	6	—	2	2	3	—	33	—	10	6	—	—	—	1	16
5. Lumber and forestry	4	8	2	—	1	—	3	1	19	—	10	6	—	2	—	1	19
6. Textiles	10	14	4	—	2	—	3	1	34	2	26	4	—	2	1	1	36
Group II. Industrial Cycle																	
7. Clothing trades	6	6	6	—	1	—	3	1	23	—	28	4	—	—	1	2	35
8. Metals	6	2	2	—	1	—	3	—	14	—	10	2	—	1	—	—	13
9. Machinery	8	4	2	—	2	—	3	1	20	—	28	6	—	1	2	1	38
10. Liquid fuels	4	4	4	—	2	—	3	—	17	2	12	4	—	1	—	—	19
11. Chemical trades	8	4	4	—	2	1	3	—	22	—	40	4	—	1	1	—	46
12. Paper, printing, and publishing	8	6	2	—	3	—	3	—	22	—	10	4	—	2	—	2	18
13. Building and construction	6	4	2	—	3	1	3	—	19	—	10	4	—	2	—	1	17
14. Water, gas, and electricity	8	4	—	—	1	—	3	—	16	—	12	4	—	1	1	—	18
15. Mining and quarrying	6	2	2	—	1	—	3	—	14	—	12	4	—	1	1	1	19
16. Glass and ceramics	6	2	2	—	1	1	3	1	16	—	18	4	—	1	—	1	24
Group III. Service Cycle																	
17. Banking and insurance	2	2	2	34	2	1	3	1	47	—	—	—	26	1	—	10	37
18. Internal communications	10	2	—	—	—	—	3	—	15	—	30	4	—	1	1	2	38
19. Sea and air transport	12	2	—	—	2	1	3	—	20	—	12	2	—	—	—	—	14
20. Public entertainments	4	—	—	—	3	—	3	—	10	—	20	—	—	2	—	3	25
21. Hotel industry	2	2	6	—	1	—	3	—	14	—	2	6	—	1	—	2	11
22. Professions and arts	2	—	2	—	25	—	3	1	33	—	1	1	—	8	—	1	11

of its intended functions were taken over by the Central Corporative Committee.

The Central Corporative Committee

This Committee was designed to be small enough to act in an executive capacity in the control of the Corporations, and to function between the meetings of the National Council. In 1935 it received full powers to enact "legislation" relating to the Corporations. The Committee had about fifty members, including most of the ministers of the government, the officials of the Fascist party, and the heads of the Confederations of Employers and Employees. It became a powerful "legislative" and executive organization which was expected to plan and execute policies for the Italian economy.

The Operation of the Italian Fascist Economy

Having taken the economic and political powers into their hands the Italian fascists found it necessary to take action on the numerous problems which faced Italy. The preceding portions of this chapter show the new political and economic *structures* developed by the fascists. The present section deals briefly with the operation of the economy.

During the period from 1922 to 1926 political events overshadowed economic events. The government followed a general policy of stimulating "business confidence" and of attempting to solve the economic problems left from the First World War. In general the policies were considered "orthodox." Industrial expansion began during this period and considerable speculative activity developed. By 1926 the government was issuing warnings against speculation and overdevelopment. In contrast to business speculation, the government's budget, by rigorous efforts, was virtually balanced.

After the promulgation of the Labor Charter in 1926 it was apparent that the government planned active intervention in the economy. The Fascist party was in full power and the period from 1927 to 1930 witnessed the beginning of fundamental changes. Among the accomplishments of this period was the stabilization of the lira with the aid of a large foreign loan. The lira was returned to a gold basis in 1927 but as a result of a sharp reduction in the currency supply deflation began with resulting depression and unemployment. The period from 1927 to 1929 was one of recovery from the speculative period of 1922–26 and from the stagnation which followed the stabilization of the lira. During this period governmental control over banking was increased by limiting the right of private banks to issue notes.

During the world-wide depression following 1929 the government actively intervened to forestall worse results. During a period in which

prices fell one-third, and in which industrial production declined one-half, the government lent money derived from the sale of its own bonds to large enterprises, banks, insurance companies, etc. This was through the Industrial Reconstruction Institute which was somewhat similar to the Reconstruction Finance Corporation in the United States. Unsound concerns were liquidated and those considered worth saving were refinanced. The problem of "overproduction" was tackled by encouraging and forcing competing concerns into "consortia"—production and marketing concerns similar to German cartels. In many instances government licenses were required to establish new plants or expand old capacity. In addition to the above forms of economic intervention the government accelerated the public works program, shortened the work-week to spread employment, and increased its expenditures for military purposes. One result of these measures was a public budget heavily unbalanced, a common experience of governments during those years.

The above methods of intervention were fairly common in capitalistic economies during the 1930's. However, before 1935 Italy entered upon a period of planned intervention in the economy with the purpose of achieving autarchy or self-sufficiency. In part this grew out of the preparations for the invasion of Ethiopia and of the economic sanctions which members of the League of Nations applied against Italy by ceasing the purchase of Italian goods from December 15, 1935 to July 15, 1936. This experience accelerated the trend toward self-sufficiency. The doctrine of the "primacy of politics" was put forward as a justification of self-sufficiency and this was made a national ideal. The newly created Corporations were used to conserve scarce materials, search for substitutes, and to allocate scarce supplies and practice in the use of the new economic structure developed. The "battle of wheat" was begun, and by 1938 sufficient was produced to provide for minimum national needs although at the expense of fewer cattle. After the formation of the Rome-Berlin Axis the Italian and German economies became linked together. After 1939 the Italian economy was converted into a war economy in preparation for entrance into the Second World War.

Like all other war economies that of fascist Italy was converted into a planned economy. Priorities were established and price controls and rationing imposed. Heavier taxes were levied but the national debt mounted to dangerous proportions. In view of the fact that Italy had previously resorted to capital levies in order to reduce the debt the increase of the debt in war-time made still more dangerous the tenure of private property. This is because the direction of the economy toward ends chosen by the state meant pressure on private property and private income and could ultimately result in the decrease or destruction of private property through repudiation or socialization.

SUMMARY

In what ways did the Italian economy resemble other types of economic systems and in what ways did it differ? Fascism retained the concepts of private property, private enterprise, and the profit motive. Risk-taking still fell largely on the enterpriser. It modified these conceptions, however, and limited them in the interests of the state. The role of the profit motive as a directing principle which production follows was minimized. This appears to be inherent in an economic system where the state controls both political and economic powers. As a result, more of the decision-making was referred to government agencies, particularly after the formation of the "corporate state." More and more of the economic activities of individuals were warped into channels chosen by the state. Free markets and a relatively free price system was retained. Consumers' freedom of choice was also retained but within the limits of a growing government direction of production. Workers' freedom of choice was limited by prohibition of the right to strike and the negotiation of wages through government-dominated Confederations. A one-sentence description of the fascist economy would be that it was a controlled capitalist economy in which national direction was given to production and consumption.

THE NEW ITALIAN GOVERNMENT

The new Italian government in the form of a republic and represented by popularly elected leaders has been too recently created for a judgment to be made or its influence on the Italian economic system known. At the present time it is sufficient to point out that any form of government must face the economic realities of its environment. The realities include the problems which the fascist régime faced and those inherited from that régime. These problems even include the payment of reparations to other countries as a result of fascist aggressions. It is to be hoped that Italian economic problems will be relieved through the reintegration of Italy in the world economy with a resulting expansion of international trade. A reversal of the former policy of self-sufficiency requires, of course, that a world which is geographically specialized expand international trade rather than contract it through tariff and cartel restrictions.

QUESTIONS FOR CLASS DISCUSSION

1. Compare and contrast the location of political and economic powers in the Italian fascist government with such powers in the national socialist government of Germany, the Soviet Union, and the United States.
2. What commodities, in increased amounts, can the United States purchase from Italy so as to increase international trade?

3. Compare and contrast the determination of wage rates under existing legislation in the United States with the determination of wages in fascist Italy.
4. Does the Italian corporate state appear to be more or less complex than the economy of the Soviet Union?
5. What virtues and defects do you see in the corporate state when considered apart from fascism as a group of problem-solving organizations.

Chapter 29

NATIONAL SOCIALIST GERMANY

THE purpose of the present chapter is to summarize the political and economic experimentation which was carried out in Germany under the national socialist government of Adolf Hitler. While that government succumbed to military defeat there is so far little evidence that the fundamental beliefs which gave rise to the National Socialist party have disappeared from German soil. Furthermore, the movement represents an astonishing recrudescence of the "great state" and as such has peculiar significance to the people in democratic countries who have been successfully limiting the arbitrary powers of states as a part of the liberal policy of developing the freedom of the individual.

There are many respects in which historians may consider the national socialist movement as an extension of the nineteenth-century struggle for nationhood and a "place in the sun." German development as a nation began after the defeat of Napoleon in 1815. By 1871 the new German Empire was formed under the leadership of Prussia with the King of Prussia as Emperor. Under the leadership of Bismarck and later Wilhelm II Germany embarked upon a period of industrial expansion and imperialistic trends including the search for a colonial empire.

The form of the German government gave some appearances of concessions to growing democratic and socialist movements of the nineteenth century, but it was in fact a highly concentrated form of control because it placed large powers in the hands of the Kaiser. Representative of kings who claimed the divine right to rule, the Kaiser held the chief executive powers and was commander-in-chief of the military forces. The Chancellor was responsible to the Kaiser and not to the legislative bodies. However, laws were enacted by the two chambers of the German Parliament. The Bundesrat was the upper house and had fifty-eight members appointed by the heads of the various state governments. In practice it dominated legislation because it originated most of it. The lower chamber, the Reichstag, was elected by popular vote. However, it did not control the cabinet or the

purse and could be dissolved by the Kaiser if the Bundesrat consented. This was the form of modified monarchy which led Germany into the First World War and which was displaced by revolution in 1918.

The Weimar Republic

The German Republic which was established after the 1918 revolution took its unofficial name from the historic town where its constitution was written. The new constitution resembled that of the United States most closely because it provided for a strict separation of legislative, executive, and judicial powers and for an extensive bill of individual rights. It also gave all German men and women over the age of twenty the right to vote. Elections followed the principle of proportional representation. The legislature consisted of an upper house, the Reichsrat, in which legislation was initiated, and the Reichstag, in which legislation was enacted. The President was elected for a term of seven years and could succeed himself. He appointed the Chancellor who was the executive head of the government. The cabinet was responsible to the Reichstag for votes of confidence. It should be noted that this constitution specifically protected private property from state encroachment. It also emphasized *duties* as well as *rights*. This government saw Germany through the disastrous inflation of 1923–24, stabilized the mark, and provided the governmental background for the period of prosperity from 1926 to 1929. After 1929 it found itself in the midst of the world-wide depression which gave final force to the growing national socialist movement. With the coming of the Hitler government the constitution was swept aside and a dictatorship established.[1]

The Growth of National Socialism

The National Socialist German Workers' party was founded in 1919 by a group of fewer than thirty. By 1920 its official name was adopted and a twenty-five-point program, announced. The program called for the repudiation of the Versailles Treaty, territorial expansion, exclusion of all non-Germans from citizenship and public office, substitution of "German common law for the materialistic cosmopolitan Roman law," creation of a healthy middle class, abolition of incomes acquired without work or effort, nationalization of all trusts, land reform "adapted to national needs," and the creation of a "strong central authority in the Reich with unconditional authority held by the political central parliament over the entire Reich and all its organizations." The last statement is the most sweeping of the proposals and became the basis for the authoritarian government which was later established.

[1] There is and has been much controversy over the relative success of the government of the Weimar Republic. Students interested in pursuing this study somewhat further may wish to consult the second edition of the present volume and other sources.

The appeals of the new party were largely negative. In election campaigns they hammered relentlessly against the peace treaty, against the Jews, against the Republic, and against democracy. By 1923, the year of the Munich Beer Hall *Putsch,* it had enrolled only a few thousand members who were generally regarded as foolish fanatics who would never achieve power. But the inflation created a disgruntled middle class who wished to be neither socialists nor communists and recruits from this class swelled the party ranks. The coming of the depression increased the party membership and, with financial backing from industrialists, the party grew in strength. In 1932 Hitler was a candidate for the presidency against Hindenburg but was defeated. However, Reichstag elections held later in the year made the national socialists the largest party in the chamber with 230 seats. In the fall of 1932 the Reichstag was dissolved by Chancellor von Papen and in the new elections the national socialists, although still having the most seats in the Reichstag, fell to 192. Hitler, after refusing a post in a coalition cabinet, was offered the chancellorship with a cabinet containing only two other national socialists, Frick and Goering, which he accepted. New elections in March, 1933, gave the national socialists 52 per cent of the popular votes and 288 seats. During this election storm troopers controlled many voting places, and the police, under the control of Frick and Goering, stood aside. Prior to the election all constitutional guarantees of freedom of speech and assemblage had been suspended by the President. On March 24, 1933, democratic government came to an end with the passage of the Enabling Act. The new Act was entitled, "Law to Combat the National Crisis." It declared: "National laws can be enacted by the national cabinet as well as in accordance with the procedure established in the Constitution." In this way legislative and executive power passed from the Reichstag to the cabinet and to the "leader." The Act also provided that the position of the Reichstag, the Reichsrat, and the President should "remain undisturbed." But upon the death of Hindenburg the office of President was combined with the chancellorship and later abolished. The protection of the Reichstag and the Reichsrat was later abrogated. In this way power was concentrated, according to the principles of *Mein Kampf,* in the hands of "one man."

The National Socialist Party

The political instrument which secured and enforced loyalty to the state in Germany was the National Socialist party. In 1933 all other parties were prohibited and heavy penalties were provided for attempting to organize another political party. The party was declared to be "inseparably connected with the state." It was a "corporation of public law" headed by the Chancellor, who determined its constitution. Its members were subject to

strict discipline since they were the "leading and moving power of the national socialist state." Each was required to take a personal oath of "blind loyalty" to Hitler.

The party had its general headquarters in Munich, which was the center of the Hitler movement, but also maintained other headquarters in Berlin so as to be close to the center of government. Because it was hierarchical in form, its organization showed considerable correspondence to that of the national socialist government. Below the leader there was a cabinet which performed the executive functions. In each of the regional, district, and local divisions of the party there was a leader who headed the party organization, received instructions, and transmitted them to party members. Local organizations were divided into "cells" and the cells into "blocks" so that the party organization extended down to very small groups. In cities each apartment house had its cell and its leader. Thus, the "leader principle" in government was applied to party organization.

When the national socialists came to power, the party membership numbered about a million and a half. Within several months after Hitler became Chancellor two million new members were added. There resulted some opposition between old and new members which threatened to impair party unity. To avoid this difficulty, membership was practically closed in 1933. Later, members were admitted primarily from the Hitler youth organizations. To be eligible, young men must have reached the age of 18 and have served four years in the youth organizations with credit. Young women could be admitted at 21 and must also have served creditably four years in the youth organizations. Applicants for membership were required to trace "Aryan" ancestry back to 1800. It was expected that party members would be composed of young persons thoroughly instilled with national socialist principles by the youth organizations. After 1937 party membership was opened again to older persons who proved their usefulness and loyalty to the party by political activity. It numbered about 4,000,000. The party exercised its control by means of a network of organizations extending into many spheres of German life.

The first purpose of the National Socialist party was, of course, political. But its vast subsidiary organizations served another purpose—the execution of the policy "coordination" (*Gleichschaltung*). According to national socialist principles, no group or class of Germans could fail to have its part in the totalitarian state. All must be "coordinated" into a unified whole with a single purpose. This "coordination" was an important secondary purpose of the party organizations.

As the chart on government and party organization shows, the two were closely linked together. In fact, the chief officials of the government also held important party posts. This amounted to a double concentration of power in government and political party.

THE NATIONAL SOCIALIST GOVERNMENT

Executive and Legislative

The fundamental principle exhibited by the national socialist government was that of leadership. Authority was concentrated in the national leader and delegated by him to other officials. This delegation of authority applied to officials who controlled the economic system as well as to those who administered the government. Authority extended from the top down through various grades of leaders, and discipline and obedience in an upward direction were demanded in return. The operation of this principle was intended to do more than assure Hitler's personal dictatorship; it was to create a permanent state based upon leadership which would endure for "a thousand years."

Technically speaking, the Weimar Constitution remained the basic law of the Third Reich. However, the Enabling Act of 1933 opened the way to truly revolutionary changes in German law. The civil liberties guaranteed by the Constitution were suspended by an Act passed by the cabinet in the same year, and other laws which changed the character of the German government were passed in rapid succession. While no new constitution was written, an Academy for German Law which was established in 1934 in Munich was set to reworking German law. In line with the national socialist theory of the superiority of the German "race," one objective was to rid German constitutional law and the civil code of foreign influences such as Roman law.

The essence of any government is the location of sovereignty—the source of political power. This formerly resided in sovereign kings but during the democratic revolutions it was taken from them and given to the citizens. In the "leadership state" sovereignty was given to the state and authority to exercise sovereign rights was bestowed on one man—the leader. He was supposed to sense and execute the "mystic folk will" of the people. This meant that all the powers of government resided in the person of the leader as completely as they ever did in an absolute monarch. All oaths of loyalty were taken to the leader, not to the government or the nation. Hitler derived some of his powers from the former presidency. These included extensive presidential powers of appointment as well as the power to call and dismiss the Reichstag and to exercise supreme command over the military forces. He also had the powers of the Chancellor, and his vast powers of appointment accrued by the absorption of the state governments into the Reich. He acquired additional powers through laws passed by the cabinet after the Enabling Act gave it legislative authority. In 1942 a resolution of the Reichstag gave Hitler complete power to force every German individual, by whatever means he saw fit, to fulfill his duty and to punish anyone who failed to do so, regardless of "so-called duly acquired rights."

However, his greatest powers derived from his position as Fuehrer of the only legal political party in Germany. This party controlled the government and the members of the party gave blind loyalty to the Fuehrer.

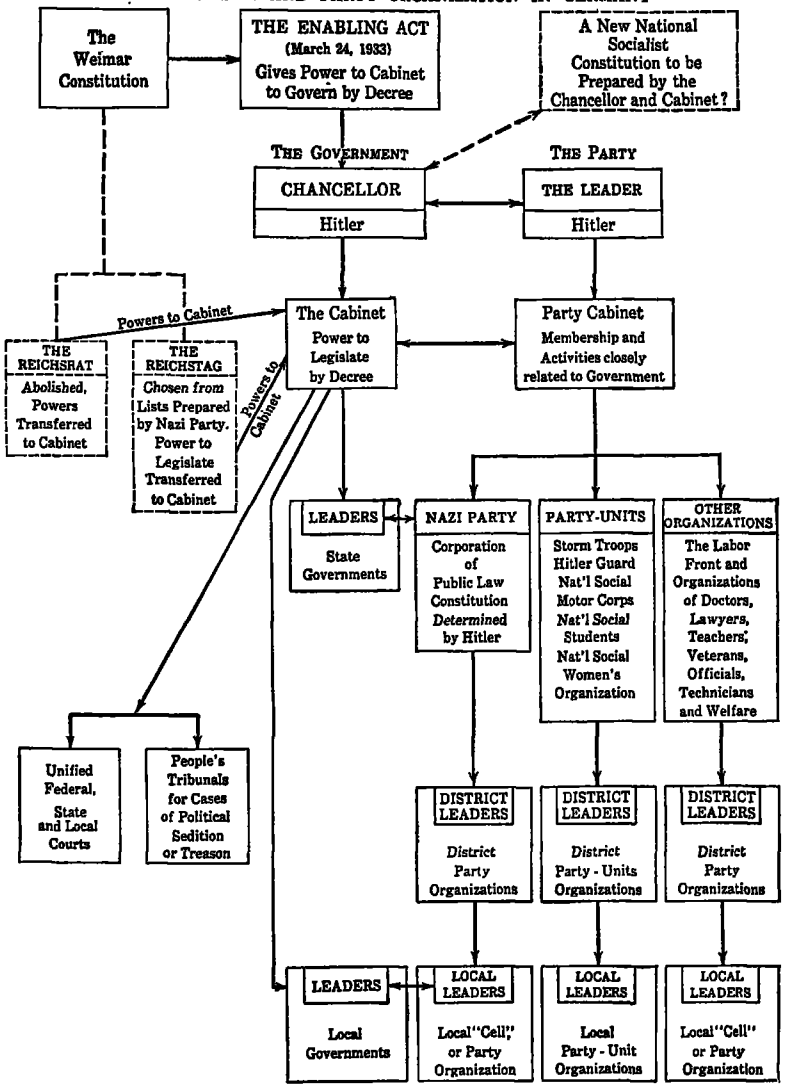
After the Enabling Act transferred legislative powers to the cabinet, legislative enactments issued from this body in rapid order. The laws creating the economic "Estates," the racial laws against Jews and foreigners which denied citizenship and imposed other discriminations, the law abolishing the state legislatures, etc., were cabinet laws. The government intended that this power be closely held. Hitler's influence over the cabinet gave him power to veto legislation. New laws were reported to originate with the minister or other cabinet member most concerned and were then passed around for signature. The cabinet seldom met for the specific purpose of discussing and approving legislation.

It should be emphasized that the national socialist government represented the most extreme concentration of political and economic power in any modern government. There was no separation of powers and there were no checks and balances. Judicial powers were subject to cabinet decrees. The control of public opinion was regarded as of such great importance that a new Ministry of Propaganda and Public Enlightenment, headed by Dr. Goebbels, was added to the cabinet. The new ministry had the task of perpetuating the power of the government through the molding of public opinion. This was one of the new departures in government.

The Reichsrat was abolished, but the Reichstag still existed as an "elected" body. However, it was more a sounding board for Hitler's speeches than a deliberative assembly. In the six years after 1933 it met only eleven times and passed only five measures. Since the laws were enacted by the cabinet there was little for the Reichstag to do. Its membership was composed solely of members of the National Socialist party. The states, or *Laender,* were abolished as separate governments, although they were kept as administrative divisions of the Reich. Each state, formerly governed by elected officials and a bi-cameral legislature, was governed by officials appointed by the Reich. Local governments were brought under Reich control by a new uniform municipal code in 1935. Berlin, as the capital city, was given a special code. Since all officials were carefully chosen national socialists, the central government's control extended from the Reich through every subdivision of the government. In this way the objective of the "monolithic" state was accomplished.

With lawmaking confined to the cabinet, government in Germany became largely a matter of administration. For many years the German civil service was highly regarded by students of government for its administrative efficiency. Government activity in Germany expanded enormously; hence most of the burden of executing the new government policies fell upon the civil service. But since a very small number (about 4 per cent) of its

GOVERNMENT AND PARTY ORGANIZATION IN GERMANY



Authority is Downward Responsibility Upward

employees were members of the National Socialist party before 1933, it was considered necessary to bring the service under national socialist control. This was done by laws excluding "non-Aryans," those who had entered the service without "adequate training," and those who because of their political affiliations prior to 1933 were not regarded as loyal national socialists. New members of the service were required to have training or special qualifications for office and to give unquestioning loyalty to the Third Reich. An inclusive Civil Service Act of 1937 brought under the control of the Reich all national, state, and municipal officials. This meant that all employees of the government or government agencies—officials of the national, state, and local governments, school teachers, professors, judges, public utility employees, etc.—were included in the "coordinated" civil service. Although the whole tradition of civil service throughout the world and in Germany had been that of a neutral group executing government policies and "operating" the government, national socialist Germany's civil service personnel were enlisted in the service of a totalitarian state and could in no sense be regarded as neutral civil servants. The first sentence of the German Civil Service Law of 1937 shows this new disposition of the civil service more clearly than description: "A civil service rooted in the German *Volk,* thoroughly imbued with the National Socialist *Weltanschauung,* which is bound in fidelity to the Fuehrer of the German Reich and *Volk,* Adolf Hitler, forms a fundamental pillar of the National Socialist State."

THE NATIONAL SOCIALIST ECONOMY

The economic system over which the national socialists took control contained a population of 66,000,000 in an area slightly larger than California. The economy was highly industrialized and naturally adapted to exchange manufactured goods for food and raw materials. Population pressure has more than once reinforced German demands for *Lebensraum* (living space). Prodded by national socialist racial doctrines this demand exploded into the Second World War.

THE GERMAN CARTEL SYSTEM

In recent years much attention has been given to the relation between national socialism and cartels in Germany. German cartels were chiefly marketing organizations among manufacturers of similar commodities which allocated markets and fixed prices in the interests of members.

It will be recalled that one point of socialist theory is that modern manufacturing industry "ripens" itself for socialization by the increasingly large scale of production and the growth of monopolistic practices such as the control over prices and sharing of markets and patents. In Germany these tendencies grew apace because there was no law that declared restraint of

trade illegal. Instead voluntary contracts to fix prices, share markets, apportion territories, or pool profits were legal and binding. Some regulation was attempted beginning with the Decree Against the Abuse of Powerful Economic Positions issued in 1923. The law provided that cartel agreements were to be made in writing and that no member could withdraw from the agreement without the permission of the Cartel Court, which was established as a regulatory agency. The general effect of the law was to encourage consolidation and increase the scale of industrial organization. This reduced the operation of competitive forces. About 2000 cartels, including all of the major manufacturing industries, thus replaced competition with monopolistic practices.[2]

From the highly developed, highly integrated, and highly organized German economy it was not a long step to a controlled economy such as the national socialist government introduced. In fact, most of the *organizations* such as trade associations, cartels, and in agriculture, cooperatives, were sufficiently well established to be taken over by the new government as instruments through which its policy could be enforced.

Soon after the national socialists came to power a policy of establishing further control over business was initiated. The Compulsory Cartel Act of 1933 gave the Minister of Economic Affairs power to force or prohibit changes in cartel agreements, to dissolve cartels or establish new ones, and to designate the rights and duties of members of a cartel. Since these powers included control over cartel prices, the problem of government price control was simplified. It appears that the larger the number of cartels, the easier it became to enforce government price and production policies through the Estate of Industry and Trade. Furthermore, the cartels became instruments through which the government carried on a type of "economic warfare." Patents on important industrial processes were withheld from other nations and the international contacts of the cartels were used for a world-wide espionage network.[3]

Economic Principles of National Socialism

The basic principle of national socialism, as applied to the economic

[2] In recent years the Temporary National Economic Committee, a United States government agency, has investigated the "concentration of economic power." A German counterpart of this Committee, which was known as *Enqueteausschuss* (an abbreviation), reported on the German economy in 1926. It concluded that cartel practices were not necessarily harmful and that there was little reason for restricting their numbers or activities. But it recognized that they should be brought under government control when they adversely affected the public interest. See T.N.E.C. Monograph No. 40, *Regulation of Economic Activities in Foreign Countries,* pp. 50–61.

[3] See T.I.D.C. Project 26, *German Participation in International Cartels,* Foreign Economic Administration, October 10, 1945. See also Project 25 of the same source, *Allied Activities Relating to German Assets, Economic Activities and Industrial Personnel Outside Germany.* For a more general treatment of cartels see George W. Stocking and Myron W. Watkins, *Cartels in Action,* Twentieth Century Fund, New York, 1947.

system, held that no group, interest, or motive may oppose the national will as expressed by the Reich. From this flowed the practical machinery of the Third Reich's economic measures as well as the general principles upon which the economic system was operated.

Upon the basis that the national interest was paramount and that the Reich was invested with absolute authority to enforce the "national will," it seemed natural to the national socialist that no disagreement should be allowed, once the national policy had been determined. Hence, the achievement of a completely unitary, *totalitarian* state required that every interest be subjected to a single purpose and a single will. The dissolution of the trade unions and employers' associations, the prohibition of strikes and lockouts, and the severe regimentation of business were logical necessities when the interest of the state was not only paramount, but the only interest which was first and final. In Germany, as in Italy, the individual and the group, the personal interest and the economic interest, were to find their places somewhere in the structure of the great state. The purpose of this denial of any interest except the national was to weld every person and group into a single economic and political structure. Furthermore, this was to be done within the framework of a system of private property. Private property was to be protected, but to be subject to the prior needs of the state. Similarly, economic classes, such as employer and employee, were to remain, but their interests were declared to be *identical.* This identity of interest was a common service to the great state by a mutual contribution to production. That the business man was brought into the service of the state is clear. Hitler laid down the rule in no uncertain terms: "Neither business nor capital are autocratic phenomena and therewith subject to their own code of laws, but the nation takes precedence and therewith solely and alone sets up the vital laws. The nation does not exist for business but business must serve the nation, and the nation and business are not the slaves of capital, but capital is merely an economic auxiliary and therewith likewise subordinated to the greater necessities of the subsistence of the nation."[4]

THE ORGANIZATION OF THE ECONOMIC SYSTEM

With the objects and duties of the various divisions of the German economic system defined by the Fuehrer, there developed, long before the German economy was converted into a war economy, a rigidly controlled economic system. While this was not a planned socialized economy in the sense that the Soviet Union's is, it was a form of controlled capitalism in which the government occupied a position so dominating that it could activate the economic system toward national objectives. It has been pointed out that for many years there was a trend in Germany toward in-

[4] Speech to the Party Congress at Nuremberg, September, 1936, *News in Brief,* vol. iv, no. 18, p. 234.

creased centralization, increased collectivism, and increased government control. The national socialists accelerated this trend and brought the German economy under complete control.

The organization of the German economy was in part the result of compromises between radical and conservative wings of the National Socialist party, in part an acceptance of the principle of the "primacy of politics," and in part an effort to use existing forms of economic organization in the new "economic order." The radical wing of the party advocated a definite type of economic planning through a *Staendestaat* (guild or corporative state). Among its chief advocates was Gottfried Feder, the author of the party program. Point 25 of the program called for the "formation of chambers of classes and occupations to carry out the laws promulgated by the Reich. . . ." Although this was a vague proposal, it was interpreted by the left wing of the party to call for the creation of self-governing corporations or guilds which in turn would be formed into either legislative bodies or bodies which would advise the leader. During the first year that the national socialists were in power it was frequently announced that the development of the *Staendestaat* was postponed only pending business recovery. But in 1934 the abandonment of the proposal was announced because it was both impracticable and semi-democratic. At about this time Feder was removed from his post as Under-Secretary of Economics. This has been interpreted as a swing toward the "right," but not in the sense of a relaxation of government control.[5]

After 1934 a group of organizations was established through which the state exercised its control over the economic system. These were called *Staende* (estates, guilds, or "corporations"). The structure of the German economic organization then consisted of the following five estates:[6]

The Agricultural Estate
The Estate of Industry and Trade
The Labor Front
The Transport Organization
The Estate of Handicrafts

These estates became established and important and necessary mechanisms for the operation of the German economy. While they were not modelled upon Italian lines, certain parallels can be drawn with the Italian economic organization. For example, the Agricultural Estate, the Estate of Industry and Trade, the Transport Organization, and the Estate of Handicrafts corresponded roughly to the Italian Corporations, particularly

[5] Cf. Fritz Ermarth, *The New Germany*, pp. 81–91.

[6] Some treatments of the German economy do not include the Transport Organization as an Estate but class the Reich Chamber of Culture as an Estate. Since the present volume deals primarily with economic matters it seems desirable to include the Transport Organization as an Estate because its economic functions were important. The Chamber of Culture dealt with "higher" matters than the economic system.

in the functions which they performed. Likewise, the Labor Front had many of the functions which the syndicates, Federations, and Confederations performed in Italy.

National Socialist Land Policies

Point 17 of the National Socialist party program demanded "land reform adapted to our national needs, the enactment of a law for confiscation without compensation of land for public purposes; abolition of land interest and prevention of all speculation in land." When the use of the term "confiscation" excited considerable distrust in Germany, a note signed by Hitler was appended to this point in 1928. It explained that the party held to the "view of private property" and that the intention was to create "legal means" whereby land could be "expropriated if necessary" because it had been acquired in "illegal ways" or was not administered in the "best interests of the nation's welfare." A further statement that the proposal was "directed primarily against Jewish land speculation companies" completed the explanation. The significance of this point for the German economy is to be found in the controversies over the concentration of landownership and land speculation during the inflation. "Six per cent of all landowners in Germany owned 24 per cent of the land; the 412 largest landowners owned as much as 1,000,000 peasant proprietors."[7] Much of the concentration of ownership was in Junker holdings. German social democrats had proposed many times that such estates be divided up among individual peasant farmers. The importance of the land question in Germany was accentuated by two facts. First, the large landholdings were legally entailed, i.e., left by inheritance to particular classes of heirs, usually the eldest son; and second, many of the estates were insolvent. One-third of the large estates were insolvent before 1928 and this percentage increased during the depression years.[8]

Regardless of the existing institutions of landownership, the national socialist program for agriculture attempted to achieve three major objectives: (1) create a permanent class of peasant farmers of approved German ancestry, (2) improve the position of agriculture in relation to other industries, and (3) make Germany self-sufficient in food resources. The first of these objectives was sought through the Hereditary Farm Act of September 29, 1933. This Act provided that German citizens who could prove themselves "racially pure" by giving proof that their family had had "pure German blood" since January 1, 1800, and who were possessed of an

[7] Quoted from Maxine Y. Sweezy, *The Structure of the Nazi Economy*, Harvard University Press, Cambridge, 1941, p. 179. The statement was made by Walter Darré, formerly leader of the Agricultural Estate, and reported in the London *Times*, September 2, 1936.

[8] See Karl Brandt, "Junkers to the Fore Again," *Foreign Affairs*, October, 1935. Most states in the United States have placed statutory limitations on the right of entailment.

honorable character, could qualify for an hereditary farm. The farms were to be large enough to sustain one farm family, although generally they were not to contain more than 125 hectares (about 300 acres). A farm of the proper size that was owned by the peasant who worked it became a hereditary farm automatically if other requirements were met. However, it is worthy of note that the large estates could also be classed as hereditary farms and that many were so classified. This is significant because hereditary farms could not be sold or lost through mortgage default. Furthermore, entailment was required by the government and since the farm or estate passed entire to one of the sons it could not be broken up into smaller holdings. The accompanying table shows the relationship between

HEREDITARY FARMS IN GERMANY, 1939[9]

Size (in hectares; 1 hectare = 2.47 acres)	Number	Per Cent of All Hereditary Farms	Total Acreage (in hectares)	Per Cent of All Hereditary Farms
Below 7.5	20,067	0.9	135,000	2.9
7.5–below 10	99,786	5.6	875,000	14.6
10–below 15	175,444	13.9	2,168,000	25.6
15–below 20	118,741	13.2	2,053,000	17.3
20–below 25	75,696	10.9	1,692,000	11.0
25–below 50	145,057	31.9	4,969,000	21.2
50–below 75	33,120	12.7	1,975,000	4.8
75–below 100	11,320	6.2	965,000	1.7
100–below 125	4,680	3.4	520,000	0.7
Above 125	1,086	1.3	209,000	0.2
	684,997	100.0	15,561,000	100.0

[9] From Franz Neuman, *Behemoth*, Oxford, New York, 1942, p. 395. The original source of the statistics is *Wirtschaft und Statistik*, 1939, no. 5.

the number and size of the hereditary farms. A study of the table shows that 82.6 per cent of the hereditary farms ranged in size from 10 hectares (24.7 acres) to 75 hectares (185.3 acres). The largest number of farms were those between 25 hectares (61.8 acres) and 50 hectares (123.5 acres). There was a general tendency under national socialism for small farms to be absorbed in larger ones, which meant an increase in the average size of farms. In 1939 the hereditary farms occupied 37 per cent of the land area under cultivation and in forest.

The Hereditary Farm Act was the practical result of certain national socialist doctrines. The party held that agriculture should become the favored basis of the new German Reich. The slogan, "Blood and Soil," emphasized two things: that the German land was the source of the sustenance for the German people, and that the people on the land, having large families and being rooted in the soil, would guarantee the continuation of the German population. National socialists regarded cities as places where

the race decays and they looked at the Berlin birth rate with alarm. According to *The Nazi Primer,* if the population of Berlin had no additions from outside the city, its birth and death rates in recent decades would reduce it from 4,000,000 to 150,000 by the year 2080.[10]

The Agricultural Estate

The Agricultural Estate was the first of the economic organizations to be created. Membership in it was compulsory and included all the individuals, functions, and organizations concerned in the production and distribution of agricultural commodities in Germany. Expenses were paid by fees collected from the members. The Estate had under its control a group of agricultural industries which included in addition to farming proper, forestry, truck farming, fisheries, and wine culture. In the distribution of products it included all persons or businesses engaged in trade in, or the processing of, agricultural products. Thus millers, bakers, butchers, etc., were required to be members of the Estate (and also of the Estate of Industry and Trade). The effect of this is to give the agricultural industry a *vertical* organization which covered the products from the time they were grown until they reached the consumer.

At the head of the Estate was the Farm Leader who was also the Reich Minister of Food and Agriculture. In line with the leadership principle, the Farm Leader possessed authority over and responsibility for the various branches of the Estate and for all appointments. He was advised by a council of about one hundred members whom he appointed from the various districts. A farm congress was held each autumn, at which the agricultural plan for the next year was discussed and enthusiasm generated for the "Battle of Production" as part of the plan for self-sufficiency.

For purposes of administration, Germany was divided into 20 regional districts, each of which was subdivided into 520 districts, which were in turn subdivided into local community districts. In this way every locality was brought under the supervision of the Estate. The administrative work was divided into three sections. Section I dealt with personal relationships between landowners and laborer, lessor and lessee, as well as with questions of moral welfare and racial problems in connection with land settlement and hereditary farms. Section II attended to technical problems, research, farm management, land improvement, forestry, etc. These functions were formerly exercised under the Second Reich by Chambers of Agriculture and Agricultural Councils. Section III had ten Central Marketing Associations which controlled the marketing of grain, milk, potatoes, eggs, garden produce, cattle and meat, brewing materials, sugar, and fish.

For the purpose of developing German resources for self-sufficiency and of favoring agriculture, a type of agricultural planning was undertaken in

[10] *The Nazi Primer Official Handbook for Schooling the Hitler Youth,* translated by Harwood L. Childs, Harper, New York, 1938, p. 89.

Germany. The government directly controlled agricultural production to satisfy German needs. In 1939 the Agricultural Estate, although launched as a "self-administrative statutory corporation," was placed under the control of the Minister of Food and Agriculture who, as previously stated, was also its leader. Production of crops was controlled through the allotment of crop quotas to each farm. For each farm there was a "management" card containing information for the authorities on acreage, yields, livestock, methods of production, type of soil, machinery, etc. Prices were officially fixed and quotas were allotted to food processors. The ten Central Marketing Associations regulated costs and prices, and profit margins, established standards and grading regulations, and, to some degree, regulated the actual production of agricultural produce.[11]

Farmers were required to be members of the marketing organizations which sold the products they produced. It is interesting to note that with government price-fixing and government-controlled marketing, speculative trading in grain futures was abolished. Since the Estate handled only domestic supplies, there were four government monopolies under the Ministry of Agriculture which controlled imports and exports and attempted to balance reserves with consumption needs.

The Estate of Industry and Trade

The purpose of the Estate of Industry and Trade was to weld into a unit the whole German system of manufacturing and the wholesale and retail distribution of manufactured products, and to place it under the control of the Ministry of Economic Affairs. The Estate was established by a decree entitled "Law for the Preparation of the Organic Reconstruction of the German Economy" issued by the Reich Minister of Economic Affairs on February 27, 1934. This gave him power:

1. To recognize associations as the sole representative of their branch of trade and industry;
2. To establish, dissolve, or amalgamate associations;
3. To change and supplement the statutes and agreements of associations and in particular to introduce the principle of leadership;
4. To appoint and dismiss leaders of associations;
5. To compel employers and undertakings to join associations.[12]

It will be recognized that the national socialist principles of *compulsion* and *leadership* are contained in the powers of the decree. In November, 1934, this division of the German economic system was organized into six national business groups: Industry, Handicrafts, Trade, Banking, Insurance, and Power. As appears from the chart of the German economic

[11] Lewis L. Lorwin, *National Planning in Selected Countries,* Technological Paper No. 2, National Resources Planning Board, Washington, 1941, p. 49.

[12] E. C. Donaldson Rawlins, *Economic Conditions in Germany to March, 1936,* Department of Overseas Trade, London, 1936, pp. 86–87.

organization on page 695 the national groups were divided into major groups which in turn were subdivided in accordance with the various trades, businesses, and products represented. Thus, Trade was divided into Wholesale Trade, Retail Trade, Restaurant and Hotel Trade, Agents and Middlemen, and Itinerant Vendors. Industry was divided into seven major groups, each of which was divided into subgroups, that having to do with wearing apparel for example, being subdivided into Leather, Textiles, and Clothing. Further subdivisions are not shown on the chart but follow the lines of specialty and subspecialty groups. This organization will be recognized as vertical organization because it extended from the smallest units of business upward through the various subgroups and groups to the national groups at the top of the Estate.

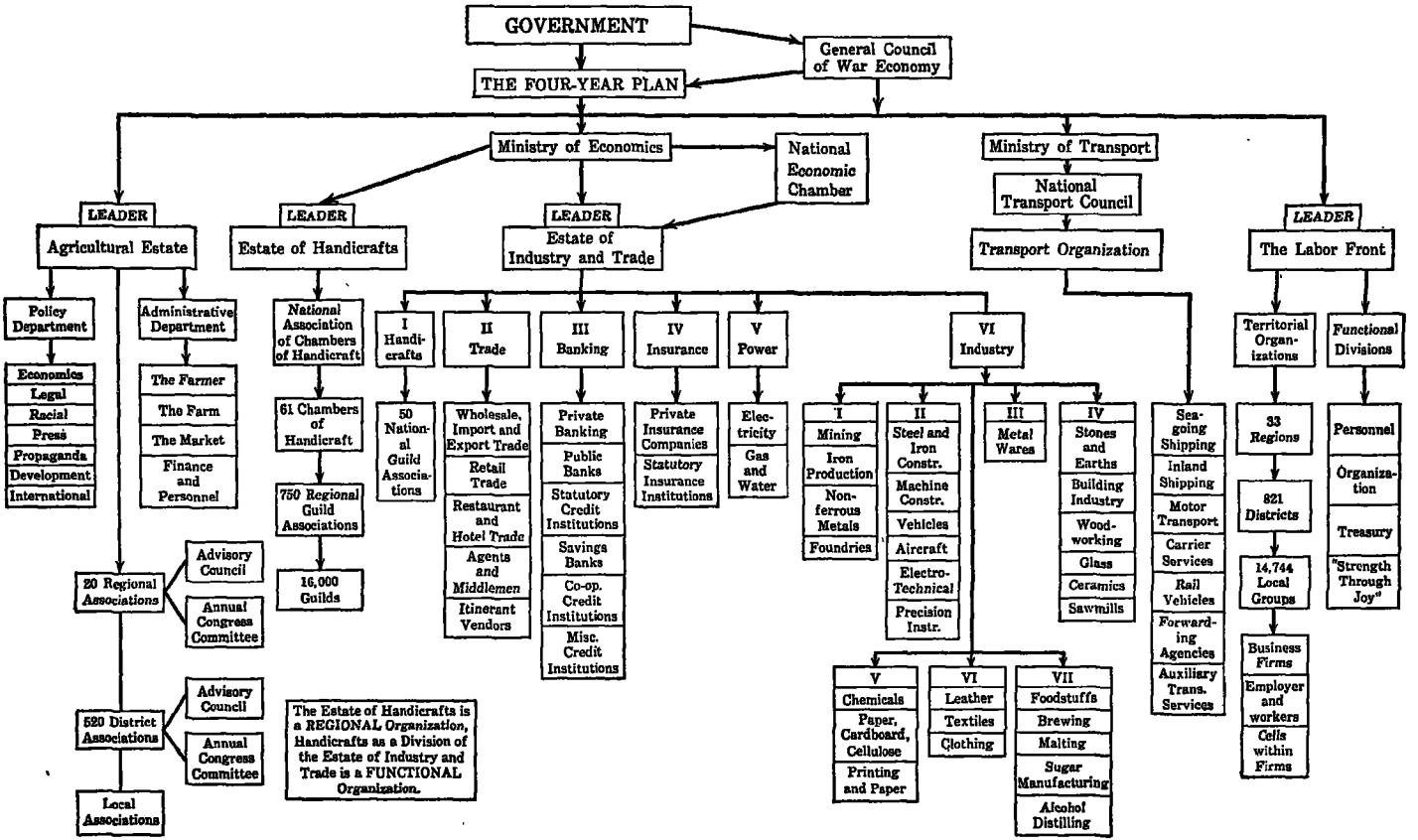
Some idea of the functions performed by these groups can be obtained from the list of tasks assigned to them by the Minister of Economic Affairs in 1937:

1. Technical instruction and enlightenment of the members; instruction regarding the introduction of new technical processes, new manufacturing materials, and technical progress in related fields.
2. Economic instruction of the members as to the important economic questions of their special field (state of the market for processed and raw materials used in the manufacture of their products).
3. Advising the members with a view to improving methods of work and management to increase efficiency (advice to members on shop management and cost accounting).
4. Aid in cartel questions but with the proviso that the organization of industry may not, until the issuance of rulings to the contrary, carry out measures for the control of markets.
5. Dealing with technical questions of tax policy.
6. Dealing with questions of transport rates having more than local importance.
7. Dealing with questions of trade policy and foreign exchange.
8. Promoting research and training institutes whose work benefits the special branch in question.
9. Dealing with questions of defense economy and air-raid protection.
10. Giving expert opinion on matters within the special field of the trade group.
11. Aid in all other questions of commercial law and social policy within the special field.
12. Collaboration in the training of new workers.
13. Collaboration in the organization of exhibitions and fairs.[13]

It is clear from the tasks assigned to its component groups that the Estate of Industry and Trade was intended to be a problem-solving agency. It was to increase the efficiency of the industrial, wholesale, and retail divisions of the German economy. However, it did not have the function of over-all planning but was rather an instrumentality by which the state achieved its objective of controlling the economic system. Furthermore, there were

[13] Quoted from Lewis L. Lorwin, *National Planning in Selected Countries*, pp. 74–75.

THE NATIONAL SOCIALIST ECONOMIC ORGANIZATION



limits on its functions. It was not intended to deal with price-fixing, market regulation, or wages, for example.

The ramifications of the Estate seem endless. For example, Germany was divided into fourteen industrial districts and there were groups and subgroups in each of these districts which dealt with problems on a territorial basis. Local matters were thus handled by local groups.

There was also a nation-wide organization on a *territorial* basis called the Chambers of Industry and Commerce. This existed alongside of the functional group structure just described. It was composed of the 102 Chambers of Commerce throughout Germany which existed before the national socialists attained control of the government. The Chambers were made into statutory corporations and were the "representatives" of the industrial and trade enterprises in their respective districts. Membership was compulsory for all industrial and commercial enterprises. In general, the Chambers assisted in the promotion of trade. After 1934 they were organized under the leadership principle so that the presidents (or leaders) of the Chambers were appointed by the Minister of Economic Affairs. The national organization for the Chambers was the Central Association of Chambers of Industry and Commerce. This was located in Berlin and was under the control of the Minister of Economic Affairs. The Central Association acted as a clearing house for the problems and needs of local and district Chambers. It also served to bring about cooperative relationships among business men and between them and the government.

Since German industry and trade were organized on both a functional and a territorial basis, a national organization was needed to combine the two types of organization and to direct their activities. This was accomplished by the National Economic Chamber. This Chamber (which should be distinguished carefully from the Central Association of Chambers of Industry and Commerce) was a "representative" body whose members "represented" industry and trade. The Estate of Industry and Trade had twelve representatives, each of the seven divisions of the Industry group and each of the other main groups (Trade, Banking, Handicrafts, Power, and Insurance) having one representative. The total membership varied from thirty to forty, the balance of the members having been drawn from the eighteen District Economic Chambers, the Central Association of Chambers of Industry and Commerce, the Associations of Local Handicraft Guilds, and the Transport Organization. The National Economic Chamber was subject to the control of the Minister of Economic Affairs who appointed the director and deputy directors on the basis of the leadership principle. However, the Chamber had an independent existence created by law. The District Economic Chambers were duplicates of the National Economic Chamber in each of the fourteen industrial districts. There were eighteen District Chambers because four of the fourteen districts were too large to be covered by one organization.

Mere description of this complex organization is inadequate to show how the Estate operated. From the government's point of view the Estate served as a nation-wide organization to execute government policies. It also operated as a channel through which local and industrial problems were relayed to government agencies. For example, a textile manufacturer (or a wholesaler or retailer) was a member of his local Chamber of Industry and Commerce along with all the other business men in his locality. Matters dealt with concerned that particular locality. He was also a member of the trade or manufacturing group of his industry. His business was registered under one of fifteen subgroups of Division VI of Main Group VI of the Estate of Industry and Trade, as shown on the chart of economic organization. If he was a prominent manufacturer and acceptable to the National Socialist party he might have been the leader of his subgroup; if he was very prominent he might have been the representative of his industrial group in the National Economic Chamber. He was also a member of the Labor Front. It is apparent that, under the national socialist organization of the German economy, "joining" was carried to its limits.

However, the textile manufacturer's relationship with government agencies did not end with his participation in the Estate of Industry and Trade and the Labor Front. It is likely that his business was a member of a cartel. His prices were fixed by the Price Commissioner and his wages fixed by the Labor Trustee. If he needed imported raw material he received it through one of the twenty-seven Import Control Boards. Finally, his business was operated as an integral part of the Four-Year Plan. As might be expected, there were reports of conflicting jurisdictions among the multitudinous groups of the Estate of Industry and Trade.

The Labor Front

When the national socialist government abolished both the employers' trade associations and the labor unions which existed in 1933, it was necessary to create new organizations for both of these divisions of the economic system. The substitute for the employers' associations was the Estate of Industry and Trade described above, and the substitute for the labor unions was a similar all-inclusive organization known as the Labor Front. Both employers and employees were members of the Labor Front.

The Labor Front was a part of the party organization which was placed under the special protection of the Chancellor. The leader of the Labor Front had power to appoint all leaders in positions subordinate to his, the only qualification being that the appointees had to be members of the National Socialist party. Members of the Labor Front included all who worked with hand and brain, whether employees or employers. Membership was said not to be compulsory, although there appeared to be many good reasons why it was desirable. It was reported to have totalled more than 20,000,000 in 1936.

The Labor Front had as one of its prime duties the development of an understanding on the part of employers of the justifiable demands of employees, and, on the other hand, the creation of an understanding on the part of employees of the problems and purposes of the establishments in which they worked. Its aim was to develop solidarity. It attempted to minimize class distinction and to promote a common understanding between employer and employee and also among the various classes of workers. To the end of improving the quality of labor, the Labor Front supervised vocational training.

Other activities were widely extended. The insurance companies, building societies, and one bank were taken over from the former trade unions and were then operated by the Labor Front. One of the interesting organizations which was widely publicized was the "Strength Through Joy" department, whose effort was directed toward assisting workers to enjoy sports and low-priced vacations. In 1936 it was reported that 6,000,000 workers used the Holiday Travel Division for their vacations. The Labor Front had its own ships and vacation resorts.

The Labor Front was organized according to the party districts. For purposes of administration, there were 33 Labor Front regions, one of which was a foreign region. These regions were subdivided into 821 districts which in turn were divided into 14,744 local divisions. In addition there were organizations by industries. Each establishment employing twenty or more workers had its "cell." One advantage of this was that the National Socialist party was kept in constant contact with most labor organizations and businesses. One function of the Labor Front was to assist in the settlement of labor disputes so that few would reach the Labor Trustee or the Courts of Social Honor. Since strikes were illegal, this function was of considerable importance.

The Transport Organization

The fact that about 80 per cent of German transportation enterprises were owned by public bodies made a separate organization desirable, because government control encountered different and probably fewer problems than it did in the field of privately owned manufacturing industry. Like the Estate of Industry and Trade, the Transport Organization had both a functional and a territorial organization. The functional was composed of seven divisions—Seagoing Shipping, Inland Shipping, Motor Transport, Carrier Services, Rail Vehicles, Forwarding Agencies, and Auxiliary Transport Service (tourist agencies, sleeping car companies, etc.). The geographic or regional organization was composed of fourteen divisions. The leader of the Transport Organization was the Minister of Transport, who headed the National Transport Council. This Council was composed of two kinds of representatives: those representing the owners

and operators of transportation facilities such as the State Railway Company and the private railroads; and those representing transport users. The last included representatives from the Agricultural Estate, the Estate of Industry and Trade, the Labor Front, the Chamber of Culture, and municipalities owning transportation lines.

In the main the Council and the seven subsidiary divisions were confined to dealing with questions involving the improvement of transportation. They did not, for example, fix freight or passenger rates, for these were under the control of the Minister of Transport in his capacity as an official of the Reich. The work of the transport Organization was thus for the most part concerned with unifying and integrating the transportation system. Because the system was so largely under government ownership before 1933 this work appears to have been less important than that of the Estates. However, the strains imposed on the transportation system when full productivity was reached about 1939 and the additional strains imposed by the Second World War made efficient operation imperative and increased the importance of this organization in the German economy.

The Estate of Handicrafts

This Estate comprised all firms and individuals recorded in the Register of Craftsmen, including journeymen and apprentices employed by them. It was based on the former handicraft unions and was purely regional, the functional organization being included in the Estate of Industry and Trade. There were 16,000 guilds in Germany which were organized into 750 regional Guild Associations which were, in turn, organized into 60 Chambers of Handicraft. Over these was the Reich Association of Chambers of Handicraft. The latter was headed by a Grand Master of Handicrafts appointed by the Minister of Economic Affairs. The Estate of Handicrafts was more important in the German economy than would appear at first sight because the handicrafts trades were composed of highly skilled workers. Furthermore, the German economy contained several hundred thousand firms employing from a few to several hundred such workers. Their contribution to output was therefore important.

The Leadership Principle in Business

From the preceding description of the Estates and the organization of German industry it is apparent that a great hierarchy of economic organization was developed. The control of the industrial groups was highly military in character and followed the leadership principle which extended from Chancellor Hitler downward through the National Socialist party, the government, and the economic system. This means that authority extended downward and obedience upward, in accordance with the principle. Throughout the economic system authority was generated at the

top, delegated, and subdelegated until it reached the last person in a position of leadership. From this point on it was imposed on the followers.

The Business Man as a Leader

In the German economic system the owner of a business establishment was required to be the leader and to accept the responsibilities of leadership. The first section of the Law for the Organization of National Labor defined the rights and duties of employers as follows:

> In each establishment the owner as the leader (*Fuehrer*) of the establishment and the salaried employees and wage earners as his followers (*Gefolgschaft*) shall work together to promote the aims of the establishment and for the benefit of the nation and the state.
>
> The leader of the establishment shall make decisions for his followers in all matters affecting the establishment, in so far as they are regulated by this Act.
>
> He shall promote the welfare of his followers. The latter shall have faith in him based on the community of interests in the establishment.[14]

When the form of the business was corporate, such duties and rights devolved upon the board of directors, who, as usual, delegated the power of leadership to the manager. The powers of the leader of business extended to the determination of hours of work, the choice of periods of payment, the basis of payment, i.e., piece work or time payment, regulations concerning the reasons for fines and the amounts, and the basis upon which employment could be ended without notice. Stipulations concerning these rules were required by law, but the amount of wages (subject to official wage schedules) and disciplinary rules and regulations could be determined by the employer.

It is obvious that such a system gave extraordinary powers to the employer and that these powers were subject to abuse. To limit them, the law provided for a Confidential Council in each establishment. The qualifications of members of this Council were as follows:

> A person shall not be appointed a confidential man unless he has completed his twenty-fifth year, has been employed in the establishment for at least one year, and has worked in the same branch or related branches of employment or industry for at least two years. He must be in possession of civic rights, must be a member of the Labor Front, characterized by exemplary human qualities, and certain to devote himself unreservedly at all times to the national state. The requirement regarding one year's employment may be waived on the occasion of the first appointment of confidential men after the Act comes into force.[15]

Each establishment of twenty or more workers had a confidential Council of which the leader was chairman. The number of members of the

[14] Vaso Trivanovich, *Economic Development of Germany Under National Socialism*, National Industrial Conference Board, Inc., New York, 1937, p. 9.

[15] *Ibid.*, p. 11.

Council varied from two to ten, depending on the size of the business. They were nominated once a year by the leader and the local national socialist chairman of the factory cell of the party. At one time the whole list was submitted to the *followers,* i.e., the workers, for approval or disapproval. After 1935 this practice was abandoned because of frequent rejections. Later, the regional Labor Trustee appointed the members. The Council could not overrule decisions of the leader, but a majority of the Council could appeal to the Labor Trustee.

Courts of Social Honor

The national socialist attitude toward Social Honor demanded that each person, employer or employee, discharge his duties *toward the firm* faithfully. Each industrial district had one Court of Social Honor consisting of a president and two assistants, one an employer and the other a member of a Confidential Council. Offenses against any of four types of behavior were considered offenses against the Social Honor:

1. Abuse of power by employers or other persons of authority. This included exploitation of workers and insults to their honor.
2. Malicious incitement to discontent, thus endangering the peace of the firm.
3. The making of unfounded complaints, or acting against the orders of the Labor Trustee.
4. The abuse of confidential information by members of the Confidential Council, particularly if they transmitted such information to third parties without authority.

Penalties for violations were warning, reprimand, fines to a maximum of 10,000 Reichsmarks, loss of position as leader or as member of a Confidential Council, and dismissal from employment. Disqualification as a leader did not mean that the employer could no longer employ workers and operate a business. The penalty applied only to leadership for the purposes of the Labor Law. Thus, an employer might continue to own and operate his business, but an appointee of the Labor Trustee might replace him as "leader."

The Labor Trustee

There were 14 Labor Trustees, one in each of the 14 industrial districts. The Trustees were representatives of the government and were the official authorities on labor questions in their districts. Their duties were to supervise the Confidential Councils, to promulgate general work regulations, to issue wage schedules, to approve or disapprove of collective dismissals when these amounted to 10 per cent or more of given employer's employees (the employer was required to give notice of such dismissals in writing and

wait for approval), and to make reports to the Ministry of Labor. The Trustee was advised by a permanent council of 16 members on matters involving principles, legal questions, the spirit of the workers, etc. In this way the council was a connecting link between the Trustee and the industry in the district. Three-fourths of the members of the council were chosen by the Trustee from lists submitted by the Labor Front; the other fourth he could appoint from persons in his district. The Labor Trustee was also assisted by a temporary Committee of Experts appointed by himself to advise him in individual cases. It was required that half of these must represent employers, and the other half employees.

The Labor Trustee was empowered to issue regulations governing conditions of work, and wage schedules which became the legal wages. Originally wages which had been set by agreement between the employers' associations and the trade unions before 1933 were accepted as basic. The majority of these were based on the depression scales of 1932 and 1933; hence wages were in general established at a low level. Wage schedules issued by the Labor Trustee became law and superseded any agreements in individual concerns or trades which varied from the official schedule. The schedules were officially announced by publication in the *Labor Gazette* and were also entered in the register of wage rates with the Minister of Labor. As a matter of principle, wage rates were supposed to be controlled by the Trustee only when this was necessary; however, the Trustee himself determined the existence of necessity. Furthermore, as the German economy was converted into a war economy, wages were brought more and more under government control. This led ultimately to the conscription of labor and complete control over conditions and hours of work. One of the devices by which control was made complete was the work book. No manual or clerical workers could be employed unless they possessed a work book. This law was estimated to apply to 21,000,000 workers—or nearly the entire working population exclusive of agriculture. The book listed the worker's occupation, training, skill, apprenticeship, experience, place of employment, places of previous employment, and additional skills such as ability to drive a car or to do agricultural work. A copy of this book was on file with the state employment office. This gave the government an inventory of German labor.

The Operation of the German Economy

It will be recalled that the national socialist government came to power in 1933 during the world-wide depression which followed 1929. At that time prices and production had fallen severely and unemployment was at record levels. It is to be noted that one of the results of the world-wide depression of the 1930's was the abandonment of the principle of *laissez faire* in the treatment of depressions and the substitution of the principle

of active stimulation of recovery. On the basis of previous depression experiences, the policy of *laissez faire* assumed that economic systems would recover automatically if left alone. Policy, generally, was to balance government budgets by rigorous economies and by raising taxes if necessary in the hopes of restoring business confidence and thereby promoting recovery. In Germany memories of the inflation of 1923 supported such policies on the part of the Brüning government. Under that government an effort was made to reach a lower price level by a series of decrees which cut wages 20 per cent, and rents, municipal services, railway freight charges, and fares by 10 per cent. Interest rates on bonds were reduced from about 6 per cent to about 4 per cent. Prices fixed by cartels were reduced by 10 per cent. Other prices were revised downward in a similar fashion.[16] However, it must not be thought that the Brüning and von Papen governments which preceded Hitler did not take active measures to stimulate recovery. Instead vigorous "pump-priming" policies of expanded employment and public works programs were followed. The full effects of these programs were not felt until after Hitler had come to power.

The Four-Year Plans

The first Four-Year Plan was announced in 1933 as a plan intended to promote business recovery and reemployment. It consisted chiefly of an expansion of the public works program assisted by a variety of other measures such as loans for repairs and improvements on small houses and special loans to newly married couples. Tax relief measures were also used to stimulate recovery. New automobiles, new houses, and new businesses were exempted from taxes for varying periods of time provided their product or service was recognized as filling a national need. Corporations also received certain exemptions from taxes provided the money was spent on replacements or new building. A direct attack was made on unemployment by the introduction of the forty-hour week and a general policy of spreading work. Women were encouraged to take up domestic work or to marry so that jobs would be created for unemployed men. The Labor Service, somewhat similar to the Civilian Conservation Corps in the United States, was expanded. Two new organizations were created to employ young people. One was the Land Help which provided seasonal assistance for farmers. The other was the Land Year which provided young workers for farms and tended to relieve unemployment in cities.

The above recovery measures were generally successful and by 1935 employment and national income had shown substantial increases. However,

[16] The student with some knowledge of recent economic history will recognize that the year 1929 is a bench mark. Following that year all governments in industrialized economies were required to intervene actively in the economic system. The student will also recognize that the development of the theories of Lord Keynes in England and the "stagnationists" in America were born of the experiences of the 1930's.

in 1935 Germany withdrew from the Disarmament Conference and announced a program of rearmament. This shifted the direction of public production from work creation to armament. Barracks, airfields, battleships, tanks, artillery, and munition works became the new public projects. As a result new demands for basic materials and for skilled labor were created. Capital goods industries were stimulated at the expense of consumers' goods industries. By 1936 unemployment was no problem and there was a shortage of skilled labor.

Except for the announcement by the government, there was no sharp dividing line between the first and second Four-Year Plans. The second Plan was aimed at two objectives: first, self-sufficiency, and second, a military economy. However, the second Plan was presented to the German people as a method of raising their living standards by decreasing imports of raw materials and food supplies so that luxury and semi-luxury goods could be imported. It was also stated that employment would be furnished in industries producing consumers' goods at home rather than importing goods from abroad but that the benefits of self-sufficiency would appear only after a period of sacrifice during which fewer consumers' goods would be available and taxes would be higher.

It became clear as the plan progressed that the German economy was to be organized for war purposes—the object of self-sufficiency being to insulate Germany from the effects of blockades. In the pursuit of self-sufficiency the government, already having control over the domestic economy through the Estates, brought foreign trade and foreign exchange under rigid control. It was soon understood that the government had abandoned any pretense of returning to a relatively free economy and that a form of economic planning had been adopted which could be considered permanent. This was sometimes expressed by the statement: *Vierjahrsplan ohne Ende*—"Four-Year Plan without end." German planning for war was so thorough that, on the eve of the attack on Poland in 1939, there remained only one final step to be taken—the introduction of food rationing.

Economic Policies and Philosophy

A number of policies adopted by the national socialists deserve special attention. One of these was expressed by the phrase: "Production boom, but not price boom." It was expected that production would increase to record levels but that, even though shortages and the high cost of self-sufficiency operated to increase prices, rigid price controls and high taxation would prevent substantial rises in the price level. A prime instrument in price control was the holding of wages at 1932 levels. The government also reached behind prices to control demand by rationing and intensive propaganda and to control supply by a system of priorities and allocations. Prices, arbitrarily fixed, no longer directed the production and consump-

tion of goods. In a sense the German price controls *reversed* the normal operation of supply and demand because the price was fixed and supply and demand were required to adjust to the price.

Another feature of the German economy was the attitude toward debt. Recovery stimulation and war preparation required an unbalanced budget and a mounting debt. Most of this debt was composed of short-term securities sold to banks and was an unreported or "secret debt." Much of this was regarded as a perpetual debt, not to be repaid but simply refinanced.[17]

Summary

It is apparent from the foregoing description of the national socialist government and economy that, by the time of the Second World War, the German economy was a managed and controlled capitalist economy in which economic planning with the objective of war had been introduced. The system resembled a planned economy because a general objective was chosen and the various parts of the economy were required to fit into the general plan. Under the domination of the state, business men lost their freedom of decision-making although they were given certain unusual powers of authority as "leaders." Labor lost its right to organize freely and to bargain collectively. Consumers, because the goal of production was chosen by the government, lost their power to direct the flow of income by the free expenditure of incomes. While these losses are always characteristic of war economies, it seems apparent that the Germany economy under national socialism would have been organized on authoritarian lines had there been no resort to war.

The German War-Time Economy

The special problems created by the War caused a further centralizing of economic control. A new *General Council of War Economy* was established in 1940 with Goering at the head. This was a small policy-making body composed of government ministers having to do with economic matters. Its orders were transmitted to the Estates, the Reichsbank, and other agencies for execution.

In the early years of the War the German military machine overran most of Europe and part of Africa. There thus became available the raw materials, equipment, and labor of nearly the whole continent of Europe with which to establish and defend "Fortress Europe." Conquered countries were placed under bondage and a beginning was made in the organization of Europe for the benefit of the *Herrenvolk*. That Germany with such immense resources at her command could not defeat Russia and later

[17] It should be noted that the future of the debt of the Federal Government of the United States is not yet determined. There is at present (1947) no strong sentiment for its sharp reduction.

repel the Allied invasion seems a commentary on the manner in which the system was operated by its leaders. This point is further discussed in the following chapter.

The German Future

At the present time, two years after the German surrender, it is too early to make judgments concerning the future of the German economy. That economy is now divided into four zones under Russian, British, French, and American control. It contains, of course, vast industrial resources for making goods needed by other countries in Europe and elsewhere. Whether the economy will be reorganized as a unit or kept separated into parts will likely be determined by political rather than economic factors. Furthermore, while the country is now in the process of being "denazified" it is too early to determine whether any of the new organizational forms such as the Estates will be found to be of permanent value.

QUESTIONS FOR CLASS DISCUSSION

1. What elements in the German historical background found expression in the national socialist government?
2. Refer to the section in the preceding chapter entitled the "Philosophic Background of German Fascism." What elements of German philosophy can be found in the National Socialist party?
3. Look up the definition of "socialism." Compare and contrast this with the program of the German national socialists.
4. Is socialism necessarily international? In answering, consider tendencies in the Soviet Union in the past fifteen years. Does socialism in the Soviet Union have any resemblance to German national socialism?
5. Reference is made in the text to German cartels. Have there been similar developments on the part of business in the United States in the past forty years? What is the difference between American and German attitudes toward such practices?
6. What did the German businessman gain from national socialism? What did he lose? What did labor gain? Lose?
7. Compare and contrast the depression experiences of Germany and the United States after 1929.
8. Compare and contrast the recovery measures taken in the United States and in Germany after 1933.

Chapter 30

EVALUATING THE FASCIST SYSTEMS

THE preceding chapters have described the political and economic organizations of fascism in Germany and Italy. It is necessary that these systems be evaluated in terms of their relative success or failure. But this is a procedure fraught with many difficulties. First, the actual time during which their economic systems operated was relatively short. Second, even if the time period had been longer it would still be difficult to strike a judgment concerning a complicated economic system. No type of economic system operates perfectly. Economic conditions are usually "spotty." In any country the observer can see both good and bad and may not be able to average the two. Third, important statistical data are lacking or questionable. Fascists were notorious for omitting statistics and for using published statistics to prove a political case. Furthermore, if we use as a test the question of whether or not Italy and Germany were successful *as war economies* adequate factual and statistical material is only now becoming available. Fourth, while the interest of the present volume is economic, the economic, social, and political factors are so bound together that it is impossible to separate them. If one accepts, for example, the doctrine of "the primacy of politics," it may be logical to undergo economic self-denial to achieve military power. Finally, it is not possible to make judgments based on common philosophic standards. There could be, for example, no wider philosophic gulf than that between the immolation of the individual in the state as preached in fascist doctrines and his independent freedom in democratic countries.

ACCOMPLISHMENTS OF THE FASCIST SYSTEMS

Whatever may be one's attitude toward the political forms of the fascist countries or the methods of compulsion which have been used, it remains true that certain accomplishments can be credited to the fascist régimes in Italy and Germany.

1. *Working systems were established in both Germany and Italy.* The fascist economic and political systems advanced to the point where they were to be regarded as going concerns. For a long time many people expected that these systems would collapse from their own internal inconsistencies or inadequacies. This did not occur. It is probable that the Corporations and Confederations in Italy and the Estates in Germany were effective institutions for the control of the economic system. It is also probable that just prior to the Second World War the economies of the two countries were functioning more smoothly than they were before extensive government intervention. Before the outbreak of the War there was no reason to doubt that the fascist economic and political systems could exist for a long period of time.

2. *A new sense of national solidarity was given to each country.* It was pointed out in a previous chapter that Italy did not achieve national unity until the period of the fascist government. Germany's psychological suffering from her defeat in the First World War resulted in a sense of national calamity. Not only was this quickly replaced by hope for the restoration of her power and importance, but Germany under fascist leadership rapidly became one of the strongest military powers the world has seen. However disturbing and harmful the new ambitions and military power of Germany and Italy were to other countries, it remains true that fascism made a *nation* of each. As a political achievement this cannot be left out of the picture.

3. *The fascists in Italy and the national socialists in Germany appeared to receive wide public support for their policies.* The German people were no doubt in favor of the repudiation of the Versailles Treaty, the rearmament program, the *Anschluss* with Austria, the restoration of production and employment, and many other national socialist objectives. While they may not have favored so completely the state's growing power over the churches, there was perhaps a balance of public favor for the government because it satisfied certain popular desires. Similarly in Italy, the campaign against Ethiopia, the nationalist hopes, and the stimulation of the economic system found sufficient public support to give approval to government policies. However, to say that the fascist governments had followed policies which had wide public support does not mean that the 99 per cent majorities which these governments received in plebiscites were any measure of the number of persons who supported the government wholeheartedly. When plebiscites were held there was usually no ballot except one marked "Yes." Furthermore, the combined pressures of the party organizations, the secret police, and the Brown or Black Shirts were used to enforce conformity. Experience in democratic countries, where voters are free to express preferences in elections, is against the likelihood of 99 per cent agreement. Such a majority proves too much.

4. *Fascists attempted actively the solution of economic problems.* Whatever were the shortcomings of fascism, there was no lack of vigor in the prosecution of its policies. In both Italy and Germany the government and the political parties frankly assumed responsibilities for the proper management of the economic system. In doing this they were required to accept responsibility for failures as well as successes. In Italy the fascist government stimulated agricultural production, built roads and other public works, extended the production and use of electricity, and established new industries and expanded old ones. The problems of the world-wide depression following 1929 were likewise met with vigor. To conserve domestic gold supplies and maintain the stability of the lira, imports and exports were placed under government control. Domestic price levels were adjusted to changing world price levels and to devaluations of the lira.

In Germany, the national socialist government came to power at the bottom of the depression and proceeded at once to promote a domestic recovery. Whether recovery would have developed without a great amount of government intervention will always remain a matter of dispute. But it is a fact that after the national socialists assumed power, the national income increased to pre-depression figures within several years. The direct attack on unemployment and the long list of new social and economic institutions which were rapidly created attest to the vigor of the régime.

5. *Germany and Italy experimented with a controlled capitalist economy.* They conducted thoroughgoing experiments in the operation of a controlled capitalist economy just as the Soviet Union has experimented with socialism. The economic results of their experiments are available to anyone who wishes to profit from their successes or failures. Such accumulation of experience may provide democratic and liberal countries with the answer to what may be the central problem of the future: Is it possible to make a peaceful transition from a *competitive* capitalist economy to either a *controlled* capitalist economy or a *planned* socialized economy without loss of the freedom which democratic liberals regard as essential to the welfare and dignity of the individual?

Failures and Difficulties of the Fascist Systems

In Chapter 1 emphasis was placed upon the role of economic *principles,* as distinguished from the role of economic *institutions,* in the operation of an economy. Although a variety of political institutions is possible and economic and political power may be located in a number of places, an economic system must operate on the basis of economic principles if it is to achieve full efficiency. If this test is applied to the fascist systems, a number of difficulties become apparent. It is not possible, because of the lack of

adequate information, to review completely the economic misadventures of the fascist systems, but from an economic point of view the following appear among the difficulties and defects.[1]

1. *The doctrine of the "primacy of politics" resulted in policies which conflicted with economic interest.* Many economic difficulties can be traced to political policies. Germany's export troubles from 1933 to 1939 were due in considerable measure to foreign indignation over the racial, religious, and political persecutions in Germany. Offended customers preferred to purchase elsewhere. Similarly, the Italian invasion of Ethiopia caused a loss of good will which resulted in a loss of customers, wholly apart from the influence of the League of Nations sanctions. Tourist travel, which was a major "invisible" export for both Germany and Italy, was particularly sensitive to the political behavior of the fascist countries. While such offenses are not new in the histories of nations, they were carried to extremes by the fascists.

2. *In striving for autarchy (self-sufficiency) and military power the fascist systems increased costs and reduced standards of consumption.* The policy of self-sufficiency was justified by fascists on a military basis. But the world is geographically specialized by nature. Hence, the export of commodities which a country can produce with advantage, and its import of commodities which other countries can produce at lower costs, is a method of increasing its real income. It is true that the high tariff policies adopted by many countries after the First World War decreased the ability of Italy and Germany to sell abroad and so to buy abroad. But these two countries followed a definite policy of self-sufficiency by encouraging high-cost production at home. This inevitably limited the real income available. Italy made every effort to produce sufficient wheat for domestic needs. This resulted in a higher cost of production than in many other countries. But to protect her market Italy levied a tariff equal to 150 per cent of the value of the wheat. Thus, if the world price of wheat were 80 cents, a tariff of $1.20 would raise the price of wheat in Italy to approximately $2.00. This vitally affected living standards because a large percentage of an Italian worker's income is spent for wheat products.

The German policy of producing at home as much of her food supplies as possible raised the prices of some foods far above the world level. A picture of the effects of autarchy is given in the accompanying table. These figures are for the year when Germany began to convert her economic system into a war economy. It is evident that the higher domestic price level would tend to increase costs in Germany and that this trend was under way by 1935.

[1] This statement of defects does not imply that other types of economies do not have their difficulties or defects. These have been dealt with adequately in other parts of the present volume.

GERMAN AND WORLD WHOLESALE PRICES OF SOME IMPORTANT AGRICULTURAL PRODUCTS, NOVEMBER, 1935[a]
(Per metric ton, in Reichsmarks)

	German Wholesale Price	World Wholesale Price	Per Cent German Price Above World Price
Wheat	211.5	72.4 (London)	193
Rye	167.0	58.5 (Posen)	188
Barley	199.1	50.7 (London)	293
Rapeseed	320.0	157.2 (London)	102
Flaxseed	260.0	148.2 (London)	80
Wool	6,580.0	1,441.2 (London)	355
Pork	1,420.0	922.1 (Copenhagen)	52
Sugar	406.8	104.8 (London)	288
Butter	2,540.0	1,206.4 (Copenhagen)	110
Eggs	10.0[b]	7.1 (Copenhagen)	41

[a] E. C. Donaldson Rawlins, *Economic Conditions in Germany*, p. 37.
[b] Per hundred.

3. *Germany and Italy followed population policies which accentuated their economic problems.* In general, there are good economic grounds for adjusting population to natural resources. Such an adjustment in Italy and Germany would require the adoption of the "small-family system" by a reduction in the average size of the family. Instead, every effort was made to encourage high birth rates and large families. In Italy, population increase was encouraged by marriage subsidies and special tax exemptions for large families (although the birth rate continued to fall). In Germany, marriages were fostered by loans to newly married couples which were cancelled with the birth of children. A considerable increase in the number of marriages occurred, and the birth rate rose from the low point reached in the depression years of the thirties. While the policy of increasing population was obviously in line with the doctrine of the "primacy of politics" and (in Germany) with the racial theory of "Aryan" superiority, it can hardly be said on economic grounds that nations which complain of being "have-nots" from the point of view of natural resources are justified in following expansive population policies.

4. *There is evidence that real wages and living standards did not increase, but declined.* That living standards decline as economic systems are converted into war economies is obvious. This results from the diversion of raw materials and economic effort from the production of civilian goods for the direct satisfaction of wants to the production of military goods. Such declines must be expected in all the economies engaged in war. However, in Italy and Germany declining standards of living were in order be-

fore 1939. How much of this decline was due to the conversion of these economic systems to war economies and how much to the *type* of economy is an indeterminable question.

In the case of Italy it must be remembered that real wages have always been low and that any decline in living standards therefore bears heavily upon the working population. Average industrial wages before the War were the equivalent of 10 to 11 cents per hour, or less than one dollar per day. Agricultural wages were still lower in terms of money; wages for men ranged between one and two lire (5 and 10 cents) per hour but were supplemented by payments in kind. Although international comparisons are difficult, it is obvious that such wages in Italy could purchase only the bare necessities. One industrial real wage index showed a downward trend from 100 in 1928 to 93 in 1937, with some fluctuations in the intervening years. There was a similar decline in agricultural wages between 1930 and 1935. Since 1935 it is probable that real wages declined still further because of the absorption of the national income by the government, the disappearance of some goods from the market, the diversion of income to war purposes, and the depreciation of quality where prices remained stable.[2] Deductions of dues for the new economic organizations and for "social security" are also a factor to be considered in relation to the decline in real wages.

In Germany also standards of living declined under national socialism. As was shown above, German wage and price controls were imposed early in the control of the German economy. Wage rates were fixed at 1932 levels and remained there except for certain adjustments, but increased working time resulted in increased wages. German indexes of the cost of living (because of the price controls) showed a rise from about 115 to 132 in the years from 1933 to 1941. Since wage rates rose little, there was a decline in real rates. Furthermore, the official index was subjected to criticism because of its inadequacy in reflecting actual living costs. Rents were included for pre-1918 dwellings but not for newer dwellings. No allowance was made for deterioration of quality in the absence of corresponding price decreases. Other evidences of decreased living standards are to be found in the unavailability of certain goods, the diversion of income from consumption goods to government uses, and the presence of inferior substitute goods.

Certain groups in the German economic system gained. Those wholly or partially unemployed in 1933 who were fully employed had their living standards raised. Likewise increases in wage income due to overtime work added to the real income of the workers involved. Profits of industrial

[2] For further information on Italian wages, cost of living, and other pertinent statistics, see Henry S. Miller, *Price Control in Fascist Italy*, chap. 7. Other observers have reached the conclusion that living standards have been lowered. See William G. Welk, *Fascist Economic Policy*, chap. 10.

enterprises were satisfactory after 1935; hence shareholders may be listed among the gainers. Agricultural incomes also increased.[3]

5. *An expensive and bureaucratic regulatory machinery was created.* While this appears to be one of the inevitable costs of either a planned or a controlled economy, it remains true that whatever gains are made by government regimentation of business are cancelled in part by the costs of such regulation. There were, for example, persistent reports of the heavy expenses of the syndical organizations in Italy. This was only one of the new expenses of government, for the cost of the fascist militia, the Fascist party, and the numerous subsidiary organizations must also be counted. If "organization" is the watchword in controlled economies, it must have its cost, and this must be reflected in increased taxes and "dues."

Figures on the increase in the number of new government employees in Germany and Italy are not available, but it is apparent that the new regulatory agencies required substantial staffs. Reports from Germany gave some concrete information concerning the bureaucratic costs and hindrances which developed. One writer has described the influence of the excessive regulation in the following terms:

> All this regulation naturally required not only a swollen governmental bureaucracy but also a vast amount of additional paper work in each business office, which accounts for the fact that, while the number of employed laborers is now 3 per cent above that of 1929, the number of office employees is 18 per cent above that of 1929. The cost of this system can, of course, be only guessed at.[4]

6. *There is growing evidence, that, despite the efficient appearing organization of the systems, actual management was not successful.* Information which has recently become available on the German economy indicates that "old fashioned" opinions of the inefficiency of dictators because of the cumbersomeness of the system and the instability of men with too much power have a basis in recent fact. Information obtained since the end of the War indicates that gigantic mistakes were made because of incompetent leaders. These included an early cutback of war production after the victory in France and inability to regain production momentum. The original cutback was due, of course, to overconfidence. One result of this was a defeat in Russia due to inadequate supplies and later the loss of the control of the air for the same reason. It also seems apparent that German manpower and womanpower were not fully utilized and that even over-

[3] Statistics on wages and living standards are to be found in the reports of the *Reichskreditgesellschaft* and in the *Weekly Reports* of the German Institute for Business Cycle Research up to 1939. See also Maxine Y. Sweezy, *The Structure of the Nazi Economy*, and C. W. Guillebaud, *The Economic Recovery of Germany*. See also Franz Neuman, *Behemoth*, pp. 311, 506.

[4] Otto D. Tolischus, in the New York *Times*, May 18, 1938. See this reporter's excellent series of articles on Germany in the *Times* for May 16, 17, 18, 19, 1938. Tolischus was formerly the Berlin correspondent of the *Times*.

time or multiple-shift work was not the rule. It is also charged that confusing and contradictory orders issued from high positions and that the efforts of the "leader" to dictate details of plans and programs resulted in disastrous mistakes and delays. If these claims are fully substantiated by future research they support ancient beliefs in the inherent inefficiency of dictatorship.[5]

7. *Fascism faced an economic dilemma. This was a choice between the abandonment of excessive government activity and the forced socialization of private property.* Although the fascists in Italy and the national socialists in Germany announced themselves as the defenders of private property and of the private operation of their respective economies, their policies and acts created economic situations which tended to force the socialization of the property they promised to protect. Both systems were "in-between" economies—partially socialized and partially operated on a capitalist basis. Private property rights existed but could not be exercised with any degree of freedom. This was true before the Second World War. Such freedom does not, of course, exist in any war economy. However, national economic planning was invading the area in which *laissez faire* was practiced before the Second World War.

When the fascists and national socialists chose war they intensified their peace-time dilemma. Enormous war expenditures required that the governments absorb, through taxes and loans, a large percentage of the total income. In Germany this was estimated at 70 per cent in 1941. This in itself *socializes income* by diverting it from individual to social uses. However, the socialization of wealth, as distinguished from income, is likely to follow also. This can take one of two roads. One is the growth of the public debt to astronomical proportions and its repudiation by inflation. But this dispossesses a certain class of property owners (those who hold fixed money claims such as bonds and mortgages) and leaves others (such as owners of stocks or real estate) relatively untouched. The other road is through a capital levy on wealth or capital values. Such a levy would reduce private ownership of property by transferring titles to the state.[6]

[5] The above conclusions are drawn from an analysis of a collection of German war-production records and the examination of German production officials as reported by John K. Galbraith in *Fortune,* December, 1945, in an article entitled, "Germany Was Badly Run." See also the testimony of Dr. Albert Speer who was placed in charge of war production in 1943 and attempted to restore it to adequate levels. It should be remembered that Speer was in conflict with other German officials and that their testimony should also be considered. For Speer's testimony see Office of Military Government for Germany, Report No. 40, issued by Director of Intelligence of the Field Information Agency, Technical. The present writer has not had access to the complete materials on this subject. Because the actual testing of the efficiency of the German system is the most important single question concerning modern dictatorship it is suggested that this is a question for future fruitful research.

[6] The lengths to which speculation on the future of the German economy had gone in peace-time is illustrated by a pamphlet published by two national socialist economists in Germany in 1937—*State Finances in a National Community Economy—A Con-*

8. *Fascism stands self-condemned as the glorifier and user of military force as a means of subjecting and exploiting other economic systems.* There is no lack of proof of this statement. The roots of fascist behavior are to be found in the fundamental philosophic doctrines of force and violence blatantly announced by its leaders. Other philosophies have been openly challenged and their doom announced. When a philosophy idealizes war and violence, establishes all-powerful governments, and deliberately converts an economic system into a war economy, no further proof is needed of its intentions or results. Earlier chapters have demonstrated that fascist philosophy and fascist international behavior are closely linked together. Emphasis upon a *mystical state,* race, nationality, a large population, self-sufficiency, and the virtues of action are practical accompaniments of the fascist philosophy. Aggressive war is the only logical conclusion. This condemnation of fascism is based upon a conviction that a period of world history was developing in which national sovereignty would be voluntarily limited and international law would replace violence as a means of settling disputes. The fascist governments of Italy and Germany denied this trend and attempted a forcible solution of world economic problems on the military level.

QUESTIONS FOR CLASS DISCUSSION

1. Contrast the successes and failures of the socialized economy of the Soviet Union with the successes and failures of controlled and managed capitalist economies of Germany and Italy.
2. In your opinion which economic principles have been violated by the fascist economies in Germany and Italy?
3. What do you regard as the most important changes in *economic institutions* in Germany and Italy in the past ten years?
4. Certain authors contend that new ruling classes have arisen in Germany and Italy, these classes being composed of those who hold political and economic power. Do you agree or disagree with this viewpoint?
5. Do you agree that fascism and national socialism face an economic dilemma which is a choice between the abandonment of present governmental activity and a forced socialization of private property? How might such socialization be avoided? Are there any important differences between socializing *income* and socializing *property values* or *wealth?* Discuss.

tribution Toward German Socialism by Richard Thoma and Theodore Wessels, professors at the University of Bonn. They reasoned that the prosperity of the German economy had come to depend on government expenditures. Since these could not be diminished without a business depression, they had to be continued. This means an unwieldy public debt which, it was suggested, was to be reduced by heavy capital levies. Once this was done, government expenditures could be increased again and a new debt created, to be paid at a future date by another capital levy on the wealth accumulated during the new period of prosperity. While these proposals did not find official acceptance, they indicated a belief that impairment of private property values was inevitable. The solution proposed was a series of "planned and limited crises" about once every decade.

6. Do you agree that some of the roots of the Second World War are to be found in fascist philosophy? Discuss.

SUBJECTS FOR STUDENT REPORTS FOR PART VIII

1. The Role of Economic Classes Under Fascism.
2. Sir Oswald Mosley's Fascist Movement in England.
3. Possible Tendencies Toward Fascism in the United States.
4. A Review of *It Can't Happen Here,* by Sinclair Lewis.
5. The Life of Mussolini.
6. The Definition of "Dictatorship."
7. A Comparison of the Labor Charter and the Constitution of the United States.
8. A Comparison and Contrast of Italy as a Controlled Capitalist Economy with the Soviet Union as a Planned Socialist Economy.
9. A Comparison of Methods of Settling Labor Disputes in the United States Under Existing Legislation with the Methods in Italy.
10. A Comparison of the Powers of the Government to Control the Italian Economy with the Powers of the United States Government to Control the Economic System of the United States.
11. A Comparison of the Experiments with the National Industrial Recovery Act and the Agricultural Adjustment Act in the United States with the Italian Experiment with the Corporate State.
12. A History of the Socialist Movement in Germany.
13. A History of the National Socialist Movement.
14. The Life of Adolf Hitler.
15. Propaganda Methods of the National Socialist Government.
16. Economic Incentives Under National Socialism.
17. A Comparison of the Recovery Program in the United States with the National Socialist Program in Regard to the Regimentation of Business, the Relations of Business and Labor, and Methods of Financing Recovery.
18. The Growth of Collective Economic Action by Governments Throughout the World.
19. A Comparison of Present Economic Tendencies in the United States with Economic Tendencies in Germany and Italy.
20. A Comparison and Contrast of Wage and Price Policies in Germany and Italy with Wages and Price Policies in the United States Since 1933.
21. A Comparison and Contrast of the War Economies of the United States, the Soviet Union, and Germany.

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sec. 2T, "Economic Controls in Nazi Germany."
sec. 4, "Government Finance."
sec. 5, "Money and Banking."
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sec. 6, "Natural Resources."
sec. 8A, "Industry and Commerce": an appendix indicating recent trends in German foreign trade.
sec. 10A, "Public Works and Utilities": Electric power.
sec. 10B, "Public Works and Utilities": Gas.

sec. 10C and D, "Public Works and Utilities": Water supply and sewage.
sec. 11, "Transportation Systems."
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sec. 14, "Public Safety": A tabular summary.
sec. 16, "Public Welfare."

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No. 3, "German Scientific Research and Engineering."
No. 5, "German Light Metals Industry."
No. 6, "German Petroleum Industry."
No. 8 "German Electronic Equipment Industry."
No. 10, "German Common Components Industries."
No. 11, "German Machine Tool Industry."
No. 12, "German Automotive Industry."
No. 14, "German Machinery Industries."
No. 16, "German Chemical Industries."
No. 15A, "German Iron and Steel Industry."
No. 15B, "German Ferro-Alloys Industry."
No. 17, "German Solid Fuels Industry."
No. 18, "German Electric Power Industry."
No. 19, "Non-Ferrous Metals and Strategic Minerals for German Industry."
No. 25, "Allied Activities Relating to German Assets, Economic Activities and Industrial Personnel, Outside Germany."
No. 26, "German Participation in International Cartels."
No. 28, "German Economic Control Institutions."
No. 29, "Historical Background of a Program for German Disarmament."
No. 30, "German Forest Resources and Forest Products Industries."
No. 31, "German Optical Glass and Technical and Scientific Equipment Industries."

See also the monthly reports of the Office of Military Government for Germany. This series gives valuable information on the German economy during the Second World War and on the present status of the German economy.

Part IX

The Consumers' Cooperative Movement

Chapter 31

A DESCRIPTION OF THE CONSUMERS' COOPERATIVE MOVEMENT

Growth of Interest in the Cooperative Movement

A surge of interest in the theory and practice of cooperation has occurred in the United States during the past two decades. Hundreds of study groups and forums dissected the cooperative movement and speculated on its future possibilities. In many cases discussions were sponsored by religious groups, both Jewish and Gentile, Catholic and Protestant.

There has been increased activity in practically all phases of the cooperative movement in the United States. Credit unions have grown in size and number until, at the end of 1945, there were nearly 9000 with a membership of almost 3,000,000, and doing an annual volume of business amounting to over $200,000,000. Various forms of agricultural purchasing and selling cooperatives have expanded, largely under the aegis of "farm bureau" organizations. In 1945 there were approximately 2000 cooperative insurance associations with over 10,000,000 policy holders and doing an annual business of about $200,000,000. The Ohio Farm Bureau mutual insurance companies, for instance, had over $130,000,000 of life insurance in force at the end of 1945, while fire insurance in force amounted to over $600,000,000, and the total assets of their life, fire, and automobile insurance associations totalled over $30,000,000. In 1946 there were about 4500 cooperative associations operating their own stores, buying clubs, and gasoline stations. They had approximately 1,700,000 members and sold nearly $700,000,000 worth of goods during the year. About one third of the associations, the membership, and the volume of business is accounted for by cooperatives handling petroleum products—chiefly gasoline. The other associations merchandised chiefly food staples and to a lesser extent dairy products, baked goods, fuel, and lumber. Several thousand of these retail cooperatives owned jointly some 35 wholesale establishments which supplied the retail cooperatives with a large portion of the goods they retailed.

In 1945 thousands of other cooperative associations were providing their members with a variety of services such as rooms, meals, medical care, burial service, housing, electricity, telephones, water, cold-storage, dry-cleaning, publishing, and recreation.[1]

Although the Federal government has long been interested in cooperatives, its interest has deepened and broadened in recent years. Through the Department of Agriculture considerable assistance has been rendered to cooperative credit unions and various agricultural cooperative enterprises. A commission appointed by President Roosevelt prior to the outbreak of the Second World War studied European experience with cooperation, and in its report advocated Federal advisory assistance for cooperatives.

In some instances the cooperative movement has aroused the interest and assistance of particular individuals who were in a position to render it service. In 1935 the late Edward Filene, the Boston merchant, established a fund of one million dollars for use in consumer cooperative experiments. Mr. Filene, who already had been instrumental in establishing the cooperative credit union movement on a substantial basis in the United States, contended that consumer cooperatives must start on a scale roughly comparable to the large department stores if they are to be successful.

The Filene fund, which is reported to have increased to $1,250,000 by 1947,[2] is administered by the Consumer Distributive Corporation. This organization has published and distributed literature bearing on the cooperative movement and, prior to the War, it established a small number of large cooperative stores in accordance with Mr. Filene's thought that cooperatives should start on a large scale rather than start on a small scale and grow. In New Haven, Connecticut, the corporation set up three cooperative food stores whose combined business in 1947 was reported to be about $1,000,000.[3] At Greenbelt, Maryland (an 8000-population suburb of Washington, D. C.), the corporation established Greenbelt Consumer Services on a cooperative basis. Its activities cover the retailing of a wide variety of consumer goods and services including a beauty shop, barber shop, theatre, and bus line. In 1947 three-quarters of Greenbelt's families owned cooperative shares representing a total equity of $250,000 in the enterprises. The total volume of business in 1946 was $1,400,000.[4]

In 1947 the Consumer Distribution Corporation announced plans for the immediate establishment of three cooperative department stores in Arlington, Virginia (a suburb of Washington, D. C.); Providence, Rhode

[1] These data are based on the United States Department of Labor, Bureau of Labor Statistics, Bulletin No. 890. This government agency keeps a current statistical record of the activities of cooperative associations in the United States. It also studies and reports upon trends and problems in the cooperative area. The Bureau's reports are published from time to time in the *Monthly Labor Review*.

[2] Thomas F. Conroy, New York *Times*, March 23, 1947.

[3] *Business Week*, April 5, 1947.

[4] New York *Times*, August 3, 1947.

Island; and Irvington, New Jersey. The Corporation stated that these would be experiments to reveal operational "abnormalities" before further ventures were undertaken. A separate corporation will be created for each store and $100 shares will be sold to prospective patrons with no more than 10 shares going to any individual. After paying a 4 per cent fixed dividend on shares, earnings will be paid out as "patronage dividends." Each store is expected to involve an investment of about $1,000,000, equally divided between the cost of land and buildings and the cost of fixtures and inventory. The anticipated sales goal for each store is between $1,500,000 and $2,000,000 annually. The advantages of chain store top management and community ownership are expected to contribute to the success of these first experiments in cooperative department stores. Successful operation of the "pilot stores" it is hoped, will lead to the rapid expansion of cooperative retailing.

The top organization promoting cooperative forms of business organization is the Cooperative League of the United States of America. Organized about thirty years ago, it is the over-all federation of a great variety of constituent cooperative organizations in the fields of retailing, selling, housing, health, insurance, credit, and so on. The vigor of its activities is evidenced by the appointment in 1947 of Jerry Voorhis as Executive Secretary. Mr. Voorhis, a member of Congress from California for ten years, long has been an aggressive advocate and organizer of cooperative activities. He was known as a congressman who "never muffed a chance for a good constructive fight."

Kinds of Cooperation

The word "cooperation" is used so widely and so loosely that particular care must be taken to note what is meant by the "cooperative movement" referred to here. In a sense, all economic activity which is featured by specialization is cooperative. As soon as the task of production is split up among specialized industries, these may be said to cooperate to supply society with needed goods. Thus wool raisers, yarn spinners, textile weavers, clothing makers, wholesalers, and retailers all cooperate in the production of clothing. In this sense our capitalist economy is highly cooperative because specialized processes are coordinated to common ends under the guidance of the profit motive. In another sense, socialists and communists sometimes speak of their proposed economies as cooperative. Under such systems the entire group, acting largely through government agencies, would own and operate the means of production. Since a "profit" would be realized by no individual, industry is said to be operated for the benefit of those who carry it on, and thus to be cooperative.

The cooperative movement, however, refers to a type of cooperation primarily different from each of these. As used here, *cooperation means the joint activity of individuals in carrying on certain economic processes*

from which they as individuals will realize mutually the total benefit. Individuals participate in the activity neither as employees, nor as profit-seeking enterprisers, nor as citizens, but as the beneficiaries of their own collective activities. This type of cooperation is neither unconscious and automatic, as it is under capitalism, nor closely directed by the machinery of a socialist or communist state. It is consciously and voluntarily undertaken by those individuals who wish to share in the benefits of the cooperative endeavor. Since these activities may be in the fields of production, finance, or marketing, three broad categories of cooperative enterprise fall within the scope of the cooperative movement.

Producers' Cooperatives

Theoretically, producers' cooperation exists whenever workers (either manual or mental, or both) acquire the needed equipment and machinery and operate their own producing unit. In such a case, the net product remaining after necessary outlays have been met belongs to the workers exclusively. It is disposed of by them and the proceeds are divided among them in accordance with a prearranged plan. Although there have been varied and scattered experiments with producers' cooperatives in Europe, nowhere have they constituted a movement of any significance unless the governmentally controlled collective units in the Soviet Union are considered true producers' cooperatives. In the United States producers' cooperation has never gotten a foothold and apparently is less and less likely to do so as production gravitates to larger economic units. Here numerous cooperative marketing organizations have developed in agriculture under the sponsorship of the Federal government and state farm bureaus. Although these are not true producers' cooperatives, they constitute the only approach to that form of cooperation which has met with any significant success in the United States.

Credit Cooperatives

Cooperative credit enterprises usually are referred to as "credit unions." These are operated by persons who unite to place in a common pool all or portions of the funds which they individually wish to save. The members of the union have the privilege of borrowing from this pool for their personal use in accordance with regulations adopted by the union. The non-borrowing member who places his funds in the pool has the double benefit of (1) sharing in the interest earnings of the union, and (2) having available a source of funds should he need to borrow. The borrowing member has the advantage of securing his funds under simpler regulations and at a lower net cost than would prevail were he to borrow from the usual bank or loan company. In the United States credit unions have operated successfully for many years. "Building and loan associations" or

"building societies," operated on a mutual basis, have been the chief form of credit cooperative in some sections of this country. Other forms of credit unions that make loans for shorter periods for the purchase of less durable consumers' goods and services often have been closely attached to other organizations, including in their membership exclusively or chiefly those persons affiliated with these organizations. The Department of Agriculture has been active in encouraging credit unions.

Consumer Cooperatives

Our interest centers primarily on consumer cooperatives. These are organizations of retail buyers who pool their purchases in order to save marketing costs which otherwise would be charged by various middlemen. Usually it is the mark-up of the retailer which consumer cooperatives first seek to eliminate by pooling retail purchases into wholesale purchases. As consumer cooperation develops, it reaches beyond the retailer by organizing cooperative wholesales, which in turn attempt to acquire the ownership of processing plants. This last stage of development is still consumers' cooperation because the consumers through a hierarchy of retail and wholesale organizations operate the processing plants for the benefit of themselves as *consumers,* the employees of the plants being hired as they are in any other manufacturing plant.

The basic unit of organization in consumers' cooperation is the cooperative buying club, or cooperative store. In the United States these units often have been organized by a group of consumers having some common bond other than that created by the new organization. A church, club, fraternal order, political club, union, school, or discussion club may constitute the organizational center and give the buying club its original momentum. In other cases mere geographic propinquity, accompanied by a degree of likemindedness on political and economic affairs, has been the original bond among the cooperators. The organization and operation of these buying groups have followed so closely the pattern established by the first successful attempt at consumers' cooperation in Rochdale, England, that they sometimes are called "Rochdale Cooperatives" to distinguish them from other buying clubs and patronage rebate schemes.

The Operation of a Consumer Cooperative

The basic pattern of organization and operation of a consumer cooperative is extremely simple. Capital funds needed for equipment and to carry an inventory of goods are obtained through an original membership fee of one or two dollars, loans made by members who "buy shares", and, after operations start, the accumulation of earnings left in the club treasury as working capital. When members lend funds to the cooperative, they are paid a set rate of interest which is considered a cost of doing business.

Store facilities at the start often are unpretentious, sometimes consisting of a member's basement or an unused private garage. As the volume of business increases, a more elaborate store may be opened. While in some cases it may match other retail stores in appearance, location, and equipment, in other cases it may be housed in some unassuming and remotely situated building whose chief advantages are size, dryness, warmth, and low rental. Such a store at first may be open only for a few specified hours each week, the length of time being increased as the volume of business expands.[5]

The work in a new club or store may be done by volunteer or appointed members who "keep store" during open hours. If successful, the staff later is expanded to include a salaried manager who runs the store under the supervision of an executive committee or board. As the volume of business warrants, clerks, bookkeepers, and other assistants are added. The board is elected by the members to formulate the buying and selling policies and supervise the activities of the cooperative. It is the duty of this board and the manager to search out sources of goods and to study prices, qualities, and buying conditions so that the cooperative's purchases may be made in the most economical manner. They are expected to price goods for sale and to control inventories so that no undue accumulation of merchandise occurs. In hiring managers and staffs, cooperatives follow the general principle of paying employees at existing market rates of wages. However, there is an unwritten rule that fancy salaries are to be avoided. Some of them have adopted the rule that no employee is to receive more than five times the wage of the most poorly paid employee. In general, it is assumed in the cooperative movement that members will devote their abilities freely to the work of the cooperative. Thus, it is quite customary for the small cooperative to ask a member who knows accountancy to keep the books gratuitously or for a nominal fee.

The sources from which these cooperatives draw their goods vary with the nature of the goods handled, the volume of business done, and the location of the cooperative enterprise. The smaller cooperatives are likely to rely chiefly upon local sources for perishable goods such as fresh fruit and vegetables. These may be purchased in nearby produce markets at wholesale prices, although several clubs or stores banding together may arrange shipments of produce directly from some distant point. Arrangements with local farmers for the purchase of dairy products, meats, and vegetables are quite common. Cooperatives usually buy non-perishable staple food products and canned goods from one of the several existing cooperative wholesales in which the local cooperative has taken out a membership, just as the individual takes out membership in the local cooperative. In some

[5] Within recent years there has been a marked trend among cooperatives to improve their store facilities by adopting advanced architectural designs, modernized equipment, and more efficient store layouts of the self-service type.

cases cooperatives make contracts with local garages, gasoline stations, tailors, and other local service enterprises, whereby the services of these concerns are available to the club at less than standard retail prices. Through cooperative wholesales, cooperative retail stores have access to a great variety of manufactured goods. Some of these products, as, for instance, canned goods, automobile tires, and radios, are labeled by the manufacturers with special "Co-op" labels. Thus the local cooperative store is assured that the goods meet certain quality standards. Most American cooperatives have as yet shown little or no interest in the labor conditions prevailing in the processing plants from which these goods come.

In the retailing function, certain principles are rigorously adhered to. Regardless of the purchase prices paid by the cooperative itself, the goods are priced to members at the full, or nearly full, standard local retail prices and are sold only on a cash basis. Whatever saving the cooperative is able to realize accumulates in its treasury and is from time to time, by action of the membership or its executive board, appropriated for three purposes. A relatively small part is devoted to the educational work of the cooperative, either for local use or for use by one of the district or national cooperative educational agencies. Some cooperatives use none of their earnings for this purpose, but place in an educational fund all dues paid by new members. A second, and probably on the average somewhat larger, portion of the earnings is added to the working capital of the cooperative, to enable it to carry larger and more extensive inventories and to expand the store facilities. The major portion of the earnings is distributed to the members from time to time as a "patronage dividend."

The total fund to be distributed as a patronage dividend is divided up among the members in proportion to the total worth of each member's purchases since the last preceding patronage dividend was paid. Thus, for illustration, if a cooperative had on hand, at the end of a year's operation, $1000 of earnings which it felt could be distributed among its members, and if the total purchases of all its members during the year were $20,000, it would declare a 5 per cent patronage dividend. Each member would receive from the cooperative a dividend of five cents for each dollar's worth of goods he purchased during the year. The cooperative either keeps a cumulative record of each member's purchases during the year, or requires the member, at the close of the dividend period, to present sales slips indicating the total amount of his purchases during that period.

A cooperative usually permits non-members to purchase goods through its facilities at the same prices paid by members. These non-members, of course, do not share in the patronage dividends. The cooperatives segregate the patronage dividends on non-members' purchases, and at the close of the dividend period either place them to the credit of the non-member toward the purchase of a membership for him or use them for educational purposes. Consistency with the cooperative principle forbids adding these

earnings on non-members' purchases to the patronage dividends paid to members. To do otherwise would make the organization a profit-making rather than a cooperative enterprise.

Various aspects of the internal organization of a consumer cooperative have been referred to. The general organizational principle is simple. Membership is open to anyone who wants to join in the cooperative enterprise and is willing to abide by its few simple by-laws. Since the membership fee is low and the obligations of membership are light, membership may be said to be entirely open. Once a member of a cooperative, the individual or the family has one vote in the determination of all matters affecting the cooperative and in the election of the board and officers. Even in those cases where a member buys more than one "share" in the cooperative or lends it funds for use as working capital, the "one member, one vote" principle keeps him from exercising any more control over its affairs than does any other member. The power to vote on motions and in the election of officers and committees adheres to the *person* of the member and not to any *financial relationship* he may have with the cooperative. This is extended even to the point of prohibiting voting by proxy. Moreover, the original members reserve no special privileges or advantages for themselves. Upon being admitted to membership, the new member shares in the assets and control of the cooperative on the same basis as the old members, although, of course, patronage dividends are paid to the new member only on purchases made *after* he has become a member.

Reasons for the Increasing Interest in Consumers' Cooperation

How can the growth of interest in consumers' cooperation in the United States be accounted for? As it has been described here, consumers' cooperation appears to be a rather primitive thing. The physical facilities of cooperatives, particularly newly formed units, often do not equal those of other more elaborate large-scale retail stores to which most urban and many non-urban buyers have access. Limited varieties of goods are carried by cooperatives, and these often are concentrated in certain lines of merchandise. Such important consumption items as clothing, housing, recreation, medical service, and education have been almost untouched by consumer cooperation. The conveniences of credit purchases and delivery service are usually lacking among cooperatives. However, if one were to examine carefully the position of the consumer in recent years, he would find many forces which have contributed to the rising interest in consumer cooperation. Some of the more important are:

1. *The Natural Lateness of Development of Consumer Self-Consciousness.* It is well known that we are often less aware of the experiences with which we are in closest contact than of those more remote but less regular and routine. Circumstances into which we are born are less intensely realized than are those which come to us anew in mature years of life. Each of us is

born a consumer but becomes a producer. Consumption activities arise automatically with the existence of life and, at least up to a certain point, expand automatically with the developing needs of the individual. The longer the customary period during which the individual person is nurtured by his family without much active search for goods on his part, the greater the degree to which consumption activities will be accepted and participated in by mature individuals without much individual conscious rational direction of those activities. There is no specific time at which a person *becomes* a consumer.

In contrast with this, the individual does become a producer at some fairly definite and usually mature age. Thus, the problems which he experiences as a producer are more likely than are consumer experiences to register themselves with force upon his consciousness. Individuals in general may thus be said to be naturally more conscious of the "producer" or "labor" side of their lives. It is only when the individual has the consumer aspects of his life called to his attention that he becomes actively conscious of the basic and intricate problems which confront him in this sphere. Recently numerous students of economics have singled out consumption aspects of economic processes for special study, and the general effect of this has been to arouse widespread interest in consumer problems which previously lay half-hidden among the customary and routine practices of our economy. This development has come normally with the maturing of our economic life, and with the devotion of more and more effort to a scientific analysis of its nature.

2. *The Increasing Realization by the Consumer That Singly He Can Know Little About the Products He Buys.* The increasing diversity of goods available to consumers and the baffling proliferation of styles, shapes, colors, substitutes, and sizes have brought home to the retail buyer as never before his helplessness as an individual in trying to make those choices which will yield him the most satisfaction for a given expenditure of money. It would take many years to acquire the full technical knowledge needed to buy intelligently in just *one line* of goods, such as textiles, automobiles, housing, or foods. Various books, such as *Your Money's Worth*[6] and *A Hundred Million Guinea Pigs*,[7] and numerous periodical and pamphlet articles completed the job of persuading the consumers of their individual helplessness. "Consumers Research" and "Consumers Union," testing bureaus which give confidential information to their consumer members, represent collective efforts to dispel this individual ignorance.

3. *The Increasing Feeling by Consumers That They Are Not Greatly Helped, and Are Often Actually Handicapped, by the Influence of Modern Advertising Upon Their Choices.* Criticisms of modern advertising are so familiar to all of us that little need be said on this subject. False claims,

[6] S. Chase and F. J. Schlink, Macmillan, New York, 1927.
[7] A. Kallet and F. J. Schlink, Vanguard, New York, 1933.

ridiculous exaggerations, and meaningless statements too often make up the bulk of attractive advertisements; testimonials and appeals to fear of social offense represent the lowest possible form of bludgeoning the consumer into making choices of questionable merit. Increasingly large and vociferous groups of consumers are protesting such tactics.

4. *The Consumers' Conviction That Retail Mark-Ups Are Unnecessarily High and Include Unjustified Items of So-Called "Cost."* Much waste and duplication of equipment and effort in the retail field obviously react upon prices, to the detriment of the consumer's purse. The costs of modern advertising and selling devices, which are often of little or no help to the consumer, are figured into retail prices as legitimate cost items. The cost of carrying credit customers and of losing bad debts in many cases is borne by cash customers. The costs of operating delivery services are spread over all merchandise handled, including that carried away by the buyer. Overhead costs of merchandising equipment, more elaborate than is desired by many buyers, are nevertheless borne by the prices paid by all buyers. Many buyers today challenge these and other similar cost items in retailing, and feel there should be some way of reducing mark-ups which superficially appear to cover merely merchandising costs.[8]

5. *The Hesitancy of Manufacturers and Sellers to Grade and Label Merchandise in Terms Meaningful to Consumers.* In practically every line of consumers' goods, attempts are made to use terminology which carries to the consumer implications unwarranted by the qualities of the merchandise. Thus "solid mahogany" furniture within the trade may mean mahogany veneer or gumwood, but to the consumer-buyer it means something quite different. Such terms as "all wool," "pure silk," "guaranteed," "gold-filled," "seasoned," and many others, actually mean something quite different than the common usages of these words convey to the retail buyer. Many used in labeling packaged or canned foods are practically meaningless. Such terms as "first grade," "prime," "fancy," "de luxe," "giant," "pure," "home-made," carry to the prospective buyer meanings far different from those attached to them by the manufacturers and sellers. When bottled olives are labeled "large," "extra large," or "giant," how is the buyer to know that the term "small" is never used, and that the olives labeled "large" are really the smallest put on the market for sale? The Federal government has established a system of grading canned goods, specifying what qualities each article will have to possess before it can be labeled "A," "B," "C," or "D." Since these specifications are also available to consumers, this plan offers a method whereby he can tell just what the label means. As the Federal government has no power to force canners to

[8] For instance, in announcing its plans for three experimental cooperative department stores, a representative of the Consumer Distributive Corporation referred to profit margins ranging upward from 12 per cent realized during 1944–1947 by large distributors. Presumably the existence of such margins was a factor in the Corporation's decision to proceed with its plans.

use this grading system, it has tried to induce them to accept it voluntarily, but many canners have preferred to label their product with such terms as "fancy" and "de luxe" which, since they can mean anything, actually mean nothing. The general unwillingness of the producer to make labels talk in terms understandable and meaningful to consumers has aroused many vigorous protests.

6. *The Lack of Government Interest in Consumer Problems.* For many years such Federal agencies as the Department of Commerce have spent millions of dollars annually in assisting producing concerns to solve their problems and to find domestic and foreign markets for their products. Through the Bureau of Standards the Federal government has been able to make its own purchases on the basis of scientifically tested qualities of commodities. Meanwhile the consumer drew comparatively meager benefits from such activities as the enforcement of an antiquated and inadequate Pure Food and Drugs Act, and indirectly benefited somewhat from anti-trust legislation. State governments may have done more, but it is still exceedingly little, to assist consumers. In the formulation of the National Recovery Administration codes, consumer interests, compared to industrial and labor interests, were represented by a third-rate agency with practically no power to modify code provisions for consumer protection. Approved codes contained a variety of provisions clearly detrimental to consumer welfare. While code writers in many cases were permitted to put into codes collective price-control practices and provisions for the destruction of new and more efficient distribution agencies, they absolutely refused, and were not required, to write into them provisions for grading and labeling goods in ways which would assist consumers to make more intelligent choices. Only the unconstitutionality of the National Industrial Recovery Act kept consumers from feeling the burden of such practices. In general, it may be concluded that government agencies in the United States have not been substantially sympathetic to, or interested in, consumer problems during recent decades.

7. *The Growth of Consumer Cooperatives in Europe.* One of the most important stimulants to interest in consumer cooperatives was the prewar development of the movement in certain parts of Europe, particularly in Great Britain and the Scandinavian countries. After various sporadic attempts at consumers' cooperation in Great Britain, the movement really got a foothold with the organization of a cooperative by a score of textile workers at Rochdale about one hundred years ago. Since then the practice of consumers' cooperation has spread throughout the country, but never at a phenomenal pace. Gradually wholesales were organized by the cooperative retail groups, and in some instances manufacturing units were acquired. The case of tea is usually cited as evidencing a completely integrated consumer cooperative activity, because the cooperatives acquired tea plantations in the Orient and ships for transporting the product to

Great Britain. Just prior to the War (1940) there were some 1100 cooperative retail units in Great Britain with over 8,500,000 members and a quarter of a million employees. There was one cooperative shop for every thirty shops privately owned. These cooperative retail units in 1939 accounted for 14.1 per cent of the total volume of sales of foodstuffs and other groceries in that country, as well as 6.6 per cent of the piece goods and women's and men's clothing, 9.1 per cent of the shoes, 3.5 per cent of the hardware, and 13.8 per cent of the coal.[9] Before the War about 10 per cent of all retail trade in Sweden, and 20 per cent of the retail trade in foodstuffs, was handled by consumer cooperatives, in which approximately one-third of the population held membership. In Finland, prior to the War, one-half of the population were members of consumer cooperatives. It is estimated that in the immediate pre-war years about 100 million families were connected with consumer cooperatives the world over.[10]

This European experience has been noted by students of economic affairs for many years and has been popularized by such writers as Marquis Childs in his *Sweden, the Middle Way*.[11] The "middle way" out of our economic difficulties appears to Mr. Childs and others to be a sort of capitalism modified by a large dose of consumer cooperation. Thus there is established a kind of economic balance which forestalls the development of capitalism's worst sins—such as private monopoly—making unnecessary the more drastic revisions proposed by socialists and communists. This idea of a "middle way," whereby our economy can be gradually and substantially modified in the interest of the welfare of the masses without harming anyone a great deal and without violently upsetting existing economic institutions, has appealed mightily to many Americans and accounts for a substantial portion of the current interest in consumers' cooperation in the United States.

8. *The Idealistic Appeal Consumers' Cooperation Makes to Many Religious Groups.* Not a few adherents of Christianity and other religions have experienced intellectual difficulty in their attempts to square the basic principles of capitalism, and its profit motive, with their religious principles. To many persons so troubled, consumers' cooperation has a strong appeal, with its ideal of "cooperation" substituted for "competition," and mutual sharing of benefits for the personal acquisition of profit. Since the consumers' cooperative movement has proclaimed itself neutral on religious matters, it offers opportunities for joint endeavor by Protestant, Catholic, and Jew. These factors, together with the emphasis the move-

[9] "The Consumers' Cooperative Movement in Great Britain and the War," *International Labor Review*, March, 1941, pp. 349–350.

[10] This does not include "consumer cooperatives" operating in the Soviet Union. These are so closely regulated by the government and so intimately integrated with the socialized economy that they are basically different from consumer cooperatives in other countries.

[11] Yale University Press, New Haven, 1936.

ment places upon gradual modification of existing economies without substantial injury to anyone, make it in the minds of some religious leaders the highest expression in the economic sphere of the best religious principles of all creeds. Consequently, various religious groups have started intensive study of consumers' cooperation and have engaged actively in propagandizing for the movement and in founding and nurturing consumer cooperatives operating on the Rochdale plan.

Consumer Cooperatives and the War

The Second World War affected consumer cooperatives differently in various parts of the world. In the United States there was a substantial growth in their volume of business during the War. This no doubt was partially the result of the consumer's more active interest in retail prices as they rose. In Great Britain, while consumers cooperative associations found their educational and promotional efforts handicapped by the War, the movement experienced no serious setback. The cooperatives worked with the government in attacking various problems of rationing. Some of the cooperative units ceased business or lost in sales volume in areas completely or partially evacuated and in towns seriously affected by the War. Enemy bombing brought serious property losses to some associations, resulting in a mutual aid scheme to reimburse the affected associations for damages beyond those indemnified by government aid. The cooperative movement set up a committee to study problems the War created for cooperatives. It reviewed the machinery of the movement and considered the probable after-effects of the expansion of government control over the economy.

In Sweden the cooperative movement continued to function more or less normally. It cooperated closely with the government in dealing with problems of rationing, in educating consumers to use available commodities more carefully and to accept substitutes, in selling government defense bonds, and even in distributing correspondence courses preparing men for the military and civilian defense forces. During the early stages of the War the cooperatives made special efforts to keep prices down. To this end they expanded considerably their importations and stocks of important raw materials such as cotton, wool, and rubber.

The cooperative movement in Germany and German-dominated continental territory fared much worse. In February, 1941, the German Minister of Economic Affairs and the head of the Labor Front ordered the dissolution of the Federation of Consumer's Cooperative Societies as well as its Wholesale Society and the "societies and other cooperative institutions which were or should have been affiliated with them." The order applied likewise to the Austrian Federation and its affiliated Wholesale Society, and to cooperative organizations in the areas incorporated into

Germany in eastern continental Europe.[12] This action climaxed a process of slow liquidation which had begun under the national socialist régime in 1935. Apparently there were several major reasons for destroying the cooperative movement in these countries. In acquiring power in Germany, the national socialists promised to defend and assist the small business man. Later, private retailers complained about the competition of the cooperative stores. Moreover, the totalitarian philosophy made the protection of the living standards of the low-income groups the duty of the national socialist state rather than the function of any less comprehensive agency. As a result of the dissolution order, 1100 cooperative societies in Germany and Austria were abolished and the powers of their governing bodies were assumed by the Minister of Economic Affairs. The German Labor Front took over all cooperative enterprises, including more than 11,000 retail outlets and factories the cooperatives had operated. The Labor Front agreed to refund to former members of cooperatives the capital they had invested; the facilities were used as "model undertakings for the training of small traders." It was planned to have independent retail traders operate these facilities and after the War to place them in the hands of ex-service men capable of running them.[13]

Cooperatives in the Post-War Period

The post-war restoration of the devastated areas of the cooperative movement was planned during the War. The International Committee for Cooperative Reconstruction, with headquarters in New York City, was formed by representatives-in-exile from Poland, Estonia, France, Czechoslovakia, Germany, Denmark, and other countries. Leaders of the American and British cooperative movements worked closely with this Committee whose purpose was to "assist" in the reconstruction of cooperatives in the occupied countries when the War was over, and to encourage the use of the cooperative method in reconstruction by agencies outside the cooperative movement.[14] After the close of the War the International Cooperative Alliance with an affiliated membership representing some 85,000,000 families in thirty-seven countries acted as the spearhead of the reconstruction efforts of the cooperative movement. It formed an official connection with the United Nations Economic and Social Council. At a conference of the Alliance in 1946 it "reaffirmed its support of free trade and set forth a clear path of cooperation with state agencies but calling for complete independence of state domination."[15] While the disjointed character of economic relationships throughout the world hampered the early

[12] "Dissolution of Cooperative Organizations in Germany," *International Labor Review*, May, 1941, pp. 607-608.

[13] *Ibid.*, p. 608.

[14] *New Republic*, May 18, 1942, p. 672.

[15] 1947 *Britannica Book of the Year*, p. 237.

post-war attempts to recoup the losses of the war period, there is every evidence that cooperative activities in many nations will resume their pre-war normal growth in the near future.

In Great Britain, in particular, cooperatives were reported to be in a very strong financial position. Total membership in consumer cooperatives in 1946 exceeded 9,000,000, and their total trade was £402,000,000 ($1,608,000,000). The five cooperative societies in the London area reported serving nearly 2,000,000 people and having a capital of $72,000,000, about half of which, however, was idle because of a shortage of goods to purchase. One of these, the London Cooperative Society, is said to be the largest retail cooperative in the world, with an annual business of $100,000,000.[16] During 1946, the British cooperatives expanded their operations by purchasing some hotels and department stores and converting to peace-time use the production plants they had made available to the government during the War. The British Cooperative party, as the political representative of the cooperative movement, is a constituent part of the Labor party.[17] In the general election of 1945 it won 23 seats in Parliament and two of its leaders were given Cabinet rank in the Labor government. During the election campaign the Conservative party had attacked cooperatives vigorously. The post-war expansion plans of the British cooperatives include the erection of new and better stores, expansion of the manufacturing and processing activities of the wholesale cooperatives, development of chain stores such as our "Five-and-Ten" stores, entrance into the mail-order business, and the acquisition of more centrally located premises for retailing.[18]

QUESTIONS FOR CLASS DISCUSSION

1. What evidence is there that increased interest in consumers' cooperation has developed in the United States in recent years?
2. What is the essence of the distinction between "cooperative" activity and the economic activity which typically occurs under capitalism?
3. What are producers' cooperatives? Why are they not numerous in the United States?
4. What is the purpose of a credit union? How important are credit unions in the United States?
5. What is a consumers' cooperative store or buying club?
6. What are the fundamental principles of operation of a consumer cooperative?

[16] New York *Times*, July 9, 1947; October 21, 1947.

[17] The Cooperative party emphasizes the need for cooperative principles in current politics and, while it supports the Labor party program in general, feels that "state and municipal action must not rob the consumer of legitimate freedom of choice or break up the associations of consumers which are the practical expression of that freedom." Quoted from the *People's Year Book*, 1946, p. 127. The Year Book is published by the Cooperative Wholesale Society of Great Britain. *Labor and Industry in Britain*, August, 1946, p. 132.

[18] *Labor and Industry in Britain*, August, 1946, p. 131.

7. Would it be correct to contend that, since a consumer cooperative expects to accumulate "earnings" and to "pay dividends," it is essentially a capitalist business unit?
8. Has the Federal government in any way been responsible for the development of interest in consumers' cooperation?
9. Have profit-seeking business men in any sense been responsible for the growth of interest in consumers' cooperation?
10. Why is consumers' cooperation sometimes referred to as a "middle way"? To what groups particularly does this idea appeal?
11. How did the War affect the consumers' cooperative movement?

Chapter 32

AN APPRAISAL OF CONSUMERS' COOPERATION

Two Aspects of the Consumers' Cooperative Movement

Having noted the fundamental nature of consumers' cooperation and the reasons for the recent growth of interest in this movement in the United States, we well may inquire into its soundness and its potentialities. In pursuing this inquiry it will be necessary to separate the analysis into two parts, each of which will consider the movement from the point of view of one of the major groups into which its advocates may be divided.

On the one hand are those who propose consumer cooperation as an appendage to the capitalist system. They think that this form of economic organization should exist side by side with the private ownership and operation of business units. They assume that consumers' cooperation will never develop in any direction to the point where it will exterminate private profit-seeking activity, but that it will supplement and modify the private ownership and operation of industry in those lines where private ownership has failed to yield those social benefits reasonably to be expected from existing resources and productive technique. According to this point of view, consumers' cooperation will grow and develop in those places where private trade fails to provide satisfactory marketing facilities, in those lines of trade where marketing costs are unnecessarily high, and in those industries where monopolies are sufficently powerful to inject elements of monopoly profit into prices. Thus by offering practical alternatives to consumers who are dissatisfied with private industry and trade, consumer cooperatives principally will play the role of regulators of private business activity.

The second point of view is that consumers' cooperation (supplemented by an expansion of government ownership in public utility industries) offers an effective, adequate, and comprehensive substitute for that form of organized economy known as capitalism. Those who hold this view hope and expect that, through constant expansion of consumers' cooperation along many lines, from retailing to the wholesaling and manufactur-

ing functions, our economy will gradually come to be a "cooperative commonwealth," in which the dominant form of organization will be the cooperative.

In evaluating consumer cooperation from the first of these points of view, the chief questions will relate to its strength and weakness in its specific attempts to compete with private business activity in certain lines. In discussing the second point of view, it will be assumed that the specific competitive disadvantages of consumers' cooperation have been overcome, and the major question will relate to the ethical soundness of consumers' cooperation as a comprehensive substitute for capitalism.

A MODIFICATION OF CAPITALISM

In our consideration of the first point of view, we shall note certain substantial weaknesses in the consumers' cooperative movement when considered as a challenger of private trade in various specific lines of activity. These weaknesses apply particularly to consumers' cooperation as it has developed in the United States, although in certain cases they exist in European cooperatives as well.

1. *The Strong Opposition Offered by Organized Lines of Trade.* A wholesalers' trade association, for instance, holds the opinion that the consumers' cooperative movement "would practically eliminate every wholesaler and retailer in the country, destroy capital investment of many millions, deprive thousands of citizens of the opportunity to work, and disrupt an exceedingly efficient and economic system of distribution." Other lines of trade have taken similar positions. One organization has compiled an information book which may be used by private business in meeting the "menace" of cooperatives.[1] Local consumers' cooperative clubs have encountered the organized opposition of local retail interests in numerous cases. Local merchants, through the influence of their advertising expenditures, sometimes can cut off local newspaper publicity from the cooperatives. Although this opposition from organized private trade has taken only relatively mild forms up to the present, it may be expected to increase in intensity and vigor whenever and wherever a major line of trade is seriously challenged by the cooperatives.

2. *The Relatively High Level of Incomes in the United States.* This factor probably weakens the consumers' cooperative movement in the United States as compared with European countries. In general, the higher the income, the less important the recipient considers the marginal portions of it, and the less care he will use in spending these portions. It follows that consumers in this country probably will take less interest in "saving the middleman's profit" than they have in other countries where the average income is lower.

[1] The Business Development Office, New York.

3. *The High Relative Degree of Efficiency of Private Merchandising Organizations in the United States.* Both chain and department store organizations in the United States have developed very efficient merchandising practices leading to retail mark-ups which, although still considered too high by many consumers, are certainly less than those of European concerns. Thus the American participant in consumers' cooperation probably will realize, on the whole, a smaller saving in his cooperative purchases than has the European consumer. Therefore, the direct economic incentive to use the cooperative form of buying may be considerably less intense in this country than it has been in Europe. If to this general comparative efficiency in merchandising there are added certain merchandising tricks and sharp practices customarily followed in the American retail field, it will be seen that the economic appeal of the cooperative is still further diminished. A private retail store may offer as bait a leading item at a lower price than the net price paid a cooperative for the same commodity. In some cases it is even possible for a large private store to occupy a building rent-free for the first year of a long-term lease. The effect of such an arrangement upon price competition is obvious. Competitive price-cutting in such fields as retail drug merchandising, the formation of pseudo-cooperative buying organizations, the opening of "wholesale" facilities to retail buyers, the offering of special discounts to employees, and the privilege of buying through company purchasing agents all have been part of the merchandising scene in the United States. While in many cases these practices have decreased the appeal the consumer cooperative can make, recently enacted Federal and state statutes now prohibit some of these price-cutting devices.

4. *The Temporary Exclusion of Certain Cost Items from Consumers' Cooperative Pricing.* It is quite common for consumers' cooperative clubs in the United States to start on a very small scale. In such cases the members usually donate free of charge certain facilities and services which are essential to the conduct of a cooperative unit. Thus a "buying committee" will devote many hours of time to making managerial decisions relative to inventories and prices. An otherwise unused garage or corner of a basement may be donated by a member for store purposes, the light and heat of course being included in the gift. In some cases a club will accept non-interest-bearing loans from members to be used in carrying inventories. Members who have cars often will supply free delivery service to those who have no such facilities, and secretaries of clubs will neglect putting in bills for postage and telephone expenditures incurred in conducting the club's business.

While these services are rendered in the true cooperative spirit, they often create elements of undisclosed costs which should be, but are not, taken out of club funds before patronage dividends are declared. Such concealed costs create a certain weakness in some consumers' cooperative

activities. What appear to be savings to consumers may be in part merely costs which have been incurred by individuals, and they should be included in whatever net prices the cooperative compares with prices charged by privately operated stores. Sound growth of consumers' cooperation cannot be built upon deceptive ideas as to what the consumer saves through cooperative activities.

5. *A Slavish Following of the "Rochdale" Principles.* On the whole, consumer cooperatives in the United States have closely followed the principles laid down by the original Rochdale cooperators. They have become a sort of creed, existing in their own right, to be followed at all costs. This emphasis upon traditional form may inject certain elements of weakness into the movement, by decreasing its adaptability to American conditions which differ from those encountered in European countries. Moreover, its adaptation to varying conditions of urban and rural life in the United States may require greater variation in form than is apparently permitted within the rather circumscribed Rochdale form.

6. *The Assistance of Government Agencies.* Again in this case a factor which appears to be of considerable advantage to cooperatives may in the future turn to their decided disadvantage. Previous mention has been made of the interest and assistance which the Federal government has been giving consumer cooperatives. A paternalistic governmental attitude toward this movement may be enjoyed immediately by those participating in it, but it will not be a source of strength to the movement as a whole. Indeed, the dangers of an overzealous government have already been foreseen, both by the leaders of the movement and by the members of the prewar Presidential Commission which carefully surveyed European experience with consumers' cooperation.[2] The former disclaim any desire to lean upon government assistance, while the latter definitely recommend that consumer cooperatives should neither be given assistance not also available to other forms of merchandising organizations, nor be placed under any handicaps or restrictions not also imposed upon them.

A paternalistic government policy can lead to only one of two ends. Either the assistance will be removed after the movement is started, but also after it has become accustomed to depend upon government help, or the movement itself will have to enter the political arena to wage battle for a continuance and expansion of the government's aid. If the first were to happen, the shock occasioned by the withdrawal of aid might seriously endanger the cooperatives. The consequences of the latter, although not clearly envisioned now, would certainly be no less difficult for the movement. It is because of these future potentialities that the aid now rendered cooperatives by governments may be creating weakness rather than strength in the movement.

[2] Jacob Baker, *Report of the Inquiry on Cooperative Enterprise in Europe,* Government Printing Office, Washington, 1937.

7. *The Threat of Losing Certain Alleged Tax Advantages.* While this highly intricate subject cannot be explored in any detail, the student of cooperatives should understand the fundamental issues in the campaign currently being waged by the National Tax Equality Association against alleged discriminatory taxation benefiting cooperatives.[3] It is charged (1) that Federal and state income tax laws exempt from income taxation certain portions of the incomes of cooperatives whereas comparable portions of the incomes of private business corporations, partnerships, and individual proprietorships are taxed; (2) that this discrimination in effect yields a subsidy to cooperative business and places an artificial handicap upon other businesses competing with cooperatives in various lines of activity; and (3) that, if such discrimination were stopped, cooperatives would be forced to compete equally with private business, thereby revealing that many of the cooperatives' apparent advantages are simply concealed public subsidies.

More specifically, the taxation question consists of two parts: First, should a cooperative pay an income tax on net income derived from operations and paid back to members as patronage dividends? Under present Federal income tax statutes such income is exempt. Leaders of the cooperative movement defend this exemption on the ground that such income is merely a temporary overcharge and that it really never belongs to the cooperative, since it is known from the start that it will be repaid to members as refunds on their business with their own associations. So far as such funds are concerned, the cooperative has earned no true "net income" of its own and, indeed, has nothing with which to pay a tax, since such earnings, as soon as they exist, really belong to the members of the cooperative and merely await the declaration of a formal patronage dividend before being paid to their rightful owners. On the other hand, the president of the National Tax Equality Association contends that such funds are "earned by the same process of buying, selling and manufacturing as in the case of a regular corporation, partnership or an individual proprietorship" and that "patronage dividends are actually no more than a device for returning earnings to owners and patrons without being subject to Federal income tax." He contends that the "taxability of earnings should be determined by the way these earnings are created, and not by the disposal that is made of them."[4] The Association emphasizes that this is particularly true where cooperatives own and operate wholesale, manufacturing, or processing facilities earning a net income which goes to swell patronage dividends of the primary cooperative associations. While the merits of this matter cannot be explored here, the difference between the status of the owner-user of a cooperative and that of the owner of a private

[3] The National Tax Equality Association claims that it represents some two million large and small business firms. New York *Times*, August 31, 1947.

[4] Quoted in New York *Times*, December 1, 1946.

business enterprise is so great that there appears to be little chance of cooperatives being taxed on net income returned in patronage dividends.

The second question is: Should a cooperative pay a tax on net income derived from operations and retained by the cooperative for the expansion of capital facilities? Under Federal statutes *non-agricultural consumer cooperatives* are exempted from taxes on such reinvested income, if they give their members individually evidences of indebtedness representing such withheld patronage dividends.[5] The National Tax Equality Association would like to see cooperatives forced to turn back their net earnings as patronage dividends, this preventing them from building up capital on which no tax has been paid because legally it constitutes "deferred patronage dividends." *Agricultural cooperatives,* both buying and marketing, are exempted from tax on such income, even though members are not given evidences of indebtedness by the cooperative, provided the Commissioner of Internal Revenue finds that the organization is a true cooperative operated by and for the benefit of farmers. For instance, a study of the year 1943 indicated that in that year farmers' cooperatives retained $71,000,000 of net earnings out of a gross business of $2,234,000,000.[6] The National Tax Equality Association alleges that this tax situation gives cooperatives a discriminatory advantage in acquiring capital funds as compared with other types of business which are taxed on net income even though it may be reinvested in capital expansion. It charges that cooperatives use these tax exempt capital funds for constructing or purchasing marketing, manufacturing, and processing plants extending far afield from the original purposes of the user-owned primary cooperative association. It is more difficult to defend this second type of tax differentiation and some cooperative leaders recommend that the statutes be changed so as to subject to taxation all income used for capital expansion unless members are given certificates of indebtedness making such funds "deferred patronage dividends." While it is not entirely clear how seriously this, or a more far-reaching change in the tax laws, would restrict the growth of cooperatives, it is probable that some agricultural associations would be substantially affected.

8. *The Mobility of the American Population.* The pre-war development of consumer cooperatives in European countries was assisted materially by the relative immobility of European populations. In those countries a number of generations of a family often have continued to live in the same house or at least in the same community. In such cases membership in a cooperative comes to be a normal part of the life of each succeeding generation. In fact, there are sections of Europe where over a long period of time the use of cooperative merchandising facilities came to be just as much an accepted practice as has our use of privately owned retail stores.

[5] These evidences of indebtness of course are taxable as individual income received by the member of the cooperative.

[6] W. E. Schenck, *Opinion and Comment,* Bureau of Economics and Business Research, University of Illinois, February 16, 1947, p. 29.

In contrast with this, the mobility of the American family imposes certain handicaps upon the cooperatives. By the very nature of their operation they cannot appeal to buyers who are of uncertain residence. The taking out of membership and the payment of patronage dividends at the end of a period of time obviously will not interest those who are unlikely to continue to reside within buying distance of the cooperative store. Since many American manual workers are constantly on the alert for better opportunities, and since many of them are constantly being forced to change their residences by the shifts of fortune of their employers or by the changing employment opportunities resulting from technological changes and changes in demands for products, they are likely to find potential cooperative endeavors thwarted. Many clerical and other white-collar workers are in a similar situation. Their mobility is increased by the policies pursued by many large companies of transferring employees from one company branch to another or from one company territory to another.

9. *The Failure of Consumer Cooperatives to Link Up Closely with Labor Organizations.* In some cases the successes of cooperatives in Europe can be attributed partially to close relationships which they have developed with labor organizations. It is generally admitted by the advocates of consumers' cooperation that it will develop best where it is practiced by groups whose members are bound together by ties other than those of the cooperative itself. The highly successful consumer cooperatives which have developed among some concentrated foreign groups in the United States, such as the Finns of Minnesota, and among farm members of "granges" and "farm bureaus," illustrate this point. As yet the ideals and practices of consumers' cooperation have not taken any hold upon labor organizations in the United States, despite the mutual advantages both types of organization might draw from such relationships. Until connections of this sort are formed, the consumers' cooperative movement in urban industrialized communities will lack a focal point around which its development can center.[7]

10. *Miscellaneous.* There are numerous other forces and circumstances which may serve to weaken the consumers' cooperative movement in the

[7] There is evidence that organized labor in the United States is beginning to develop an interest in cooperatives. In 1941 the national conventions of both the American Federation of Labor and the Congress of Industrial Organizations took actions indicating this. The former ordered its Executive Committee to "give consideration to the subject of consumers' cooperative activities and to production and consumers' cooperative organizations." The latter asked its officers to "undertake a careful analysis of ways and means whereby the C.I.O. and its affiliated organizations may participate in the development of the consumers' cooperative movement and stimulate the interests and activities of union members along such lines." *Monthly Labor Review*, March, 1942, p. 692. The concrete results of these actions were negligible. In July, 1947, both the AFL and the CIO urged their constituent unions to organize consumer cooperatives. The CIO statement advocated such measures to combat rising prices and as a "price program to go with our wage program." New York *Times*, July 28, 1947. Later in the year there was a flurry of union interest in establishing consumer cooperatives. There is no indication, however, that this reflects any probability of a sustained interest in cooperatives. See *Business Week*, October 11, 1947.

United States. In certain instances the movement already has developed a top-heavy superstructure. Some individuals have attempted to promote administrative jobs for themselves, and in doing so have burdened struggling cooperative clubs with overhead expenses. The religious zeal which certain groups have carried into the promotion of cooperatives may lead to mushroom developments featured by high idealism but too little practical businesslike management. Some consumer cooperatives have shown a disinclination to pay managers and other employees salaries as high as their duties and abilities warrant. Such an attitude may well lead to inefficiency and troublesome disloyalty on the part of cooperative staffs. In some cases cooperatives actually have exploited employees more severely than privately owned business units. Such labor policies can be expected to alienate not only the cooperative employees but also other groups interested in the maintenance of fair and humane conditions of labor.

A SUBSTITUTE FOR CAPITALISM

Turning from a consideration of the difficulties which consumer cooperatives encounter in their development in specific lines of merchandising, it is important that we note that many leaders of the movement in the United States consider consumers' cooperation to be a desirable and adequate alternative to the capitalist system.[8] In their opinion it should be considered as a substitute for, rather than a supplement to, the existing form of economy. To them its potentialities place it in the same position relative to capitalism as is socialism or communism, whose fundamental organization and operation are in such contrast to those of capitalism as to establish each of them as a distinct alternative to it. It is only when consumers' cooperation is so considered that it possesses full right to be called an "economic system."

The "Cooperative Commonwealth"

This conception of consumers' cooperation as a comprehensive scheme of organizing society's economic activities is more than a mere idealistic vision. Some leaders of the movement have formulated a fairly clear-cut pattern which they believe will be followed in the transition from capitalism to the "Cooperative Commonwealth." As they envisage it, consumers' cooperatives stores will expand to absorb more and more of the merchandising activity in more and more lines. As this occurs, the normal expectation would be that the retail cooperatives would band together to organize their own wholesale buying units, which would be owned and operated

[8] While many members of consumer cooperatives and some leaders of the movement apparently are unaware of this aspect of consumers' cooperation, there is no doubt about its reality. The "consumers' cooperative commonwealth" and its proposed evolutionary displacement of capitalism have been most clearly described by B. B. Fowler in *Consumers' Cooperation in America: Democracy's Way Out,* Vanguard, New York, 1936.

cooperatively by the constituent clubs and stores in just the same manner as groups of individuals now own and operate their cooperative retail units. From this the next step would be the ownership of factory and other processing units by wholesales.

Meanwhile, it is expected that cooperatives will extend their activities to many lines of consumption outside the commodity field. Consumer credit unions will be expanded. Cooperative housing, particularly of the multiple-family type, will be developed. Cooperative mutual insurance companies will develop in the property and life insurance fields. Medical services, particularly hospital facilities, will be opened to cooperative organization. Education and recreation will be included within the scope of cooperative activity. Theoretically there are almost no limits to the expansion of the cooperative form of organized economic activity. The proponents of the movement even point out that international buying and selling can take place just as readily among wholesale units owned and operated by cooperatives as among other business units.

In fact, the cooperative movement has developed in the United States to some extent along practically all of these anticipated lines. At the close of 1946, 4522 cooperative associations, with 5819 retail outlets and 1,516,950 members, were affiliated with 22 regional wholesale cooperatives. These in turn own and operate National Cooperatives, Inc., which purchased, or produced, and distributed through this cooperative set-up $232,100,000 wholesale value of goods during 1946. The total retail volume of the cooperatives affiliated with this organization was nearly $700,000,000 in 1946.[9] At the various levels of the organization, the affiliated cooperatives operated 179 mills, factories, refineries, and other petroleum facilities.[10] In 1937 the International Cooperative Trading Agency was organized to promote international trade among the cooperatives of the world. In 1946, under the aegis of the International Cooperative Alliance, the International Cooperative Petroleum Association was formed to facilitate international cooperative trade in petroleum and its products. The United States cooperatives, which in 1946 operated 10 oil refineries, 700 oil wells, and 1600 miles of pipe lines, "were expected to act as one source of supply for the world oil cooperative."[11] Representatives of the London Cooperative Society have visited the cooperative petroleum industry in Kansas with a view to participating in this trade.[12]

GOVERNMENT OWNERSHIP OF UTILITIES.

In considering this prospective transition from capitalism to a "Cooperative Commonwealth" several significant questions arise. In the first

[9] New York *Times*, February 7, 1947.
[10] 1947 *Britannica Book of the Year*, p. 237.
[11] *Ibid.*
[12] New York *Times*, July 9, 1947.

place, it may be asked whether there are not some very important lines of production which would be unsuitable for organization along cooperative lines. The advocate of the "Cooperative Commonwealth" admits that there are, but contends that practically the only industries not easily organized under the cooperative pattern are such utilities as railroads, electric power, telegraph, telephone, radio broadcasting, water and gas service, and street railways. For these he proposes outright government ownership, and operation by whatever units of government seem likely to be able to carry such economic appendages most successfully. Thus, economic activity in the "Cooperative Commonwealth" would be divided between that carried on by a cooperative organizational hierarchy based upon consumer cooperatives and controlled by them, and, on the other hand, that carried on by an increased number of governmentally owned and operated utility enterprises. Needless to say, the former would account for by far the larger portion of the total economic machinery of the country.

The Role of Government

Would governments play a prominent part in the "Cooperative Commonwealth" and the transition to it? Aside from the expanded government ownership of some utilities, governments would play little part in the whole process. It is assumed by the leaders of this movement that consumers' cooperation will expand to absorb more and more of the existing economy without any large-scale assistance from government agencies. In fact, it is pointed out that certain government functions would become less necessary as the "Cooperative Commonwealth" matures. It is held that government services now rendered in the interest of consumers (while absolutely essential to society under a capitalist economy in which decision-making power is vested in owners whose interests in many cases are anti-consumer) could be dispensed with when the system becomes one basically operated by the consumers' own agencies. Thus government activities such as those of our Federal Trade Commission, Pure Food and Drugs Administration, and state and city food inspection services could be dispensed with, since, when the consumer owns and operates his own facilities, there would be no gain in cheating himself or selling himself impure or substandard commodities.

Moreover, it is contended that even anti-trust laws and their enforcement machinery would no longer be needed, because consumer-owned productive facilities would be able to destroy or adequately check monopolistic tendencies in any field of production merely by underselling the monopoly. The story of how Swedish consumer cooperatives, by setting up their own plant, destroyed the electric bulb monopoly in the Scandinavian countries has become a revered classic in cooperative literature. Finally, the increase of government ownership and operation in the utility sphere would re-

lieve governments of much elaborate and expensive regulatory and rate-fixing machinery, such as the Interstate Commerce Commission and the various state public utility commissions.

The Evolutionary Nature of the Transition

In the minds of its advocates the consumers' cooperative movement by its very nature offers possibilities of a gradual and peaceful transition to a new economy. This aspect of the movement causes it to appeal strongly to those persons who seek comprehensive change in the economic order but fear the disruptive consequences of a movement which could assume power only after a revolution, or at best after drastic and sudden changes in our political and economic institutions. In theory the transition from capitalism to the "Cooperative Commonwealth" comes through the cooperative absorption of more and more lines of trade and industry, the personnel and equipment no longer needed in their accustomed uses being absorbed into cooperative enterprises, with only small losses in investment and personnel, and with only short time lags. Thus, as the boundaries of the cooperative economy are constantly forced outward, the boundaries of privately organized trade are progressively contracted, until the whole economy, except the large-scale utilities, will have been transformed into a cooperative system. Evolutionary, orderly, peaceful, and largely costless change is the very essence of the transition to cooperation.

The Role of Credit Agencies

But can this "Cooperative Commonwealth" be achieved without access to credit? Its proponents agree that it cannot, and they also realize that the existing banking system probably will not be anxious to supply credit for the expansion of cooperative trade and industry. It is obviously beyond reason to expect retail buyers as such to supply the credit needed. Although certain economies which consumer cooperatives can realize through the keeping of smaller and less varied inventories and through the use of less elaborate facilities may decrease somewhat the credit needs of cooperatives, it is clear that if retail store buildings, wholesale warehouses, factory buildings, and industrial equipment are to be acquired, investment funds will be needed.

It is here that cooperative insurance plays its unique part in the transition to the "Cooperative Commonwealth." Although the leaders of the movement have every reason to believe that individual banks and chains of banks controlled by the cooperatives can be organized and operated successfully when the cooperative movement has attained considerable maturity, many of the credit needs of the intervening period probably will have to be met from the reserves which cooperative insurance companies possess. Cooperative organizations for the insuring of property, and par-

ticularly those for the insuring of lives, will of necessity build up large financial reserves against the risks which they carry for their members. In theory, these will be available for the financing of cooperative activities in various fields of production. This, along with the lower cost of cooperative insurance, has played a considerable part in stimulating the leaders of the cooperative movement to put much effort into the promotion of cooperative insurance schemes.

Other Alleged Advantages of the "Cooperative Commonwealth"

Supplementing the advantages of peaceful transition, many advantages are claimed for the "Cooperative Commonwealth" when it is compared with the existing capitalist system. The "profit motive" will no longer be dominant. The utilities will be operated by governments, presumably on a non-profit basis. The individual trading and producing units will be owned and operated by a pyramidic hierarchy having at its base a mass of consumer cooperatives. There no longer will be any temptation to produce adulterated, poor, or shoddy goods, or to sell for exorbitant prices. Those who own and operate industry in the "Cooperative Commonwealth" would merely be injuring themselves by so doing.

Along with the disappearance of the profit motive, competition would largely disappear, except as the cooperatively organized groups of consumers would be competing or striving each to secure for itself the most efficient and least costly production and distribution of the goods its members desire. The wastes of competitive advertising and the competitive duplication of equipment presumably would be entirely or largely done away with. Overproduction of certain lines of goods at various times, so troublesome in a competitive profit-seeking economy, would be substantially reduced or eliminated altogether, since no consumer-directed industry would be likely to produce more than consumers would buy. Stability of operations presumably would thus be increased throughout industry. Lastly, and most important in the minds of many advocates, is the contention that the reorganization of industry along cooperative rather than competitive and profit-seeking lines would go far to change the whole tone of our social living. Self-seeking and struggle would be decreased, and cooperative endeavors expanded; motivation would be at least partially socialized. In such a system, so the theory runs, the consumers' cooperative movement will experience its complete and ultimate achievement.

Two Basic Questions Concerning the "Cooperative Commonwealth"

In considering consumers' cooperation as a comprehensive substitute for capitalism, two basic questions appear. The first relates to the possibility of such a movement succeeding in attaining its comprehensive goal of a "Cooperative Commonwealth," while the second throws doubt upon the

ethical soundness and smooth workability of such an economy even though it were successfully instituted.

The Neutrality of Government in the Transition

In judging the probability that the consumers' cooperative movement will be able to create a "Cooperative Commonwealth," the specific handicaps the movement faces in the United States must be considered and weighed. These have been dealt with in a preceding section. A more basic issue still remains: Can the movement reach its comprehensive goal without capturing control of the government of the nation and using it to create the cooperative economy? Apparently the leaders of the movement believe this to be possible. They hold that the government will play a completely neutral role in the transition. The force of its assistance will be neither needed nor sought by the expanding cooperatives which, it is held, will displace private trade and industry by the sheer power of their more efficient operations.

The cooperative movement is the only comprehensive economic movement which takes this attitude toward the role of government in the establishment of a new economy. Socialism and communism assume that the economic structures which they propose as alternatives to capitalism will be established only after their proponents have acquired control over the governmental machinery of the country involved. In fact, the tactics of each of these movements are largely shaped by the assumed necessity of using governments as the agencies for building new economic systems.

Although each of these movements relies upon the power of government to bring the economic change it advocates, the Marxians have worked out the theory of this position most specifically. Since they hold that the "state" is always an agency of class warfare, possessed and used by either the owners or the workers for the promotion of their interest, Marxians could not conceive of the state machinery remaining neutral during the period of transition to a "Cooperative Commonwealth." Either it will be possessed by the owning classes who will use it to defeat the movement which constitutes a major threat to their ownership status, or it will be captured by those who are attempting to change the system and used as the all-important means to effect the change.

One scarcely needs to be a Marxian to realize the tremendous importance of the assistance which a strongly established government may render either in defense of an existing economy or in the establishment of an essentially new one. The strategic position of government in any transitional situation is obviously much greater where, through a long period of maturing, the economy has become almost inextricably intertwined with governmental structure at innumerable points of contact and mutual interest. The naïve assumption that consumers' cooperation in the United States can evolve

into a comprehensive economic structure displacing capitalism, without either using the force of government to achieve this end or encountering the disastrous opposition of a government hostile to the goal, is one of the two basic defects in consumers' cooperation when it is considered as a movement urging the displacement of capitalism by cooperation.[13]

Could the "Cooperative Commonwealth" be Truly Cooperative?

The second basic question strikes even deeper into the roots of consumers' cooperation as a comprehensive pattern of economic organization. If all of the transitional problems and difficulties were overcome, would the "Cooperative Commonwealth," once established, be a desirable form of economy? Would the rights and duties of the participants in the totality of economic activity conform to a higher ethical standard than exists in our present-day economy? Would the varying activities of all those specialized groups of persons be fused into a whole on a truly cooperative basis? Would control over economic activity be any more "social" and less "individualistic" and "profit-seeking" than it is in the existing economy? In short, could the ultimate result come anywhere near being a "Cooperative Commonwealth" in something more than mere name? Despite the apparent idealism enveloped in the phrase "Cooperative Commonwealth," careful thought discloses serious basic deficiencies in what would come to exist as a "Cooperative Commonwealth." There is much reason to believe that the consumers' cooperative movement has envisioned a goal which, even though it were attainable, possesses more apparent than real merit when viewed as a sound and desirable alternative to capitalism.

Functional Participation in Economic Activity

In this connection it is important that we recall the true nature of industrial activity. The obligation of industry (this term being used to include all productive economic activity) is to perform a function—the function of making goods available for human consumption. There are four major groups of interests which are closely related to the performance of this function: (1) the interests of those who own the capital (machinery, tools, and all kinds of equipment including the land); (2) the interests of those who supply the labor (muscular and mental energy) which goes into the productive process; (3) the interests of the consumers whose satisfaction constitutes the goal of economic activity; and (4) the interests of the government which represents the totality of social interests. Owners, workers, consumers, and the government may be considered the four func-

[13] This point must not be confused with the previous contention that, if consumer cooperatives merely are going to be complementary to private trade in certain lines, government financial assistance may weaken the movement—particularly if this assistance is only temporary.

tional groups concerned with the nature and the results of the operation of our economic system.

Decision-Making Under Capitalism

Under capitalism the bulk of the direct daily decision-making which guides the current operations of our economy rests in the owners or those to whom they delegate this power. It is true that labor (particularly when organized into unions) exercises influence by expressing passively or actively its unwillingness to join in the performance of industry's function unless certain conditions are met. Consumers have the right under this system to refuse to buy and thus to force certain decisions upon the owner of an industrial concern. Moreover, governments have their powers to lay down the conditions under which business activity may take place. Despite these indirect influences exercised by the other three functional parties to the industrial process, the owner remains the basic decision-maker who, weighing all of the influences brought to bear upon him by workers, consumers, and government, finally directs the details of *what* is to be produced, *when* it is to be produced, and *how* it is to be produced. In short, under the existing economy, direct control is vested primarily in the owner —one of the functional parties—while the other three functional groups exercise their influence upon business decisions indirectly and from afar.

Many careful students of the existing economic system feel that this one-sided control of economic activity is the system's outstanding defect, and the source of such economic ills as labor disputes, financial crises and business depressions, unemployment, much economic inequality, financial manipulation, and other maladjustments in our economic life. It is held that there is a *prima facie* case against any organized activity in which all of the parties interested in the performance of a function do not also share control over the performance of that function roughly in proportion to their respective interests in it. Since, as between owners, workers, consumers, and government, it is difficult to distinguish any major and minor interests, it is concluded that their interests are substantially on a par, and that, to be sound, our organized economy must provide for substantially equal control over decision-making to be exercised by each of the four functional parties.

Decision-Making in a "Cooperative Commonwealth"

If this is to be accepted as a high ethical concept of the nature of the control to be exercised in any ultimately satisfactory economic organization, it is important to note wherein the "Cooperative Commonwealth" fails to measure up to this test. In an economy organized along these lines, the place of the owner in our present system would be taken by consumers

organized into consumer cooperatives. Actually, of course, the ownership of most industrial property (except for the utilities which would be governmentally owned) would be vested in wholesales and various other higher agencies in the cooperative hierarchy. However, these higher agencies would be controlled directly by the consumer cooperatives which form the base of the entire "Cooperative Commonwealth."

The previous ownership interest and the consumer interest would be fused into a new single interest, which, however, would be dominated by consumer rather than owner considerations, since the operation of cooperatives would be entirely directed to serving consumers. The consumer interest would have *absorbed* the owner interest. In this consumer interest would reside the basic decision-making power of the new economy. It would have all the power the consumers previously had, plus all the power the owners previously possessed. The government could, of course, intrude whenever, wherever, and however it pleased, as a sovereign government now can. However, it is to be noted again in this connection that government would be expected to play an even less important part in decision-making under the new system than it now does.

Labor, the other interested party, would stand in just about the same position it occupies under capitalism. The shift of decision-making power definitely would be from owners to consumers, and to a lesser degree, from government to consumer. Thus labor would be left, considered absolutely, with much the same powers it previously had, but in a relatively weaker position because of the now nearly all-powerful consumer control. In brief, the shift of power occurring with the development of consumers' cooperation would leave us with a system in which there would be a joint interest in the performance of a function, but in which the powers over the activities constituting that performance of function would be just as unequally divided as under capitalism, or more so. One vital functional interest—that of labor—would have just as little absolute control as under capitalism, while its relative power probably would have declined.

Consequences of One-Sided Control

More than an abstract ethical principle is involved in this issue. It is often held that the function industry is expected to perform is one which can be accomplished satisfactorily only by the closest cooperation of all the interested parties. Thus, it is only when owners, workers, consumers, and the government all bend their efforts jointly and whole-heartedly to a given task that society as a whole will realize as much benefit as it has a right to expect from the resources and technique at its disposal. Where one party dominates the direction of the joint effort, there is reason to expect cooperation to be absent. If the basic decisions are made by one party, it is not likely that the other parties will participate in a truly

cooperative manner. Bickering over how the function is to be performed and how the benefits are to be shared may be expected to characterize a one-sided distribution of power. It is just such a situation which some students hold accountable for the conflicts between owners and workers, workers and consumers, consumers and owners, and between the government and all other parties—conflicts which are so numerous and serious in the existing economy.

Nor would it be any different fundamentally in the "Cooperative Commonwealth." The blueprints of this alternative to capitalism call for the concentration of even more power in the hands of consumers than is now concentrated in the hands of owners. Decisions which could be carried out successfully only by the joint efforts of various interests within the economy would be made by one group basing its decisions upon one set of considerations, just as today owners, in making their decisions, raise only (or primarily) the question of profit. In short, the very nature of the structure of the "Cooperative Commonwealth" would inhibit the existence of more cooperation among the essential parties to the economic process than takes place under the existing economy.

All of this can be expressed in terms of the nature and amount of competitive struggle that might exist, rather than the non-cooperation that might be generated by the new forms of control. If the government is eliminated from further consideration, the struggle under capitalism is a three-party affair, the participants being owners, workers, and consumers. In some cases workers are battling the owners and consumers, as in the sweated trades where the beneficiaries are owners and consumers and the workers struggle to raise their share of the proceeds above starvation levels; in other cases, as in certain low-wage monopoly industries, the owners are battling both laborers and consumers; in still other instances owners and workers band together to force the last penny from the consumer, splitting the proceeds between highly organized workers on the one hand, and monopolistically organized owners on the other.

Apparently the forms but not the basic nature of the struggle would be different under the "Cooperative Commonwealth." The three-way conflict apparently would become a two-way conflict between consumers and workers, with the consumers perhaps in the best bargaining position since they, in their roles as consumers, have now absorbed the former owners' power. The specific forms which these basic conflicts of interest within the "Cooperative Commonwealth" might assume cannot be predicted accurately, but the general pattern of the alignment of conflicting forces is clear. Assuming that the government would play a relatively insignificant part in directing economic activity, it is clear that the major struggle would be between worker and consumer interests. In general, the consumer would be interested in, and would seek to create, high productivity per worker, long hours, low prices, low wages, and high-quality commodities, while

the worker would seek high wages, short hours, and possibly restrictions on output to increase the bargaining power of labor groups.

The fundamental divergence of interest and the probable intensity of the conflict are clear, although the detailed forms it might take and the specific instrumentalities the parties to the conflict might use would depend largely upon current and local circumstances. It would appear to be something of a misnomer to refer to an economy characterized by such basically conflicting interests as a "Cooperative Commonwealth." The practical desirability of the consumers' cooperative goal is seriously weakened by the fact that its proposed economy includes no formula whereby previously conflicting interests could be joined in efforts which would be truly cooperative to the degree required by the basically cooperative nature of the function industry is expected to perform.

There would seem to be two possible answers to this contention that the "Cooperative Commonwealth" fundamentally cannot be any more cooperative than the existing economy. However, careful consideration of these answers discloses that neither of them refutes this fundamental objection to an economy based upon consumer cooperatives.

The Contention That Workers' Interest Would Be Protected by Unionization

First, it is pointed out that in the "Cooperative Commonwealth," although there would be certain conflicts of interest between consumers and workers, the latter would be represented effectively by their unions. It is held that, although decisions would be made primarily by consumer organizations from the consumer point of view, these decisions would be strongly influenced by considerations of labor welfare which would be insisted upon by the bargaining representatives of unions.

However, it must be noted that there is no guarantee in the mere form of organization of the "Cooperative Commonwealth" that labor unions would be tolerated or permitted to exercise much power. The entire structure would be based upon consumer organizations; and unions, were they to exist, would be appendages to this structure. The mere fact that consumer cooperatives in the United States and other countries have in general (although not invariably) been sympathetic to organized labor, or the mere fact (often cited in this connection) that about 90 per cent of the workers in British cooperatively owned concerns are union members, does not mean that consumer cooperatives necessarily will continue this relationship. It is purely voluntary on their part, since there is no organic bond between cooperatives and unions making the relationship a vital one. While a consumer cooperative which has been sponsored by a labor organization may feel closely connected to that *specific* union in which its members also hold membership, it may feel no attachment to labor organ-

izations *in general;* and it may possess an antagonistic attitude toward the unions in those trades from which merchandise is purchased. While there is nothing in the cooperative movement which would necessarily keep it from forming a strongly sympathetic relationship with organized labor, neither is there anything in the cooperative system which automatically or necessarily creates such a relationship and forces a sharing of decision-making power with labor organizations. The clear conflict of worker interests with consumer interests creates a strong probability that there would be little if any more *basic* cooperation between consumers and workers under the "Cooperative Commonwealth" than there now is among owners, consumers, and workers under the capitalist system.

The Contention That Consumers' and Workers' Interests Would Not Diverge

The second answer sometimes given to this problem is superficially more convincing, but basically more illogical, than the first. It is contended that since all workers are consumers and practically all consumers are workers, there can be no conflicts of interest between them. The two groups being practically coincidental in their totalities, they become one and the same group which cannot have conflicting interests with itself. It would therefore follow that, although the mechanical forms in the "Cooperative Commonwealth" would seem to emphasize the consumer point of view, workers could and would protect their interests through their consumer roles. Thus, workers as consumers through consumer cooperative organizations would not decide to impose upon themselves labor conditions harmful to themselves. Decisions would be made by consumers not from a consumer point of view but from a point of view reflecting equally consumer and worker interests.

This line of reasoning, however, is fallacious. Although each person may be both a consumer and a worker, his interests as a consumer are diversified, while his interests as a worker are specialized. As a consumer one tries to get as much as he can from widely scattered workers; as a worker one tries to get as much as he can from widely scattered consumers. A worker consumes so little of his own specialized product that he has practically no consumer interest in the industry that employs him: a consumer supplies so little of the total labor going into the products he consumes that, relative to the industries producing them, his interest is almost exclusively a consumer interest. In short, each person has an intense labor interest in only one specific industrial unit and exclusively a consumer interest in all other industrial units. While his interest in high wages focuses in one spot, his interests elsewhere would be served by low wages. He is interested in low prices for goods produced by all economic units other than the one to which he sells his labor, but in this one unit his interests would be served

best by high prices, for then he could be paid higher wages. In fact, if one could argue logically that conflicts of interest would not exist in the "Cooperative Commonwealth" because all consumers also would be workers, it would be just as logical to argue that unions in the existing economy perform no service for their members, since all workers as consumers could bring pressure to bear on owners' decisions by their consumer choices just as well as through union power and union bargaining.

Since the basic unit of organization in the "Cooperative Commonwealth" would be consumer-dominated, consumer interests apparently would dictate the decisions it makes. It appears more legitimate to call this a continuance of the one-sided control now prevailing than to term it a "Cooperative Commonwealth," with all the implications of basic harmonies of interest which that phrase connotes.

Significance of Cooperation

Does all this indicate that consumers' cooperation possesses nothing of merit and that the movement is futile? To imply this would be far from sound. In a broad sense, any proposed change in our economic order which throws defects of our existing system into bold relief has contributed enormously to economic progress. In disclosing unnecessary items of overhead expense in marketing goods, in insisting upon the consumers' interest in quality, in criticizing competitive advertising and tricky selling practices, and in decrying the waste from competitive duplication of merchandising equipment, consumer cooperatives render important service in the bettering of our economic system. If their operations are freed from undue restrictions and are not given a subsidized advantage over the established merchandising facilities, they may continue to yield valuable experimental data on how the merchandising of goods can be made more efficient. If, on this basis, cooperative units replace some existing retail, wholesale, and even manufacturing facilities controlled along capitalist lines, we may be sure that it is merely one form of organization doing a job more efficiently than that which it displaces. In all of these ways the consumer cooperative movement may advantageously supplement private capitalist trade and industry.

Does the consumers' cooperative movement offer us any guidance toward a comprehensive substitute for the entire capitalist system? In one sense, it does not. The ultimate goal toward which the movement aims does not encompass that balance of decision-making powers which must be a part of any ultimately satisfactory pattern of economic organization. Thus, the "Cooperative Commonwealth" may fall short of being that utopia toward which we wish to guide our efforts at comprehensive economic change.

Nevertheless, "cooperation" has great appeal as an ideal—an ideal which

is an important part of every seriously proposed alternative to capitalism. Regardless of what form changes in our economy assume, they are most likely to be modifications in the direction of more cooperative endeavor. In fact, certain technological developments in capitalist industry, supplemented by the increasingly close and intricate contacts individuals and groups in modern society are forced to maintain with one another, make "cooperation" one of the essential ingredients of any major economic modification we may seek. The consumers' cooperative movement, despite the weakness of its long-run objectives, offers us experimental areas within the existing economy where we may test out our abilities really to engage in *cooperative* efforts in *economic* affairs, and where forms of economic cooperation may be developed out of practical testing and experimentation. Such experience will without doubt prove most valuable in future attempts to modify or drastically change our economic organization.

QUESTIONS FOR CLASS DISCUSSION

1. What is meant by saying that consumers' cooperation may be merely an appendage or a supplement to the capitalist system?
2. Is the opposition of some private trade groups to consumers' cooperation legitimate and logical?
3. How is the charge that consumer cooperatives drive independent retailers out of business sometimes answered?
4. What influences tending to restrict the growth of consumer cooperatives may be more powerful in the United States than they have been in Europe?
5. Explain the charge that consumer cooperatives do not properly calculate the costs of goods they sell.
6. Could consumers' cooperation be considered an economic movement in the same sense that socialism is an economic movement?
7. Outline the features of the proposed "Cooperative Commonwealth."
8. How do its proponents hope to create the "Cooperative Commonwealth"?
9. What role is government expected to play in the creation of the "Cooperative Commonwealth"? Compare this with the role assigned to government by socialists.
10. What advantages do its proponents contend could be gained from the existence of a "Cooperative Commonwealth"?
11. How would the creation of the "Cooperative Commonwealth" shift the location of power to make decisions on economic matters?
12. In what sense could it be charged that the "Cooperative Commonwealth" does not provide a basis for true cooperation?

SUBJECTS FOR STUDENT REPORTS FOR PART IX

1. The Story of the Rochdale Cooperative Movement in Great Britain.
2. The Extent of Consumer Cooperative Activities in the Scandinavian Countries.
3. The Problems Encountered by a Consumer Cooperative (with Which the Student Is Familiar).

4. The Functions and Activities of the Cooperative League of the United States of America.
5. The Development of Cooperative Insurance in the United States.
6. The Relationships Between European Consumer Cooperatives and Labor Organizations.
7. The Assistance Which the Federal Government Is Giving to Consumer and Credit Cooperatives.
8. A Survey of the Attitude of Local Retailers Toward Consumer Cooperatives.
9. The Activities of Cooperative Wholesales in the United States.

SUGGESTIONS FOR FURTHER READING FOR PART IX

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APPENDIXES

Appendix A

THE COMMUNIST MANIFESTO

The League of Communists, which had been organized shortly before, held its first two assemblies in London in 1847. Its members were chiefly workers of German origin who had emigrated to other European countries but had preserved contacts with one another because of their common interests in opposing existing political and economic régimes. Marx and Engels, both of whom were under thirty years of age at the time, attended the second congress and were requested to prepare a new program for the League. The Communist Manifesto was the result. While the League of Communists was short-lived, dissolving in 1852, the Communist Manifesto has remained the basic document of the socialist and communist movements. The Manifesto uses the word "Communist" rather than "Socialist" because at that time the latter was commonly applied to a great variety of utopian and reformist thought with which Marx and Engels did not wish the program of the League to be confused. Part III of the Manifesto is a critique of those current brands of "socialism" and reformism. The footnotes are those which Engels prepared for an edition of the Manifesto published in 1888.

A specter is haunting Europe—the specter of Communism. All the powers of old Europe have entered into a holy alliance to exorcise this specter: Pope and Tsar, Metternich and Guizot, French Radicals and German police-spies.

Where is the party in opposition that has not been decried as communistic by its opponents in power? Where is the Opposition that has not hurled back the branding reproach of Communism, against the more advanced opposition parties, as well as against its reactionary adversaries?

Two things result from this fact:

I. Communism is already acknowledged by all European powers to be itself a power.

II. It is high time that Communists should openly, in the face of the whole world, publish their views, their aims, their tendencies, and meet this nursery tale of the specter of Communism with a manifesto of the party itself.

To this end, Communists of various nationalities have assembled in London,

and sketched the following manifesto, to be published in the English, French, German, Italian, Flemish and Danish languages:

I: BOURGEOIS AND PROLETARIANS[1]

The history of all hitherto existing society[2] is the history of class struggles.

Freeman and slave, patrician and plebeian, lord and serf, guild-master[3] and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another, carried on an uninterrupted, now hidden, now open fight, a fight that each time ended, either in a revolutionary reconstitution of society at large, or in the common ruin of the contending classes.

In the earlier epochs of history, we find almost everywhere a complicated arrangement of society into various orders, a manifold gradation of social rank. In ancient Rome we have patricians, knights, plebeians, slaves; in the Middle Ages, feudal lords, vassals, guild-masters, journeymen, apprentices, serfs; in almost all of these classes, again, subordinate gradations.

The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

Our epoch, the epoch of the bourgeoisie, possesses, however, this distinctive feature: it has simplified the class antagonisms. Society as a whole is more and more splitting up into two great hostile camps, into two great classes directly facing each other—bourgeoisie and proletariat.

From the serfs of the Middle Ages sprang the chartered burghers of the earliest towns. From these burgesses the first elements of the bourgeoisie were developed.

The discovery of America, the rounding of the Cape, opened up fresh ground for the rising bourgeoisie. The East-Indian and Chinese markets, the colonization of America, trade with the colonies, the increase in the means of exchange and in commodities generally, gave to commerce, to navigation, to industry, an impulse never before known, and thereby, to the revolutionary element in the tottering feudal society, a rapid development.

The feudal system of industry, in which industrial production was monopolized

[1] By bourgeoisie is meant the class of modern capitalists, owners of the means of social production and employers of wage labor. By proletariat, the class of modern wage laborers who, having no means of production of their own, are reduced to selling their labor power in order to live.

[2] That is, all *written* history. In 1847, the prehistory of society, the social organization existing previous to recorded history, was all but unknown. Since then Haxthausen [August von, 1792–1866] discovered common ownership of land in Russia, Maurer [Georg Ludwig von] proved it to be the social foundation from which all Teutonic races started in history, and, by and by, village communities were found to be, or to have been, the primitive form of society everywhere from India to Ireland. The inner organization of this primitive communistic society was laid bare, in its typical form, by Morgan's [Henry, 1818–1881] crowning discovery of the true nature of the *gens* and its relation to the *tribe*. With the dissolution of these primeval communities, society begins to be differentiated into separate and finally antagonistic classes. I have attempted to retrace this process of dissolution in *Der Ursprung der Familie, des Privateigenthums und des Staats*, 2nd edition, Stuttgart, 1886. (*The Origin of the Family, Private and the State.*)

[3] Guild-master, that is, a full member of a guild, a master within, not a head of a guild.

by closed guilds, now no longer sufficed for the growing wants of the new markets. The manufacturing system took its place. The guild-masters were pushed aside by the manufacturing middle class; division of labor between the different corporate guilds vanished in the face of division of labor in each single workshop.

Meantime the markets kept ever growing, the demand ever rising. Even manufacture no longer sufficed. Thereupon, steam and machinery revolutionized industrial production. The place of manufacture was taken by the giant, modern industry, the place of the industrial middle class, by industrial millionaires, the leaders of whole industrial armies, the modern bourgeois.

Modern industry has established the world market, for which the discovery of America paved the way. This market has given an immense development of commerce, to navigation, to communication by land. This development has, in its turn, reacted on the extension of industry; and in proportion as industry, commerce, navigation, railways extended, in the same proportion the bourgeoisie developed, increased its capital, and pushed into the background every class handed down from the Middle Ages.

We see, therefore, how the modern bourgeoisie is itself the product of a long course of development, of a series of revolutions in the modes of production and of exchange.

Each step in the development of the bourgeoisie was accompanied by a corresponding political advance of that class. An oppressed class under the sway of the feudal nobility, an armed and self-governing association in the medieval commune;[4] here independent urban republic (as in Italy and Germany), there taxable "third estate" of the monarchy (as in France); afterwards, in the period of manufacture proper, serving either the semi-feudal or the absolute monarchy as a counterpoise against the nobility, and, in fact, corner stone of the great monarchies in general, the bourgeoisie has at last, since the establishment of Modern Industry and of the world market, conquered for itself, in the modern representative state, exclusive political sway. The executive of the modern state is but a committee for managing the common affairs of the whole bourgeoisie.

The bourgeoisie, historically, has played a most revolutionary part.

The bourgeoisie, wherever it has got the upper hand, has put an end to all feudal, patriarchal, idyllic relations. It has pitilessly torn assunder the motley feudal ties that bound man to his "natural superiors," and has left no other nexus between man and man than naked self-interest, than callous "cash payment." It has drowned the most heavenly ecstasies of religious fervor, of chivalrous enthusiasm, of philistine sentimentalism, in the icy water of egotistical calculation. It has resolved personal worth into exchange value, and in place of the numberless indefeasible chartered freedoms, has set up that single, unconscionable freedom—Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation.

The bourgeoisie has stripped of its halo every occupation hitherto honored and looked up to with reverent awe. It has converted the physician, the lawyer, the priest, the poet, the man of science, into its paid wage laborers.

[4] "Commune" was the name taken, in France, by the nascent towns even before they had conquered from their feudal lords and masters, local self-government and political rights as "the Third Estate." Generally speaking, for the economical development of the bourgeoisie, England is here taken as the typical country; for its political development, France.

The bourgeoisie has torn away from the family its sentimental veil, and has reduced the family relation to a mere money relation.

The bourgeoisie has disclosed how it came to pass that the brutal display of vigor in the Middle Ages, which reactionaries so much admire, found its fitting complement in the most slothful indolence. It has been the first to show what man's activity can bring about. It has accomplished wonders far surpassing Egyptian pyramids, Roman aqueducts, and Gothic cathedrals; it has conducted expeditions that put in the shade all former Exoduses of nations and crusades.

The bourgeoisie cannot exist without constantly revolutionizing the instruments of production, and thereby the relations of production, and with them the whole relations of society. Conservation of the old modes of production in unaltered form was, on the contrary, the first condition of existence for all earlier industrial classes. Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast-frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses his real conditions of life and his relations with his kind.

The need of a constantly expanding market for its products chases the bourgeoisie over the whole surface of the globe. It must nestle everywhere, settle everywhere, establish connections everywhere.

The bourgeoisie has through its exploitation of the world market given a cosmopolitan character to production and consumption in every country. To the great chagrin of reactionaries, it has drawn from under the feet of industry the national ground on which it stood. All old-established national industries have been destroyed or are daily being destroyed. They are dislodged by new industries, whose introduction becomes a life and death question for all civilized nations, by industries that no longer work up indigenous raw material, but raw material drawn from the remotest zones; industries whose products are consumed, not only at home, but in every quarter of the globe. In place of the old wants, satisfied by the production of the country, we find new wants, requiring for their satisfaction the products of distant lands and climes. In place of the old local and national seclusion and self-sufficiency, we have intercourse in every direction, universal interdependence of nations. And as in material, so also in intellectual production. The intellectual creations of individual nations become common property. National one-sidedness and narrow-mindedness become more and more impossible, and from the numerous national and local literatures there arises a world literature.

The bourgeoisie, by the rapid improvement of all instruments of production, by the immensely facilitated means of communication, draws all, even the most barbarian, nations into civilization. The cheap prices of its commodities are the heavy artillery with which it batters down all Chinese walls, with which it forces the barbarians' intensely obstinate hatred of foreigners to capitulate. It compels all nations, on pain of extinction, to adopt the bourgeois mode of production; it compels them to introduce what it calls civilization into their midst, i.e., to become bourgeois themselves. In one word, it creates a world after its own image.

The bourgeoisie has subjected the country to the rule of the towns. It has

created enormous cities, has greatly increased the urban population as compared with the rural, and has thus rescued a considerable part of the population from the idiocy of rural life. Just as it has made the country dependent on the towns, so it has made barbarian and semi-barbarian countries dependent on the civilized ones, nations of peasants on nations of bourgeois, the East on the West.

The bourgeoisie keeps more and more doing away with the scattered state of the population, of the means of production, and of property. It has agglomerated population, centralized means of production, and has concentrated property in a few hands. The necessary consequence of this was political centralization. Independent, or but loosely connected, provinces, with separate interests, laws, governments and systems of taxation, became lumped together into one nation, with one government, one code of laws, one national class interest, one frontier and one customs tariff.

The bourgeoisie, during its rule of scarce one hundred years, has created more massive and more colossal productive forces than have all preceding generations together. Subjection of nature's forces to man, machinery, application of chemistry to industry and agriculture, steam navigation, railways, electric telegraphs, clearing of whole continents for cultivation, canalization of rivers, whole populations conjured out of the ground—what earlier century had even a presentiment that such productive forces slumbered in the lap of social labor?

We see then: the means of production and of exchange, on whose foundation the bourgeoisie built itself up, were generated in feudal society. At a certain stage in the development of these means of production and of exchange, the conditions under which feudal society produced and exchanged, the feudal organization of agriculture and manufacturing industry, in one word, the feudal relations of property became no longer compatible with the already developed productive forces; they became so many fetters. They had to be burst asunder; they were burst asunder.

Into their place stepped free competition, accompanied by a social and political constitution adapted to it, and by the economical and political sway of the bourgeois class.

A similar movement is going on before our own eyes. Modern bourgeois society with its relations of production, of exchange and of property, a society that has conjured up such gigantic means of production and of exchange, is like the sorcerer who is no longer able to control the powers of the nether world whom he has called up by his spells. For many a decade past the history of industry and commerce is but the history of the revolt of modern productive forces against modern conditions of production, against the property relations that are the conditions for the existence of the bourgeoisie and of its rule. It is enough to mention the commercial crises that by their periodical return put the existence of the entire bourgeois society on its trial, each time more threateningly. In these crises a great part not only of the existing products, but also of the previously created productive forces, are periodically destroyed. In these crises there breaks out an epidemic that, in all earlier epochs, would have seemed an absurdity—the epidemic of over-production. Society suddenly finds itself put back into a state of momentary barbarism; it appears as if a famine, a universal war of devastation, had cut off the supply of every means of subsistence; industry and commerce seem to be destroyed. And why? Because there is too much civilization, too much means of sub-

sistence, too much industry, too much commerce. The productive forces at the disposal of society no longer tend to further the development of the conditions of bourgeois property; on the contrary, they have become too powerful for these conditions, by which they are fettered, and so soon as they overcome these fetters, they bring disorder into the whole of bourgeois society, endanger the existence of bourgeois property. The conditions of bourgeois society are too narrow to comprise the wealth created by them. And how does the bourgeoisie get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones. That is to say, by paving the way for more extensive and more destructive crises, and by diminishing the means whereby crises are prevented.

The weapons with which the bourgeoisie felled feudalism to the ground are now turned against the bourgeoisie itself.

But not only has the bourgeoisie forged the weapons that bring death to itself; it has also called into existence the men who are to wield those weapons—the modern working class—the proletarians.

In proportion as the bourgeoisie, i.e., capital, is developed, in the same proportion is the proletariat, the modern working class, developed—a class of laborers, who live only so long as they find work, and who find work only so long as their labor increases capital. These laborers, who must sell themselves piecemeal, are a commodity, like every other article of commerce, and are consequently exposed to all the vicissitudes of competition, to all the fluctuations of the market.

Owing to the extensive use of machinery and to division of labor, the work of the proletarians has lost all individual character, and, consequently, all charm for the workman. He becomes an appendage of the machine, and it is only the most simple, most monotonous, and most easily acquired knack, that is required of him. Hence, the cost of production of a workman is restricted, almost entirely, to the means of subsistence that he requires for his maintenance, and for the propagation of his race. But the price of a commodity, and therefore, also of labor, is equal to its cost of production. In proportion, therefore, as the repulsiveness of the work increases, the wage decreases. Nay, more, in proportion as the use of machinery and division of labor increases, in the same proportion the burden of toil also increases, whether by prolongation of the working hours, by increase of the work exacted in a given time, or by increased speed of the machinery, etc.

Modern industry has converted the little workshop of the patriarchal master into the great factory of the industrial capitalist. Masses of laborers, crowded into the factory, are organized like soldiers. As privates of the industrial army they are placed under the command of a perfect hierarchy of officers and sergeants. Not only are they slaves of the bourgeois class, and of the bourgeois state; they are daily and hourly enslaved by the machine, by the overlooker, and, above all, by the individual bourgeois manufacturer himself. The more openly this despotism proclaims gain to be its end and aim, the more petty, the more hateful and the more embittering it is.

The less the skill and exertion of strength implied in manual labor, in other words, the more modern industry becomes developed, the more is the labor of men superseded by that of women. Differences of age and sex have no longer any distinctive social validity for the working class. All are instruments of labor, more or less expensive to use, according to their age and sex.

No sooner is the exploitation of the laborer by the manufacturer so far at an end that he receives his wages in cash than he is set upon by the other portions of the bourgeoisie, the landlord, the shopkeeper, the pawnbroker, etc.

The lower strata of the middle class—the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen and peasants—all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which modern industry is carried on, and is swamped in the competition with the large capitalists, partly because their specialized skill is rendered worthless by new methods of production. Thus the proletariat is recruited from all classes of the population.

The proletariat goes through various stages of development. With its birth begins its struggle with the bourgeoisie. At first the contest is carried on by individual laborers, then by the work people of a factory, then by the operatives of one trade, in one locality, against the individual bourgeois who directly exploits them. They direct their attacks not against the bourgeois conditions of production, but against the instruments of production themselves: they destroy imported wares that compete with their labor, they smash to pieces machinery, they set factories ablaze, they seek to restore by force the vanished status of the workman of the Middle Ages.

At this age the laborers still form an incoherent mass scattered over the whole country, and broken up by their mutual competition. If anywhere they unite to form more compact bodies, this is not yet the consequence of their own active union, but of the union of the bourgeoisie, which class, in order to attain its own political ends, is compelled to set the whole proletariat in motion, and is moreover yet, for a time, able to do so. At this stage, therefore, the proletarians do not fight their enemies, but the enemies of their enemies, the remnants of absolute monarchy, the landowners, the non-industrial bourgeois, the petty bourgeoisie. Thus the whole historical movement is concentrated in the hands of the bourgeoisie: every victory so obtained is a victory for the bourgeoisie.

But with the development of industry the proletariat not only increases in number; it becomes concentrated in greater masses, its strength grows, and it feels that strength more. The various interests and conditions of life within the ranks of the proletariat are more and more equalized, in proportion as machinery obliterates all distinctions of labor, and nearly everywhere reduces wages to the same low level. The growing competition among the bourgeois, and the resulting commercial crises, make the wages of the workers ever more fluctuating. The unceasing improvement of machinery, ever more rapidly developing, makes their livelihood more and more precarious; the collisions between individual workmen and individual bourgeois take more and more the character of collisions between two classes. Thereupon the workers begin to form combinations (trades unions) against the bourgeois; they club together in order to keep up the rate of wages; they found permanent associations in order to make provisions beforehand for these occasional revolts. Here and there the contest breaks out into riots.

Now and then the workers are victorious, but only for a time. The real fruit of their battle lies, not in the immediate result, but in the ever-expanding union of the workers. This union is helped on by the improved means of communication that are created by modern industry, and that place the workers of different localities in contact with one another. It was just this contact that was needed to

centralize the numerous local struggles, all of the same character, into one national struggle between classes. But every class struggle is a political struggle. And that union, to attain which the burghers of the Middle Ages, with their miserable highways, required centuries, the modern proletarians, thanks to railways, achieve in a few years.

This organization of the proletarians into a class, and consequently into a political party, is continually being upset again by the competition between the workers themselves. But it ever rises up again, stronger, firmer, mightier. It compels legislative recognition of particular interests of the workers, by taking advantage of the divisions among the bourgeoisie itself. Thus the ten-hours' bill in England was carried.

Altogether, collisions between the classes of the old society further in many ways the course of development of the proletariat. The bourgeoisie finds itself involved in a constant battle, at first with the aristocracy; later on, with those portions of the bourgeoisie itself, whose interests have become antagonistic to the progress of industry; at all times with the bourgeoisie of foreign countries. In all these battles it sees itself compelled to appeal to the proletariat, to ask for its help, and thus to drag it into the political arena. The bourgeoisie itself, therefore, supplies the proletariat with its own elements of political and general education; in other words, it furnishes the proletariat with weapons for fighting the bourgeoisie.

Further, as we have already seen, entire sections of the ruling classes are, by the advance of industry, precipitated into the proletariat, or are at least threatened in their conditions of existence. These also supply the proletariat with fresh elements of enlightenment and progress.

Finally, in times when the class struggle nears the decisive hour, the process of dissolution going on within the ruling class, in fact within the whole range of old society, assumes such a violent, glaring character that a small section of the ruling class cuts itself adrift and joins the revolutionary class, the class that holds the future in its hands. Just as, therefore, at an earlier period, a section of the nobility went over to the bourgeoisie, so now a portion of the bourgeoisie goes over to the proletariat, and, in particular, a portion of the bourgeois ideologists, who have raised themselves to the level of comprehending theoretically the historical movement as a whole.

Of all the classes that stand face to face with the bourgeoisie today, the proletariat alone is a really revolutionary class. The other classes decay and finally disappear in the face of modern industry; the proletariat is its special and essential product.

The lower middle class, the small manufacturer, the shopkeeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle class. They are therefore not revolutionary, but conservative. Nay, more, they are reactionary, for they try to roll back the wheel of history. If by chance they are revolutionary, they are so only in view of their impending transfer into the proletariat; they thus defend not their present, but their future interests; they desert their own standpoint to place themselves at that of the proletariat.

The "dangerous class," the social scum, that passively rotting mass thrown off by the lowest layers of old society, may, here and there, be swept into the move-

ment by a proletarian revolution; its conditions of life, however, prepare it far more for the part of a bribed tool of reactionary intrigue.

In the conditions of the proletariat, those of old society at large are already virtually swamped. The proletarian is without property; his relation to his wife and children has no longer anything in common with the bourgeois family relations; modern industrial labor, modern subjection to capital, the same in England as in France, in America as in Germany, has stripped him of every trace of national character. Law, morality, religion, are to him so many bourgeois prejudices, behind which lurk in ambush just as many bourgeois interests.

All the preceding classes that got the upper hand, sought to fortify their already acquired status by subjecting society at large to their conditions of appropriation. The proletarians cannot become masters of the productive forces of society, except by abolishing their own previous mode of appropriation, and thereby also every other previous mode of appropriation. They have nothing of their own to secure and to fortify; their mission is to destroy all previous securities for, and insurances of, individual property.

All previous historical movements were movements of minorities, or in the interest of minorities. The proletarian movement is the self-conscious, independent movement of the immense majority, in the interest of the immense majority. The proletariat, the lowest stratum of our present society, cannot stir, cannot raise itself up, without the whole superincumbent stratum of official society being sprung into the air.

Though not in substance, yet in form, the struggle of the proletariat with the bourgeoisie is at first a national struggle. The proletariat of each country must, of course, first of all settle matters with its own bourgeoisie.

In depicting the most general phases of the development of the proletariat, we traced the more or less veiled civil war, raging within existing society, up to the point where that war breaks out into open revolution, and where the violent overthrow of the bourgeoisie lays the foundation for the sway of the proletariat.

Hitherto, every form of society has been based, as we have already seen, on the antagonism of oppressing and oppressed classes. But in order to oppress a class, certain conditions must be assured to it under which it can, at least, continue its slavish existence. The serf, in the period of serfdom, raised himself to membership in the commune, just as the petty bourgeois, under the yoke of feudal absolutism, managed to develop into a bourgeois. The modern laborer, on the contrary, instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class. He becomes a pauper, and pauperism develops more rapidly than population and wealth. And here it becomes evident that the bourgeoisie is unfit any longer to be the ruling class in society and to impose its conditions of existence upon society as an overriding law. It is unfit to rule because it is incompetent to assure an existence to its slave within his slavery, because it cannot help letting him sink into such a state, that it has to feed him, instead of being fed by him. Society can no longer live under this bourgeoisie; in other words, its existence is no longer compatible with society.

The essential condition for the existence and for the sway of the bourgeois class is the formation and augmentation of capital; the condition for capital is wage labor. Wage labor rests exclusively on competition between the laborers. The advance of industry, whose involuntary promoter is the bourgeoisie, replaces the

isolation of the laborers, due to competition, by their revolutionary combination, due to association. The development of modern industry, therefore, cuts from under its feet the very foundation on which the bourgeoisie produces and appropriates products. What the bourgeoisie therefore produces, above all, are its own grave-diggers. Its fall and the victory of the proletariat are equally inevitable.

II: PROLETARIANS AND COMMUNISTS

In what relation do the Communists stand to the proletarians as a whole?

The Communists do not form a separate party opposed to other working class parties.

They have no interests separate and apart from those of the proletariat as a whole.

They do not set up any sectarian principles of their own, by which to shape and mold the proletarian movement.

The Communists are distinguished from other working-class parties by this only: 1. In the national struggles of the proletarians of the different countries, they point out and bring to the front the common interests of the entire proletariat, independently of all nationality. 2. In the various stages of development which the struggle of the working class against the bourgeoisie has to pass through, they always and everywhere represent the interests of the movement as a whole.

The Communists, therefore, are on the one hand, practically, the most advanced and resolute section of the working-class parties of every country, that section which pushes forward all others; on the other hand, theoretically, they have over the great mass of the proletariat the advantage of clearly understanding the line of march, the conditions, and the ultimate general results of the proletarian movement.

The immediate aim of the Communists is the same as that of all the other proletarian parties: formation of the proletariat into a class, overthrow of the bourgeois supremacy, conquest of political power by the proletariat.

The theoretical conclusions of the Communists are in no way based on ideas or principles that have been invented, or discovered, by this or that would-be universal reformer.

They merely express, in general terms, actual relations springing from an existing class struggle, from a historical movement going on under our very eyes. The abolition of existing property relations is not at all a distinctive feature of Communism.

All property relations in the past have continually been subject to historical change consequent upon the change in historical conditions.

The French Revolution, for example, abolished feudal property in favor of bourgeois property.

The distinguishing feature of Communism is not the abolition of property generally but the abolition of bourgeois property. But modern bourgeois private property is the final and most complete expression of the system of producing and appropriating products that is based on class antagonisms, on the exploitation of the many by the few.

In this sense, the theory of the Communists may be summed up in the single sentence: Abolition of private property.

We Communists have been reproached with the desire of abolishing the right of personally acquiring property as the fruit of a man's own labor, which property is alleged to be the groundwork of all personal freedom, activity and independence.

Hard-won, self-acquired, self-earned property! Do you mean the property of the petty artisan and of the small peasant, a form of property that preceded the bourgeois form? There is no need to abolish that; the development of industry has to a great extent already destroyed it, and is still destroying it daily.

Or do you mean modern bourgeois private property?

But does wage labor create any property for the laborer? Not a bit. It creates capital, i.e., that kind of property which exploits wage labor and which cannot increase except upon condition of begetting a new supply of wage labor for fresh exploitation. Property, in its present form, is based on the antagonism of capital and wage labor. Let us examine both sides of this antagonism.

To be a capitalist is to have not only a purely personal, but a social, *status* in production. Capital is a collective product, and only by the united action of all members of society, can it be set in motion.

Capital is therefore not a personal, it is a social power.

When, therefore, capital is converted into common property, into the property of all members of society, personal property is not thereby transformed into social property. It is only the social character of the property that is changed. It loses its class character.

Let us now take wage labor.

The average price of wage labor is the minimum wage, i.e., that quantum of the means of subsistence which is absolutely requisite to keep the laborer in bare existence as a laborer. What, therefore, the wage laborer appropriates by means of his labor merely suffices to prolong and reproduce a bare existence. We by no means intend to abolish this personal appropriation of the products of labor, an appropriation that is made for the maintenance and reproduction of human life, and that leaves no surplus wherewith to command the labor of others. All that we want to do away with is the miserable character of this appropriation, under which the laborer lives merely to increase capital, and is allowed to live only in so far as the interest of the ruling class requires it.

In bourgeois society, living labor is but a means to increase accumulated labor. In Communist society, accumulated labor is but a means to widen, to enrich, to promote the existence of the laborer.

In bourgeois society, therefore, the past dominates the present; in Communist society, the present dominates the past. In bourgeois society capital is independent and has individuality, while the living person is dependent and has no individuality.

And the abolition of this state of things is called by the bourgeois abolition of individuality and freedom! And rightly so. The abolition of bourgeois individuality, bourgeois independence, and bourgeois freedom is undoubtedly aimed at.

By freedom is meant, under the present bourgeois conditions of production, free trade, free selling and buying.

But if selling and buying disappears, free selling and buying disappears also. This talk about free selling and buying, and all the other "brave words" of our bourgeois about freedom in general, have a meaning, if any, only in contrast

with restricted selling and buying, with the fettered traders of the Middle Ages, but have no meaning when opposed to the Communist abolition of buying and selling, of the bourgeois conditions of production, and of the bourgeoisie itself.

You are horrified at our intending to do away with private property. But in your existing society, private property is already done away with for nine-tenths of the population; its existence for the few is solely due to its non-existence in the hands of those nine-tenths. You reproach us, therefore, with intending to do away with a form of property, the necessary condition for whose existence is the non-existence of any property for the immense majority of society.

In one word, you reproach us with intending to do away with your property. Precisely so; that is just what we intend.

From the moment when labor can no longer be converted into capital, money, or rent, into a social power capable of being monopolized, i.e., from the moment when individual property can no longer be transformed into bourgeois property, into capital, from that moment, you say, individuality vanishes.

You must, therefore, confess that by "individual" you mean no other person than the bourgeois, than the middle-class owner of property. This person must, indeed, be swept out of the way, and made impossible.

Communism deprives no man of the power to appropriate the products of society; all that it does is to deprive him of the power to subjugate the labor of others by means of such appropriation.

It has been objected that upon the abolition of private property all work will cease, and universal laziness will overtake us.

According to this, bourgeois society ought long ago to have gone to the dogs through sheer idleness; for those members who work acquire nothing, and those who acquire anything do not work. The whole of this objection is but another expression of the tautology: There can no longer be any wage labor when there is no longer any capital.

All objections urged against the Communistic mode of producing and appropriating material products have, in the same way, been urged against the Communistic modes of producing and appropriating intellectual products. Just as to the bourgeois the disappearance of class property is the disappearance of production itself, so the disappearance of class culture is to him identical with the disappearance of all culture.

That culture, the loss of which he laments, is, for the enormous majority, a mere training to act as a machine.

But don't wrangle with us so long as you apply, to our intended abolition of bourgeois property, the standard of your bourgeois notions of freedom, culture, law, etc. Your very ideas are but the outgrowth of the conditions of your bourgeois production and bourgeois property, just as your jurisprudence is but the will of your class made into a law for all, a will whose essential character and direction are determined by the economical conditions of existence of your class.

The selfish misconception that induces you to transform into eternal laws of nature and of reason, the social form springing from your present mode of production and form of property—historical relations that rise and disappear in the progress of production—this misconception you share with every ruling class

that has preceded you. What you see clearly in the case of ancient property, what you admit in the case of feudal property, you are of course forbidden to admit in the case of your own bourgeois form of property.

Abolition of the family! Even the most radical flare up at this infamous proposal of the Communists.

On what foundation is the present family, the bourgeois family, based? On capital, on private gain. In its completely developed form this family exists only among the bourgeoisie. But this state of things finds its complement in the practical absence of the family among the proletarians, and in public prostitution.

The bourgeois family will vanish as a matter of course when its complement vanishes, and both will vanish with the vanishing of capital.

Do you charge us with wanting to stop the exploitation of children by their parents? To this crime we plead guilty.

But, you will say, we destroy the most hallowed of relations, when we replace home education by social.

And your education! Is not that also social, and determined by the social conditions under which you educate, by the intervention direct or indirect, of society, by means of schools, etc.? The Communists have not invented the intervention of society in education; they do but seek to alter the character of that intervention, and to rescue education from the influence of the ruling class.

The bourgeois claptrap about the family and education, about the hallowed correlation of parent and child, becomes all the more disgusting the more, by the action of modern industry, all family ties among the proletarians are torn asunder, and their children transformed into simple articles of commerce and instruments of labor.

But you Communists would introduce community of women, screams the whole bourgeoisie in chorus.

The bourgeois sees in his wife a mere instrument of production. He hears that the instruments of production are to be exploited in common, and, naturally, can come to no other conclusion than that the lot of being common to all will likewise fall to the women.

He has not even a suspicion that the real point aimed at is to do away with the status of women as mere instruments of production.

For the rest, nothing is more ridiculous than the virtuous indignation of our bourgeois at the community of women which they pretend is to be openly and officially established by the Communists. The Communists have no need to introduce community of women; it has existed almost from time immemorial.

Our bourgeois, not content with having the wives and daughters of their proletarians at their disposal, not to speak of common prostitutes, take the greatest pleasure in seducing each other's wives.

Bourgeois marriage is in reality a system of wives in common and thus, at the most, what the Communists might possibly be reproached with is that they desire to introduce, in substitution for a hypocritically concealed, an openly legalized community of women. For the rest, it is self-evident that the abolition of the present system of production must bring with it the abolition of the community of women springing from that system, i.e., of prostitution both public and private.

The Communists are further reproached with desiring to abolish countries and nationality.

The working men have no country. We cannot take from them what they have not got. Since the proletariat must first of all acquire political supremacy, must rise to be the leading class of the nation, must constitute itself *the* nation, it is, so far, itself national, though not in the bourgeois sense of the word.

National differences and antagonisms between peoples are daily more and more vanishing, owing to the development of the bourgeoisie, to freedom of commerce, to the world market, to uniformity in the mode of production and in the conditions of life corresponding thereto.

The supremacy of the proletariat will cause them to vanish still faster. United action of the leading civilized countries at least is one of the first conditions for the emancipation of the proletariat.

In proportion as the exploitation of one individual by another is put an end to, the exploitation of one nation by another will also be put an end to. In proportion as the antagonism between classes within the nation vanishes, the hostility of one nation to another will come to an end.

The charges against Communism made from a religious, a philosophical and, generally, from an ideological standpoint are not deserving of serious examination.

Does it require deep intuition to comprehend that man's ideas, views, and conceptions, in one word, man's consciousness, changes with every change in the conditions of his material existence, in his social relations and in his social life?

What else does the history of ideas prove than that intellectual production changes its character in proportion as material production is changed? The ruling ideas of each age have ever been the ideas of its ruling class.

When people speak of ideas that revolutionize society, they do but express the fact, that within the old society the elements of a new one have been created, and that the dissolution of the old ideas keeps even pace with the dissolution of the old conditions of existence.

When the ancient world was in its last throes, the ancient religions were overcome by Christianity. When Christian ideas succumbed in the eighteenth century to rationalist ideas, feudal society fought its death-battle with the then revolutionary bourgeoisie. The ideas of religious liberty and freedom of conscience merely gave expression to the sway of free competition within the domain of knowledge.

"Undoubtedly," it will be said, "religious, moral, philosophical and juridical ideas have been modified in the course of historical development. But religion, morality, philosophy, political science, and law constantly survived this change."

"There are, besides, eternal truths, such as Freedom, Justice, etc., that are common to all states of society. But Communism abolishes eternal truths, it abolishes all religion, and all morality, instead of onstituting them on a new basis; it therefore acts in contradiction to all past istorical experience."

What does this accusation reduce itself to? The l istory of all past society has consisted in the development of class antagonism· antagonisms that assumed different forms at different epochs.

But whatever form they may have taken, one fact is common to all past ages, viz., the exploitation of one part of society by the other. No wonder, then, that the social consciousness of past ages, despite all the multiplicity and variety it displays, moves within certain common forms, or general ideas, which cannot completely vanish except with the total disappearance of class antagonisms.

The Communist revolution is the most radical rupture with traditional property relations; no wonder that its development involves the most radical rupture with traditional ideas.

But let us have done with the bourgeois objections to Communism.

We have seen above that the first step in the revolution by the working class is to raise the proletariat to the position of ruling class, to win the battle of democracy.

The proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the state, i.e., of the proletariat organized as the ruling class; and to increase the total of productive forces as rapidly as possible.

Of course, in the beginning, this cannot be effected except by means of despotic inroads on the rights of property, and on the conditions of bourgeois production; by means of measures, therefore, which appear economically insufficient and untenable, but which, in the course of the movement, outstrip themselves, necessitate further inroads upon the old social order, and are unavoidable as a means of entirely revolutionizing the mode of production.

These measures will, of course, be different in different countries.

Nevertheless, in the most advanced countries, the following will be pretty generally applicable:

1. Abolition of property in land and application of all rents of land to public purposes.
2. A heavy progressive or graduated income tax.
3. Abolition of all right of inheritance.
4. Confiscation of the property of all emigrants and rebels.
5. Centralization of credit in the hands of the state, by means of a national bank with state capital and an exclusive monopoly.
6. Centralization of the means of communication and transport in the hands of the state.
7. Extension of factories and instruments of production owned by the state; the bringing into cultivation of waste lands, and the improvement of the soil generally in accordance with a common plan.
8. Equal obligation of all to work. Establishment of industrial armies, especially for agriculture.
9. Combination of agriculture with manufacturing industries; gradual abolition of the distinction between town and country, by a more equable distribution of the population over the country.
10. Free education for all children in public schools. Abolition of children's factory labor in its present form. Combination of education with industrial production, etc.

When, in the course of development, class distinctions have disappeared, and all production has been concentrated in the hands of a vast association of the

whole nation, the public power will lose its political character. Political power, properly so called, is merely the organized power of one class for oppressing another. If the proletariat during its contest with the bourgeoisie is compelled, by the force of circumstances, to organize itself as a class; if, by means of a revolution, it makes itself the ruling class, and, as such, sweeps away by force the old conditions of production, then it will, along with these conditions, have swept away the conditions for the existence of class antagonisms and of classes generally, and will thereby have abolished its own supremacy as a class.

In place of the old bourgeois society, with its classes and class antagonisms, we shall have an association in which the free development of each is the condition for the free development of all.

III: SOCIALIST AND COMMUNIST LITERATURE

1. Reactionary Socialism

a. Feudal Socialism

Owing to their historical position, it became the vocation of the aristocracies of France and England to write pamphlets against modern bourgeois society. In the French revolution of July, 1830, and in the English reform agitation, these aristocracies again succumbed to the hateful upstart. Thenceforth, a serious political struggle was altogether out of the question. A literary battle alone remained possible. But even in the domain of literature the old cries of the restoration period[5] had become impossible.

In order to arouse sympathy, the aristocracy was obliged to lose sight, apparently, of its own interests, and to formulate its indictment against the bourgeoisie in the interest of the exploited working class alone. Thus the aristocracy took their revenge by singing lampoons on their new master, and whispering in his ears sinister prophecies of coming catastrophe,

In this way arose feudal socialism: half lamentation, half lampoon; half echo of the past, half menace of the future; at times, by its bitter, witty and incisive criticism, striking the bourgeoisie to the very heart's core, but always ludicrous in its effect, through total incapacity to comprehend the march of modern history.

The aristocracy, in order to rally the people to them, waved the proletarian alms-bag in front for a banner. But the people so often as it joined them saw on their hind-quarters the old feudal coats of arms and deserted with loud and irreverent laughter.

One section of the French Legitimists and "Young England," exhibited this spectacle.

In pointing out that their mode of exploitation was different to that of the bourgeoisie, the feudalists forget that they exploited under circumstances and conditions that were quite different, and that are now antiquated. In showing that, under their rule, the modern proletariat never existed, they forget that the modern bourgeoisie is the necessary offspring of their own form of society.

For the rest, so little do they conceal the reactionary character of their criticism that their chief accusation against the bourgeoisie amounts to this, that

[5] Not the English Restoration, 1660 to 1689, but the French Restoration, 1814 to 1830.

under the bourgeois régime a class is being developed which is destined to cut up root and branch the old order of society.

What they upbraid the bourgeoisie with is not so much that it creates a proletariat as that it creates a *revolutionary* proletariat.

In political practice, therefore, they join in all coercive measures against the working class; and in ordinary life, despite their high-faluting phrases, they stoop to pick up the golden apples dropped from the tree of industry, and to barter truth, love, and honor for traffic in wool, beetroot-sugar, and potato spirits.[6]

As the parson has ever gone hand in hand with the landlord, so has Clerical Socialism with Feudal Socialism.

Nothing is easier than to give Christian asceticism a Socialist tinge. Has not Christianity declaimed against private property, against marriage, against the state? Has it not preached in the place of these, charity and poverty, celibacy and mortification of the flesh, monastic life and Mother Church? Christian Socialism is but the holy water with which the priest consecrates the heart-burnings of the aristocrat.

b. Petty Bourgeois Socialism

The feudal aristocracy was not the only class that was ruined by the bourgeoisie, not the only class whose conditions of existence pined and perished in the atmosphere of modern bourgeois society. The medieval burgesses and the small peasant proprietors were the precursors of the modern bourgeoisie. In those countries which are but little developed, industrially and commercially, these two classes still vegetate side by side with the rising bourgeoisie.

In countries where modern civilization has become fully developed, a new class of petty bourgeois has been formed, fluctuating between proletariat and bourgeoisie, and ever renewing itself as a supplementary part of bourgeois society. The individual members of this class, however, are being constantly hurled down into the proletariat by the action of competition, and, as modern industry develops, they even see the moment approaching when they will completely disappear as an independent section and modern society, to be replaced, in manufactures, agriculture and commerce, by overlookers, bailiffs and shopmen.

In countries like France, where the peasants constitute far more than half of the population, it was natural that writers who sided with the proletariat against the bourgeoisie should use, in their criticism of the bourgeois régime, the standard of the peasant and petty bourgeois, and from the standpoint of these intermediate classes should take up the cudgels for the working class. Thus arose petty bourgeois socialism. Sismondi was the head of this school, not only in France but also in England.

This school of Socialism dissected with great acuteness the contradictions in the conditions of modern production. It laid bare the hypocritical apologies of economists. It proved, incontrovertibly, the disastrous effects of machinery and

[6] This applies chiefly to Germany where the landed aristocracy and squirearchy have large portions of their estates cultivated for their own account by stewards, and are, moreover, extensive beetroot-sugar manufacturers and distillers of potato spirits. The wealthier British aristocracy are, as yet, rather above that; but they, too, know how to make up for declining rents by lending their names to floaters of more or less shady joint-stock companies.

division of labor; the concentration of capital and land in a few hands; overproduction and crises; it pointed out the inevitable ruin of the petty bourgeois and peasant, the misery of the proletariat, the anarchy in production, the crying inequalities in the distribution of wealth, the industrial war of extermination between nations, the dissolution of old moral bonds, of the old family relations, of the old nationalities.

In its positive aims, however, this form of Socialism aspires either to restoring the old means of production and of exchange, and with them the old property relations, and the old society, or to cramping the modern means of production and of exchange within the framework of the old property relations that have been, and were bound to be exploded by those means. In either case, it is both reactionary and Utopian.

Its last words are: Corporate guilds for manufacture; patriarchal relations in agriculture.

Ultimately, when stubborn historical facts had dispersed all intoxicating effects of self-deception, this form of Socialism ended in a miserable fit of the blues.

c. German or "True" Socialism

The Socialist and Communist literature of France, a literature that originated under the pressure of a bourgeoisie in power, and that was the expression of the struggle against this power, was introduced into Germany at a time when the bourgeoisie in that country had just begun its contest with feudal absolutism.

German philosophers, would-be philosophers, and men of letters eagerly seized on this literature, only forgetting that when these writings immigrated from France into Germany, French social conditions had not immigrated along with them. In contact with German social conditions, this French literature lost all its immediate practical significance, and assumed a purely literary aspect. Thus, to the German philosophers of the eighteenth century, the demands of the "Practical Reason" in general—and the utterance of the will of the first French Revolution were nothing more than the demands of revolutionary French bourgeoisie—signified in their eyes the laws of pure will, of will as it was bound to be, of true human will generally.

The work of the German *literati* consisted solely in bringing the new French ideas into harmony with their ancient philosophical conscience, or, rather, in annexing the French ideas without deserting their own philosophic point of view.

This annexation took place in the same way in which a foreign language is appropriated, namely, by translation.

It is well known how the monks wrote silly lives of Catholic saints *over* the manuscripts on which the classical works of ancient heathendom had been written. The German *literati* reversed this process with the profane French literature. They wrote their philosophical nonsense beneath the French original. For instance, beneath the French criticism of the economic functions of money, they wrote "alienation of humanity," and beneath the French criticism of the bourgeois state they wrote "dethronement of the category of the general," and so forth.

The introduction of these philosophical phrases at the back of the French

historical criticisms they dubbed "Philosophy of Action," "True Socialism," "German Science of Socialism," "Philosophical Foundation of Socialism," and so on.

The French Socialist and Communist literature was thus completely emasculated. And, since it ceased in the hands of the German to express the struggle of one class with the other, he felt conscious of having overcome "French one-sidedness" and of representing, not true requirements, but the requirements of truth; not the interests of the proletariat, but the interests of human nature, of man in general, who belongs to no class, has no reality, who exists only in the misty realm of philosophical fantasy.

This German socialism, which took its schoolboy task so seriously and solemnly, and extolled its poor stock-in-trade in such mountebank fashion, meanwhile gradually lost its pedantic innocence.

The fight of the German and especially of the Prussian bourgeoisie against feudal aristocracy and absolute monarchy, in other words, the liberal movement, became more earnest.

By this, the long-wished-for opportunity was offered to "True" Socialism of confronting the political movement with the Socialist demands, of hurling the traditional anathemas against liberalism, against representative government, against bourgeois competition, bourgeois freedom of the press, bourgeois legislation, bourgeois liberty and equality, and of preaching to the masses that they had nothing to gain, and everything to lose, by this bourgeois movement. German Socialism forgot, in the nick of time, that the French criticism, whose silly echo it was, presupposed the existence of modern bourgeois society, with its corresponding economic conditions of existence, and the political constitution adapted thereto, the very things whose attainment was the object of the pending struggle in Germany.

To the absolute governments, with their following of parsons, professors, country squires and officials, it served as a welcome scarecrow against the threatening bourgeoisie.

It was a sweet finish after the bitter pills of floggings and bullets with which these same governments, just at that time, dosed the German working-class risings.

While this "True" Socialism thus served the governments as a weapon for fighting the German bourgeoisie, it, at the same time, directly represented a reactionary interest, the interest of the German Philistines. In Germany the petty bourgeois class, a relic of the sixteenth century, and since then constantly cropping up again under various forms, is the real social basis of the existing state of things.

To preserve this class is to preserve the existing state of things in Germany. The industrial and political supremacy of the bourgeoisie threatens it with certain destruction—on the one hand, from the concentration of capital; on the other, from the rise of a revolutionary proletariat. "True" Socialism appeared to kill these two birds with one stone. It spread like an epidemic.

The robe of speculative cobwebs, embroidered with flowers of rhetoric, steeped in the dew of sickly sentiment, this transcendental robe in which the German Socialists wrapped their sorry "eternal truths," all skin and bone, served to wonderfully increase the sale of their goods amongst such a public.

And on its part, German Socialism recognized, more and more, its own calling as the bombastic representative of the petty bourgeois Philistine.

It proclaimed the German nation to be the model nation, and the German petty Philistine to be the typical man. To every villainous meanness of this model man it gave a hidden, higher, socialistic interpretation, the exact contrary of its real character. It went to the extreme length of directly opposing the "brutally destructive" tendency of Communism, and of proclaiming its supreme and impartial contempt of all class struggles. With very few exceptions, all the so-called Socialist and Communist publications that now (1847) circulate in Germany belong to the domain of this foul and enervating literature.

2. Conservative or Bourgeois Socialism

A part of the bourgeoisie is desirous of redressing social grievances, in order to secure the continued existence of bourgeois society.

To this section belong economists, philanthropists, humanitarians, improvers of the condition of the working class, organizers of charity, members of societies for the prevention of cruelty to animals, temperance fanatics, hole-and-corner reformers of every imaginable kind. This form of Socialism has, moreover, been worked out into complete systems.

We may cite Proudhon's *Philosophie de la Misére* (Philosophy of Poverty) as an example of this form.

The socialistic bourgeois want all the advantages of modern social conditions without the struggles and dangers necessarily resulting therefrom. They desire the existing state of society minus its revolutionary and disintegrating elements. They wish for a bourgeoisie without a proletariat. The bourgeoisie naturally conceives the world in which it is supreme to be the best; and bourgeois Socialism develops this comfortable conception into various more or less complete systems. In requiring the proletariat to carry out such a system, and thereby to march straightway into the social New Jerusalem, it but requires in reality that the proletariat should remain within the bounds of existing society, but should cast away all its hateful ideas concerning the bourgeoisie.

A second and more practical, but less systematic, form of this Socialism sought to depreciate every revolutionary movement in the eyes of the working class, by showing that no mere political reform, but only a change in the material conditions of existence, in economical relations, could be of any advantage to them. By changes in the material conditions of existence, this form of Socialism, however, by no means understands abolition of the bourgeois relations of production, an abolition that can be effected only by a revolution, but administrative reforms, based on the continued existence of these relations; reforms, therefore, that in no respect affect the relations between capital and labor, but, at the best lessen the cost, and simplify the administrative work of bourgeois government.

Bourgeois Socialism attains adequate expression, when, and only when, it becomes a mere figure of speech.

Free trade: for the benefit of the working class. Protective duties: for the benefit of the working class. Prison reform: for the benefit of the working class. This is the last word and the only seriously meant word of bourgeois Socialism.

It is summed up in the phrase: the bourgeois is a bourgeois—for the benefit of the working class.

3. Critical-Utopian Socialism and Communism.

We do not here refer to that literature which, in every great modern revolution, has always given voice to the demands of the proletariat, such as the writings of Babeuf and others.

The first direct attempts of the proletariat to attain its own ends, made in times of universal excitement, when feudal society was being overthrown—these attempts necessarily failed, owing to the then undeveloped state of the proletariat, as well as to the absence of the economic conditions for its emancipation, conditions that had yet to be produced, and could be produced by the impending bourgeois epoch alone. The revolutionary literature that accompanied these first movements of the proletariat had necessarily a reactionary character. It inculcated universal asceticism and social leveling in its crudest form.

The Socialist and Communist systems properly so called, those of St. Simon, Fourier, Owen and others, spring into existence in the early undeveloped period, described above, of the struggle between proletariat and bourgeoisie (see Section I. Bourgeois and Proletarians).

The founders of these systems see, indeed, the class antagonisms, as well as the action of the decomposing elements in the prevailing form of society. But the proletariat, as yet in its infancy, offers to them the spectacle of a class without any historical initiative or any independent political movement.

Since the development of class antagonism keeps even pace with the development of industry, the economic situation, as they find it, does not as yet offer to them the material conditions for the emancipation of the proletariat. They therefore search after a new social science, after new social laws, that are to create these conditions.

Historical action is to yield to their personal inventive action; historically created conditions of emancipation to fantastic ones; and the gradual, spontaneous class organization of the proletariat to an organization of society specially contrived by these inventors. Future history resolves itself, in their eyes, into the propaganda and the practical carrying out of their social plans.

In the formation of their plans they are conscious of caring chiefly for the interests of the working class, as being the most suffering class. Only from the point of view of being the most suffering class does the proletariat exist for them.

The undeveloped state of the class struggle, as well as their own surroundings, causes Socialists of this kind to consider themselves far superior to all class antagonisms. They want to improve the condition of every member of society, even that of the most favored. Hence, they habitually appeal to society at large, without distinction of class; nay, by preference, to the ruling class. For how can people, when once they understand their system, fail to see in it the best possible plan of the best possible state of society?

Hence, they reject all political, and especially all revolutionary action; they wish to attain their ends by peaceful means, and endeavor, by small experiments, necessarily doomed to failure, and by the force of example, to pave the way for the new social gospel.

Such fantastic pictures of future society, painted at a time when the proletariat is still in a very undeveloped state and has but a fantastic conception of its own position, correspond with the first instinctive yearnings of that class for a general reconstruction of society.

But these Socialist and Communist publications contain also a critical element. They attack every principle of existing society. Hence they are full of the most valuable materials for the enlightenment of the working class. The practical measures proposed in them—such as the abolition of the distinction between town and country, of the family, of the carrying on of industries for the account of private individuals, and of the wage system, the proclamation of social harmony, the conversion of the functions of the state into a mere superintendence of production—all these proposals point solely to the disappearance of class antagonisms which were, at that time, only just cropping up, and which, in these publications, are recognized in their earliest, indistinct and undefined forms only. These proposals, therefore, are of a purely Utopian character.

The significance of Critical-Utopian Socialism and Communism bears an inverse relation to historical development. In proportion as the modern class struggle develops and takes definite shape, this fantastic standing apart from the contest, these fantastic attacks on it, lose all practical values and all theoretical justification. Therefore, although the originators of these systems were, in many respects, revolutionary, their disciples have, in every case, formed mere reactionary sects. They hold fast by the original views of their masters, in opposition to the progressive historical development of the proletariat. They, therefore, endeavor, and that consistently, to deaden the class struggle and to reconcile the class antagonisms. They still dream of experimental realization of their social Utopia, of founding isolated *phalansteres,* of establishing "Home Colonies," or setting up a "Little Icaria"[7]—pocket editions of the New Jerusalem—and to realize all these castles in the air, they are compelled to appeal to the feelings and purses of the bourgeois. By degrees they sink into the category of the reactionary conservative Socialists depicted above, differing from these only by more systematic pedantry, and by their fanatical and superstitious belief in the miraculous effects of their social science.

They, therefore, violently oppose all political action on the part of the working class; such action, according to them, can only result from blind unbelief in the new gospel.

The Owenites in England, and the Fourierists in France, respectively, oppose the Chartists and the *Reformistes.*

4. Position of the Communists in Relation to the Various Existing Opposition Parties

Section II has made clear the relations of the Communists to the existing working class parties, such as the Chartists in England and the Agrarian Reformers in America.

The Communists fight for the attainment of the immediate aims, for the enforcement of the momentary interests of the working class; but in the move-

[7] *Phalansteres* were socialist colonies on the plan of Charles Fourier; Icaria was the name given by Cabet to his Utopia and, later on, to his American Communist colony.

ment of the present, they also represent and take care of the future of that movement. In France the Communists ally themselves with the Social-Democrats,[8] against the conservative and radical bourgeoisie, reserving, however, the right to take up a critical position in regard to phrases and illusions traditionally handed down from the great Revolution.

In Switzerland they support the Radicals, without losing sight of the fact that this party consists of antagonistic elements, partly of Democratic Socialists, in the French sense, partly of radical bourgeois.

In Poland they support the party that insists on an agrarian revolution as the prime condition for national emancipation, that party which fomented the insurrection of Cracow in 1846.

In Germany they fight with the bourgeoisie whenever it acts in a revolutionary way, against the absolute monarchy, the feudal squirearchy, and the petty bourgeoisie.

But they never cease, for a single instant, to instill into the working class the clearest possible recognition of the hostile antagonism between bourgeoisie and proletariat, in order that the German workers may straightway use, as so many weapons against the bourgeoisie, the social and political conditions that the bourgeoisie must necessarily introduce along with its supremacy, and in order that, after the fall of the reactionary classes in Germany, the fight against the bourgeoisie itself may immediately begin.

The Communists turn their attention chiefly to Germany, because that country is on the eve of a bourgeois revolution that is bound to be carried out under more advanced conditions of European civilization and with a much more developed proletariat than that of England in the seventeenth, and of France in the eighteenth century, and because the bourgeois revolution in Germany will be but the prelude to an immediately following proletarian revolution.

In short, the Communists everywhere support every revolutionary movement against the existing social and political order of things.

In all these movements they bring to the front, as the leading question in each, the property question, no matter what its degree of development at the time.

Finally, they labor everywhere for the union and agreement of the democratic parties of all countries.

The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communist revolution. The proletarians have nothing to lose but their chains. They have a world to win.

Working men of all countries, unite!

[8] The party then represented in Parliament by Ledru-Rollin, in literature by Louis Blanc [1811–1882], in the daily press by the *Reform*. The name of Social-Democracy signifies, with these its inventors, a section of the Democratic or Republican party more or less tinged with Socialism.

Appendix B

THE CONSTITUTION OF THE UNION OF SOVIET SOCIALIST REPUBLICS

The first Constitution of the Soviet Union was adopted in 1923. To replace this, a new Constitution was adopted by the Eighth (Special) All-Union Congress of Soviets on December 5, 1936. The *Moscow News,* at the time of its adoption, stressed the part the masses had played in its construction. "For more than five months the peoples of the Soviet Union studied the Constitution, article by article, in their meetings. More than thirty-six million persons participated in the discussion. More than half a million separate meetings were held. Every sentence, every word, was scrutinized. And the result was a great harvest of suggestions and amendments, numbering 154,000 in all. In the concluding session of the Congress of Soviets, when the final text was adopted, forty-three of these concrete amendments were incorporated in the Constitution." (*Moscow News,* December 10, 1936.) The 1936 Constitution, including all amendments up to February 25, 1947, is reproduced here.

CHAPTER I

THE SOCIAL STRUCTURE

ARTICLE 1

The Union of Soviet Socialist Republics is a socialist state of workers and peasants.

ARTICLE 2

The political foundation of the USSR is the Soviets of Working People's Deputies, which grew and became strong as a result of the overthrow of the power of the landlords and capitalists and the conquest of the dictatorship of the proletariat.

ARTICLE 3

All power in the USSR belongs to the working people of town and country as represented by the Soviets of Working People's Deputies.

ARTICLE 4

The economic foundation of the USSR is the socialist system of economy and the socialist ownership of the instruments and means of production, firmly established as a result of the liquidation of the capitalist system of economy, the abolition of private ownership of the instruments and means of production, and the elimination of the exploitation of man by man.

ARTICLE 5

Socialist property in the USSR exists either in the form of state property (belonging to the whole people) or in the form of cooperative and collective farm property (property of collective farms, property of cooperative societies).

ARTICLE 6

The land, its mineral wealth, waters, forests, mills, factories, mines, rail, water and air transport, banks, communications, large state-organized agricultural enterprises (state farms, machine and tractor stations and the like), as well as municipal enterprises and the bulk of the dwelling houses in the cities and industrial localities, are state property, that is, belong to the whole people.

ARTICLE 7

The common enterprises of collective farms and cooperative organizations, with their livestock and implements, the products of the collective farms and cooperative organizations, as well as their common buildings, constitute the common, socialist property of the collective farms and cooperative organizations.

Every household in a collective farm, in addition to its basic income from the common collective farm enterprise, has for its personal use a small plot of household land and, as its personal property, a subsidiary husbandry on the plot, a dwelling house, livestock, poultry and minor agricultural implements—in accordance with the rules of the agricultural artel.

ARTICLE 8

The land occupied by collective farms is secured to them for their use free of charge and for an unlimited time, that is, in perpetuity.

ARTICLE 9

Alongside the socialist system of economy, which is the predominant form of economy in the USSR, the law permits the small private economy of individual peasants and handicraftsmen based on their own labor and precluding the exploitation of the labor of others.

ARTICLE 10

The personal property right of citizens in their incomes and savings from work, in their dwelling houses and subsidiary home enterprises, in articles of domestic

economy and use and articles of personal use and convenience, as well as the right of citizens to inherit personal property, is protected by law.

ARTICLE 11

The economic life of the USSR is determined and directed by the state national economic plan, with the aim of increasing the public wealth, of steadily raising the material and cultural standards of the working people, of consolidating the independence of the USSR and strengthening its defensive capacity.

ARTICLE 12

Work in the USSR is a duty and a matter of honor for every able-bodied citizen, in accordance with the principle: "He who does not work, neither shall he eat."

The principle applied in the USSR is that of socialism: "From each according to his ability, to each according to his work."

CHAPTER II

THE STATE STRUCTURE

ARTICLE 13

The Union of Soviet Socialist Republics is a federal state, formed on the basis of a voluntary union of equal Soviet Socialist Republics, namely:

The Russian Soviet Federative Socialist Republic
The Ukrainian Soviet Socialist Republic
The Byelorussian Soviet Socialist Republic
The Uzbek Soviet Socialist Republic
The Kazakh Soviet Socialist Republic
The Georgian Soviet Socialist Republic
The Azerbaijan Soviet Socialist Republic
The Lithuanian Soviet Socialist Republic
The Moldavian Soviet Socialist Republic
The Latvian Soviet Socialist Republic
The Kirghiz Soviet Socialist Republic
The Tajik Soviet Socialist Republic
The Armenian Soviet Socialist Republic
The Turkmen Soviet Socialist Republic
The Estonian Soviet Socialist Republic
The Karelo-Finnish Soviet Socialist Republic

ARTICLE 14

The jurisdiction of the Union of Soviet Socialist Republics, as represented by its higher organs of state power and organs of state administration, embraces:

(*a*) Representation of the USSR in international relations, conclusion, ratifica-

tion and denunciation of treaties of the USSR with other states, establishment of general procedure governing the relations of Union Republics with foreign states;

(*b*) Questions of war and peace;

(*c*) Admission of new republics into the USSR;

(*d*) Control over the observance of the Constitution of the USSR, and ensuring conformity of the Constitutions of the Union Republics with the Constitution of the USSR;

(*e*) Confirmation of alterations of boundaries between Union Republics;

(*f*) Confirmation of the formation of new Territories and Regions and also of new Autonomous Republics and Autonomous Regions within Union Republic;

(*g*) Organization of the defense of the USSR, direction of all the Armed Forces of the USSR, determination of directing principles governing the organization of the military formations of the Union Republics;

(*h*) Foreign trade on the basis of state monopoly;

(*i*) Safeguarding the security of the state;

(*j*) Determination of the national economic plans of the USSR;

(*k*) Approval of the consolidated state budget of the USSR and of the report on its fulfillment; determination of the taxes and revenues which go to the Union, the Republican and the local budgets;

(*l*) Administration of the banks, industrial and agricultural institutions and enterprises and trading enterprises of all-Union importance;

(*m*) Administration of transport and communications;

(*n*) Direction of the monetary and credit system;

(*o*) Organization of state insurance;

(*p*) Contracting and granting of loans;

(*q*) Determination of the basic principles of land tenure and of the use of mineral wealth, forests and waters;

(*r*) Determination of the basic principles in the spheres of education and public health;

(*s*) Organization of a uniform system of national economic statistics;

(*t*) Determination of the principles of labor legislation;

(*u*) Legislation concerning the judicial system and judicial procedure; criminal and civil codes;

(*v*) Legislation concerning Union citizenship; legislation concerning rights of foreigners;

(*w*) Determination of the principles of legislation concerning marriage and the family;

(*x*) Issuing of all-Union acts of amnesty.

Article 15

The sovereignty of the Union Republics is limited only in the spheres defined in Article 14 of the Constitution of the USSR. Outside of these spheres each Union Republic exercises state authority independently. The USSR protects the sovereign rights of the Union Republics.

Article 16

Each Union Republic has its own Constitution, which takes account of the

specific features of the Republic and is drawn up in full conformity with the Constitution of the USSR.

ARTICLE 17

The right freely to secede from the USSR is reserved to every Union Republic.

ARTICLE 18

The territory of a Union Republic may not be altered without its consent.

ARTICLE 18a

Each Union Republic has the right to enter into direct relations with foreign states and to conclude agreements and exchange diplomatic and consular representatives with them.

ARTICLE 18b

Each Union Republic has its own Republican military formations.

ARTICLE 19

The laws of the USSR have the same force within the territory of every Union Republic.

ARTICLE 20

In the event of divergence between a law of a Union Republic and a law of the Union, the Union law prevails.

ARTICLE 21

Uniform Union citizenship is established for citizens of the USSR.
Every citizen of a Union Republic is a citizen of the USSR.

ARTICLE 22

The Russian Soviet Federative Socialist Republic consists of the Altai, Krasnodar, Krasnoyarsk, Primorye, Stavropol and Khabarovsk Territories; the Archangelsk, Astrakhan, Bryansk, Velikiye-Luki, Vladimir, Vologda, Voronezh, Gorky, Grozny, Ivanovo, Irkutsk, Kaliningrad, Kalinin, Kaluga, Kemerovo, Kirov, Kostroma, Crimea, Kuibyshev, Kurgan, Kursk, Leningrad, Molotov, Moscow, Murmansk, Novgorod, Novosibirsk, Omsk, Orel, Penza, Pskov, Rostov, Ryazan, Saratov, Sakhalin, Sverdlovsk, Smolensk, Stalingrad, Tambov, Tomsk, Tula, Tyumen, Ulyanovsk, Chelyabinsk, Chita, Chkalov and Yaroslavl Regions; the Tatar, Bashkir, Daghestan, Buryat-Mongolian, Kabardinian, Komi, Mari, Mordovian, North Ossetian, Udmurt, Chuvash and Yakut Autonomous Soviet Socialist Republics; and the Adygei, Jewish, Oirot, Tuva, Khakass and Cherkess Autonomous Regions.

ARTICLE 23

The Ukrainian Soviet Socialist Republic consists of the Vinnitsa, Volhynia, Voroshilovgrad, Dniepropetrovsk, Drohobych, Zhitomir, Transcarpathian, Zaporozhye, Ismail, Kamenets-Podolsk, Kiev, Kirovograd, Lvov, Nikolayev, Odessa, Poltava, Rovno, Stalino, Stanislav, Sumi, Ternopol, Kharkov, Kherson, Chernigov and Chernovtsi Regions.

ARTICLE 24

The Azerbaijan Soviet Socialist Republic includes the Nakhichevan Autonomous Soviet Socialist Republic and the Nagorno-Karabakh Autonomous Region.

ARTICLE 25

The Georgian Soviet Socialist Republic includes the Abkhazian Autonomous Soviet Socialist Republic, the Adjar Autonomous Soviet Socialist Republic and the South Ossetian Autonomous Region.

ARTICLE 26

The Uzbek Soviet Socialist Republic consists of the Andizhan, Bukhara, Kashka-Darya, Namangan, Samarkand, Surkhan-Darya, Tashkent, Ferghana and Khorezm Regions and the Kara-Kalpak Autonomous Soviet Socialist Republic.

ARTICLE 27

The Tajik Soviet Socialist Republic consists of the Garm, Kulyab, Leninabad and Stalinabad Regions and the Gorno-Badakhshan Autonomous Region.

ARTICLE 28

The Kazakh Soviet Socialist Republic consists of the Akmolinsk, Aktyubinsk, Alma-Ata, East Kazakhstan, Guriev, Jambul, West Kazakhstan, Karaganda, Kzyl-Orda, Kokchetav, Kustanai, Pavlodar, North Kazakhstan, Semipalatinsk, Taldy-Kurgan and South Kazakhstan Regions.

ARTICLE 29

The Byelorussian Soviet Socialist Republic consists of the Baranovichi, Bobruisk, Brest, Vitebsk, Gomel, Grodno, Minsk, Moghilev, Molodechno, Pinsk, Polessye and Polotsk Regions.

ARTICLE 29a

The Turkmen Soviet Socialist Republic consists of the Ashkhabad, Mari, Tashauz and Chardzhou Regions.

ARTICLE 29b

The Kirghiz Soviet Socialist Republic consists of the Dzhalal-Abad, Issyk-Kul, Osh, Talas, Tien-Shan and Frunze Regions.

CHAPTER III

THE HIGHER ORGANS OF STATE POWER IN THE UNION OF SOVIET SOCIALIST REPUBLICS

ARTICLE 30

The highest organ of state power in the USSR is the Supreme Soviet of the USSR.

ARTICLE 31

The Supreme Soviet of the USSR exercises all rights vested in the Union of Soviet Socialist Republics in accordance with Article 14 of the Constitution, in so far as they do not, by virtue of the Constitution, come within the jurisdiction of organs of the USSR that are accountable to the Supreme Soviet of the USSR, that is, the Presidium of the Supreme Soviet of the USSR, the Council of Ministers of the USSR, and the Ministries of the USSR.

ARTICLE 32

The legislative power of the USSR is exercised exclusively by the Supreme Soviet of the USSR.

ARTICLE 33

The Supreme Soviet of the USSR consists of two Chambers: the Soviet of the Union and the Soviet of Nationalities.

ARTICLE 34

The Soviet of the Union is elected by the citizens of the USSR voting by election districts on the basis of one deputy for every 300,000 of the population.

ARTICLE 35

The Soviet of Nationalities is elected by the citizens of the USSR voting by Union Republics, Autonomous Republics, Autonomous Regions, and National Areas on the basis of twenty-five deputies from each Union Republic, eleven deputies from each Autonomous Republic, five deputies from each Autonomous Region and one deputy from each National Area.

ARTICLE 36

The Supreme Soviet of the USSR is elected for a term of four years.

ARTICLE 37

The two Chambers of the Supreme Soviet of the USSR, the Soviet of the Union and the Soviet of Nationalities, have equal rights.

ARTICLE 38

The Soviet of the Union and the Soviet of Nationalities have equal powers to initiate legislation.

ARTICLE 39

A law is considered adopted if passed by both Chambers of the Supreme Soviet of the USSR by a simple majority vote in each.

ARTICLE 40

Laws passed by the Supreme Soviet of the USSR are published in the languages of the Union Republics over the signatures of the President and Secretary of the Presidium of the Supreme Soviet of the USSR.

ARTICLE 41

Sessions of the Soviet of the Union and of the Soviet of Nationalities begin and terminate simultaneously.

ARTICLE 42

The Soviet of the Union elects a Chairman of the Soviet of the Union and two Vice-Chairmen.

ARTICLE 43

The Soviet of Nationalities elects a Chairman of the Soviet of Nationalities and two Vice-Chairmen.

ARTICLE 44

The Chairmen of the Soviet of the Union and the Soviet of Nationalities preside at the sittings of the respective Chambers and have charge of the conduct of their business and proceedings.

ARTICLE 45

Joint sittings of the two Chambers of the Supreme Soviet of the USSR are presided over alternately by the Chairman of the Soviet of the Union and the Chairman of the Soviet of Nationalities.

ARTICLE 46

Sessions of the Supreme Soviet of the USSR are convened by the Presidium of the Supreme Soviet of the USSR twice a year.

Extraordinary sessions are convened by the Presidium of the Supreme Soviet of the USSR at its discretion or on the demand of one of the Union Republics.

ARTICLE 47

In the event of disagreement between the Soviet of the Union and the Soviet of Nationalities, the question is referred for settlement to a conciliation commission

formed on a parity basis. If the conciliation commission fails to arrive at an agreement, or if its decision fails to satisfy one of the Chambers, the question is considered for a second time by the Chambers. Failing agreement between the two Chambers, the Presidium of the Supreme Soviet of the USSR dissolves the Supreme Soviet of the USSR and orders new elections.

Article 48

The Supreme Soviet of the USSR at a joint sitting of the two Chambers elects the Presidium of the Supreme Soviet of the USSR, consisting of a President of the Presidium of the Supreme Soviet of the USSR, sixteen Vice-Presidents, a Secretary of the Presidium and fifteen members of the Presidium of the Supreme Soviet of the USSR.

The Presidium of the Supreme Soviet of the USSR is accountable to the Supreme Soviet of the USSR for all its activities.

Article 49

The Presidium of the Supreme Soviet of the USSR:

(*a*) Convenes the sessions of the Supreme Soviet of the USSR;

(*b*) Issues decrees;

(*c*) Gives interpretations of the laws of the USSR in operation;

(*d*) Dissolves the Supreme Soviet of the USSR in conformity with Article 47 of the Constitution of the USSR and orders new elections;

(*e*) Conducts nation-wide polls (referendums) on its own initiative or on the demand of one of the Union Republics;

(*f*) Annuls decisions and orders of the Council of Ministers of the USSR and of the Councils of Ministers of the Union Republics if they do not conform to law;

(*g*) In the intervals between sessions of the Supreme Soviet of the USSR, releases and appoints Ministers of the USSR on the recommendation of the Chairman of the Council of Ministers of the USSR, subject to subsequent confirmation by the Supreme Soviet of the USSR;

(*h*) Institutes decorations (orders and medals) and titles of honor of the USSR;

(*i*) Awards orders and medals and confers titles of honor of the USSR;

(*j*) Exercises the right of pardon;

(*k*) Institutes military titles, diplomatic ranks and other special titles;

(*l*) Appoints and removes the high command of the Armed Forces of the USSR;

(*m*) In the intervals between sessions of the Supreme Soviet of the USSR, proclaims a state of war in the event of military attack on the USSR, or when necessary to fulfill international treaty obligations concerning mutual defense against aggression;

(*n*) Orders general or partial mobilization;

(*o*) Ratifies and denounces international treaties of the USSR;

(*p*) Appoints and recalls plenipotentiary representatives of the USSR to foreign states;

(*q*) Receives the letters of credence and recall of diplomatic representatives accredited to it by foreign states;

(*r*) Proclaims martial law in separate localities or throughout the USSR in the

interests of the defense of the USSR or of the maintenance of public order and the security of the state.

ARTICLE 50

The Soviet of the Union and the Soviet of Nationalities elect Credentials Committees to verify the credentials of the members of the respective Chambers.

On the report of the Credentials Committees, the Chambers decide whether to recognize the credentials of deputies or to annul their election.

ARTICLE 51

The Supreme Soviet of the USSR, when it deems necessary, appoints commissions of investigation and audit on any matter.

It is the duty of all institutions and officials to comply with the demands of such commissions and to submit to them all necessary materials and documents.

ARTICLE 52

A member of the Supreme Soviet of the USSR may not be prosecuted or arrested without the consent of the Supreme Soviet of the USSR, or, when the Supreme Soviet of the USSR is not in session, without the consent of the Presidium of the Supreme Soviet of the USSR.

ARTICLE 53

On the expiration of the term of office of the Supreme Soviet of the USSR, or on its dissolution prior to the expiration of its term of office, the Presidium of the Supreme Soviet of the USSR retains its powers until the newly-elected Supreme Soviet of the USSR shall have formed a new Presidium of the Supreme Soviet of the USSR.

ARTICLE 54

On the expiration of the term of office of the Supreme Soviet of the USSR, or in the event of its dissolution prior to the expiration of its term of office, the Presidium of the Supreme Soviet of the USSR orders new elections to be held within a period not exceeding two months from the date of expiration of the term of office or dissolution of the Supreme Soviet of the USSR.

ARTICLE 55

The newly-elected Supreme Soviet of the USSR is convened by the outgoing Presidium of the Supreme Soviet of the USSR not later than three months after the elections.

ARTICLE 56

The Supreme Soviet of the USSR, at a joint sitting of the two Chambers, appoints the Government of the USSR, namely, the Council of Ministers of the USSR.

CHAPTER IV

THE HIGHER ORGANS OF STATE POWER IN THE UNION REPUBLICS

ARTICLE 57

The highest organ of state power in a Union Republic is the Supreme Soviet of the Union Republic.

ARTICLE 58

The Supreme Soviet of a Union Republic is elected by the citizens of the Republic for a term of four years.

The basis of representation is established by the Constitution of the Union Republic.

ARTICLE 59

The Supreme Soviet of a Union Republic is the sole legislative organ of the Republic.

ARTICLE 60

The Supreme Soviet of a Union Republic:

(*a*) Adopts the Constitution of the Republic and amends it in conformity with Article 16 of the Constitution of the USSR;

(*b*) Confirms the Constitutions of the Autonomous Republics forming part of it and defines the boundaries of their territories;

(*c*) Approves the national economic plan and the budget of the Republic;

(*d*) Exercises the right of amnesty and pardon of citizens sentenced by the judicial organs of the Union Republic;

(*e*) Decides questions of representation of the Union Republic in its international relations;

(*f*) Determines the manner of organizing the Republic's military formations.

ARTICLE 61

The Supreme Soviet of a Union Republic elects the Presidium of the Supreme Soviet of the Union Republic, consisting of a President of the Presidium of the Supreme Soviet of the Union Republic, Vice-Presidents, a Secretary of the Presidium and members of the Presidium of the Supreme Soviet of the Union Republic.

The powers of the Presidium of the Supreme Soviet of a Union Republic are defined by the Constitution of the Union Republic.

ARTICLE 62

The Supreme Soviet of a Union Republic elects a Chairman and Vice-Chairmen to conduct its sittings.

ARTICLE 63

The Supreme Soviet of a Union Republic appoints the Government of the Union Republic, namely, the Council of Ministers of the Union Republic.

CHAPTER V

THE ORGANS OF STATE ADMINISTRATION OF THE UNION OF SOVIET SOCIALIST REPUBLICS

ARTICLE 64

The highest executive and administrative organ of the state power of the Union of Soviet Socialist Republics is the Council of Ministers of the USSR.

ARTICLE 65

The Council of Ministers of the USSR is responsible and accountable to the Supreme Soviet of the USSR, or, in the intervals between sessions of the Supreme Soviet, to the Presidium of the Supreme Soviet of the USSR.

ARTICLE 66

The Council of Ministers of the USSR issues decisions and orders on the basis and in pursuance of the laws in operation, and verifies their execution.

ARTICLE 67

Decisions and orders of the Council of Ministers of the USSR are binding throughout the territory of the USSR.

ARTICLE 68

The Council of Ministers of the USSR:

(*a*) Coordinates and directs the work of the all-Union and Union-Republican Ministries of the USSR and of other institutions under its jurisdiction;

(*b*) Adopts measures to carry out the national economic plan and the state budget, and to strengthen the credit and monetary system;

(*c*) Adopts measures for the maintenance of public order, for the protection of the interests of the state, and for the safeguarding of the rights of citizens;

(*d*) Exercises general guidance in the sphere of relations with foreign states;

(*e*) Fixes the annual contingent of citizens to be called up for military service and directs the general organization of the Armed Forces of the country;

(*f*) Sets up, whenever necessary, special Committees and Central Administrations under the Council of Ministers of the USSR for economic and cultural affairs and defense.

ARTICLE 69

The Council of Ministers of the USSR has the right, in respect of those branches of administration and economy which come within the jurisdiction of the USSR, to suspend decisions and orders of the Councils of Ministers of the Union Republics and to annul orders and instructions of Ministers of the USSR.

ARTICLE 70

The Council of Ministers of the USSR is appointed by the Supreme Soviet of the USSR and consists of:

The Chairman of the Council of Ministers of the USSR;
The Vice-Chairmen of the Council of Ministers of the USSR;
The Chairman of the State Planning Commission of the USSR;
The Ministers of the USSR;
The Chairman of the Arts Committee.

ARTICLE 71

The Government of the USSR or a Minister of the USSR to whom a question of a member of the Supreme Soviet of the USSR is addressed must give a verbal or written reply in the respective Chamber within a period not exceeding three days.

ARTICLE 72

The Ministers of the USSR direct the branches of state administration which come within the jurisdiction of the USSR.

ARTICLE 73

The Ministers of the USSR, within the limits of the jurisdiction of their respective Ministries, issue orders and instructions on the basis and in pursuance of the laws in operation, and also of decisions and orders of the Council of Ministers of the USSR, and verify their execution.

ARTICLE 74

The Ministries of the USSR are either all-Union or Union-Republican Ministries.

ARTICLE 75

Each all-Union Ministry directs the branch of state administration entrusted to it throughout the territory of the USSR either directly or through bodies appointed by it.

ARTICLE 76

The Union-Republican Ministries, as a rule, direct the branches of state administration entrusted to them through corresponding Ministries of the Union

Republics; they administer directly only a definite and limited number of enterprises according to a list confirmed by the Presidium of the Supreme Soviet of the USSR.

ARTICLE 77

The following Ministries are all-Union Ministries:
The Ministry of the Aircraft Industry
The Ministry of the Automobile Industry
The Ministry of Foreign Trade
The Ministry of Munitions
The Ministry of Geological Survey
The Ministry of Agricultural Stocks
The Ministry of Material Reserves
The Ministry of the Machine and Instrument Making Industry
The Ministry of the Medical Supplies Industry
The Ministry of the Merchant Marine
The Ministry of the Oil Industry of the Eastern Areas
The Ministry of the Oil Industry of the Southern and Western Areas
The Ministry of Food Reserves
The Ministry of the Communications Equipment Industry
The Ministry of Railways
The Ministry of the Rubber Industry
The Ministry of Inland Water Transport
The Ministry of Communications
The Ministry of the Agricultural Machinery Industry
The Ministry of the Machine-Tool Industry
The Ministry of the Building and Road-Building Machinery Industry
The Ministry of Construction of Army and Navy Works
The Ministry of Construction of Heavy Industry Works
The Ministry of Construction of Fuel Industry Works
The Ministry of Shipbuilding
The Ministry of the Transport Machinery Industry
The Ministry of Labor Reserves
The Ministry of the Heavy Machine Building Industry
The Ministry of the Coal Industry of the Eastern Areas
The Ministry of the Coal Industry of the Western Areas
The Ministry of the Chemical Industry
The Ministry of the Nonferrous Metals Industry
The Ministry of the Pulp and Paper Industry
The Ministry of the Iron and Steel Industry
The Ministry of the Electrical Industry
The Ministry of Power Stations.

ARTICLE 78

The following Ministries are Union-Republican Ministries:
The Ministry of the Grocery Supplies Industry

The Ministry of Internal Affairs
The Ministry of the Armed Forces
The Ministry of Higher Education
The Ministry of State Control
The Ministry of State Security
The Ministry of Public Health
The Ministry of Foreign Affairs
The Ministry of Cinematography
The Ministry of Light Industry
The Ministry of the Timber Industry
The Ministry of the Meat and Dairy Industry
The Ministry of the Food Industry
The Ministry of the Building Materials Industry
The Ministry of the Fish Industry of the Eastern Areas
The Ministry of the Fish Industry of the Western Areas
The Ministry of Agriculture
The Ministry of State Farms
The Ministry of the Textile Industry
The Ministry of Trade
The Ministry of Finance
The Ministry of Justice.

CHAPTER VI

THE ORGANS OF STATE ADMINISTRATION OF THE UNION REPUBLICS

Article 79

The highest executive and administrative organ of the state power of a Union Republic is the Council of Ministers of the Union Republic.

Article 80

The Council of Ministers of a Union Republic is responsible and accountable to the Supreme Soviet of the Union Republic, or, in the intervals between sessions of the Supreme Soviet of the Union Republic, to the Presidium of the Supreme Soviet of the Union Republic.

Article 81

The Council of Ministers of a Union Republic issues decisions and orders on the basis and in pursuance of the laws in operation of the USSR and of the Union Republic, and of the decisions and orders of the Council of Ministers of the USSR, and verifies their execution.

ARTICLE 82

The Council of Ministers of a Union Republic has the right to suspend decisions and orders of the Councils of Ministers of its Autonomous Republics, and to annul decisions and orders of the Executive Committees of the Soviets of Working People's Deputies of its Territories, Regions and Autonomous Regions.

ARTICLE 83

The Council of Ministers of a Union Republic is appointed by the Supreme Soviet of the Union Republic and consists of:

The Chairman of the Council of Ministers of the Union Republic;
The Vice-Chairmen of the Council of Ministers;
The Chairman of the State Planning Commission;
The Ministers;
The Chief of the Arts Administration;
The Chairman of the Committee for Cultural and Educational Institutions.

ARTICLE 84

The Ministers of a Union Republic direct the branches of state administration which come within the jurisdiction of the Union Republic.

ARTICLE 85

The Ministers of a Union Republic, within the limits of the jurisdiction of their respective Ministries, issue orders and instructions on the basis and in pursuance of the laws of the USSR and of the Union Republic, of the decisions and orders of the Council of Ministers of the USSR and the Council of Ministers of the Union Republic, and of the orders and instructions of the Union-Republican Ministries of the USSR.

ARTICLE 86

The Ministries of a Union Republic are either Union-Republican or Republican Ministries.

ARTICLE 87

Each Union-Republican Ministry directs the branch of state administration entrusted to it, and is subordinate both to the Council of Ministers of the Union Republic and to the corresponding Union-Republican Ministry of the USSR.

ARTICLE 88

Each Republican Ministry directs the branch of state administration entrusted to it and is directly subordinate to the Council of Ministers of the Union Republic.

CHAPTER VII

THE HIGHER ORGANS OF STATE POWER IN THE AUTONOMOUS SOVIET SOCIALIST REPUBLICS

ARTICLE 89

The highest organ of state power in an Autonomous Soviet Socialist Republic is the Supreme Soviet of the Autonomous Republic.

ARTICLE 90

The Supreme Soviet of an Autonomous Republic is elected by the citizens of the Republic for a term of four years on a basis of representation established by the Constitution of the Autonomous Republic.

ARTICLE 91

The Supreme Soviet of an Autonomous Republic is the sole legislative organ of the Autonomous Republic.

ARTICLE 92

Each Autonomous Republic has its own Constitution, which takes account of the specific features of the Autonomous Republic and is drawn up in full conformity with the Constitution of the Union Republic.

ARTICLE 93

The Supreme Soviet of an Autonomous Republic elects the Presidium of the Supreme Soviet of the Autonomous Republic and appoints the Council of Ministers of the Autonomous Republic, in accordance with its Constitution.

CHAPTER VIII

THE LOCAL ORGANS OF STATE POWER

ARTICLE 94

The organs of state power in territories, regions, autonomous regions, areas, districts, cities and rural localities (stanitsas, villages, hamlets, kishlaks, auls) are the Soviets of Working People's Deputies.

ARTICLE 95

The Soviets of Working People's Deputies of territories, regions, autonomous regions, areas, districts, cities and rural localities (stanitsas, villages, hamlets, kishlaks, auls) are elected by the working people of the respective territories, regions, autonomous regions, areas, districts, cities or rural localities for a term of two years.

ARTICLE 96

The basis of representation for Soviets of Working People's Deputies is determined by the Constitutions of the Union Republics.

ARTICLE 97

The Soviets of Working People's Deputies direct the work of the organs of administration subordinate to them, ensure the maintenance of public order, the observance of the laws and the protection of the rights of citizens, direct local economic and cultural affairs and draw up the local budgets.

ARTICLE 98

The Soviets of Working People's Deputies adopt decisions and issue orders within the limits of the powers vested in them by the laws of the USSR and of the Union Republic.

ARTICLE 99

The executive and administrative organ of the Soviet of Working People's Deputies of a territory, region, autonomous region, area, district, city or rural locality is the Executive Committee elected by it, consisting of a Chairman, Vice-Chairman, a Secretary and members.

ARTICLE 100

The executive and administrative organ of the Soviet of Working People's Deputies in a small locality, in accordance with the Constitution of the Union Republic, is the Chairman, the Vice-Chairman and the Secretary elected by it.

ARTICLE 101

The executive organs of the Soviets of Working People's Deputies are directly accountable both to the Soviets of Working People's Deputies which elected them and to the executive organ of the superior Soviet of Working People's Deputies.

CHAPTER IX

THE COURTS AND THE PROCURATOR'S OFFICE

ARTICLE 102

In the USSR justice is administered by the Supreme Court of the USSR, the Supreme Courts of the Union Republics, the Courts of the Territories, Regions, Autonomous Republics, Autonomous Regions and Areas, the Special Courts of the USSR established by decision of the Supreme Soviet of the USSR, and the People's Courts.

ARTICLE 103

In all Courts cases are tried with the participation of people's assessors, except in cases specially provided for by law.

ARTICLE 104

The Supreme Court of the USSR is the highest judicial organ. The Supreme Court of the USSR is charged with the supervision of the judicial activities of all the judicial organs of the USSR and of the Union Republics.

ARTICLE 105

The Supreme Court of the USSR and the Special Courts of the USSR are elected by the Supreme Soviet of the USSR for a term of five years.

ARTICLE 106

Th Supreme Courts of the Union Republics are elected by the Supreme Soviets of the Union Republics for a term of five years.

ARTICLE 107

The Supreme Courts of the Autonomous Republics are elected by the Supreme Soviets of the Autonomous Republics for a term of five years.

ARTICLE 108

The Courts of Territories, Regions, Autonomous Regions and Areas are elected by the Soviets of Working People's Deputies of the respective Territories, Regions, Autonomous Regions or Areas for a term of five years.

ARTICLE 109

People's Courts are elected by the citizens of the districts on the basis of universal, direct and equal suffrage by secret ballot for a term of three years.

ARTICLE 110

Judicial proceedings are conducted in the language of the Union Republic, Autonomous Republic or Autonomous Region, persons not knowing this language being guaranteed the opportunity of fully acquainting themselves with the material of the case through an interpreter and likewise the right to use their own language in court.

ARTICLE 111

In all Courts of the USSR cases are heard in public, unless otherwise provided for by law, and the accused is guaranteed the right to defense.

ARTICLE 112

Judges are independent and subject only to the law.

ARTICLE 113

Supreme supervisory power to ensure the strict observance of the law by all Ministries and institutions subordinated to them, as well as by officials and citizens of the USSR generally, is vested in the Procurator-General of the USSR.

ARTICLE 114

The Procurator-General of the USSR is appointed by the Supreme Soviet of the USSR for a term of seven years.

ARTICLE 115

Procurators of Republics, Territories, Regions, Autonomous Republics and Autonomous Regions are appointed by the Procurator-General of the USSR for a term of five years.

ARTICLE 116

Area, district and city procurators are appointed by the Procurators of the Union Republics, subject to the approval of the Procurator-General of the USSR, for a term of five years.

ARTICLE 117

The organs of the Procurator's Office perform their functions independently of any local organs whatsoever, being subordinate solely to the Procurator-General of the USSR.

CHAPTER X

FUNDAMENTAL RIGHTS AND DUTIES OF CITIZENS

ARTICLE 118

Citizens of the USSR have the right to work, that is, the right to guaranteed employment and payment for their work in accordance with its quantity and quality.

The right to work is ensured by the socialist organization of the national economy, the steady growth of the productive forces of Soviet society, the elimination of the possibility of economic crises, and the abolition of unemployment.

ARTICLE 119

Citizens of the USSR have the right to rest and leisure.

The right to rest and leisure is ensured by the establishment of an eight-hour

day for factory and office workers, the reduction of the working day to seven or six hours for arduous trades and to four hours in shops where conditions of work are particularly arduous, by the institution of annual vacations with full pay for factory and office workers, and by the provision of a wide network of sanatoria, rest homes and clubs for the accommodation of the working people.

ARTICLE 120

Citizens of the USSR have the right to maintenance in old age and also in case of sickness or disability.

This right is ensured by the extensive development of social insurance of factory and office workers at state expense, free medical service for the working people, and the provision of a wide network of health resorts for the use of the working people.

ARTICLE 121

Citizens of the USSR have the right to education.

This right is ensured by universal and compulsory elementary education; by free education up to and including the seventh grade; by a system of state stipends for students of higher educational establishments who excel in their studies; by instruction in schools being conducted in the native language; and by the organization in the factories, state farms, machine and tractor stations and collective farms of free vocational, technical and agronomic training for the working people.

ARTICLE 122

Women in the USSR are accorded equal rights with men in all spheres of economic, government, cultural, political and other public activity.

The possibility of exercising these rights is ensured by women being accorded an equal right with men to work, payment for work, rest and leisure, social insurance and education, and by state protection of the interests of mother and child, state aid to mothers of large families and unmarried mothers, maternity leave with full pay, and the provision of a wide network of maternity homes, nurseries and kindergartens.

ARTICLE 123

Equality of rights of citizens of the USSR, irrespective of their nationality or race, in all spheres of economic, government, cultural, political and other public activity, is an indefeasible law.

Any direct or indirect restriction of the rights of, or, conversely, the establishment of any direct or indirect privileges for, citizens on account of their race or nationality, as well as any advocacy of racial or national exclusiveness or hatred and contempt, is punishable by law.

ARTICLE 124

In order to ensure to citizens freedom of conscience, the church in the USSR is separated from the state, and the school from the church. Freedom of religious worship and freedom of anti-religious propaganda is recognized for all citizens.

ARTICLE 125

In conformity with the interests of the working people, and in order to strengthen the socialist system, the citizens of the USSR are guaranteed by law:

(*a*) Freedom of speech;

(*b*) Freedom of the press;

(*c*) Freedom of assembly, including the holding of mass meetings;

(*d*) Freedom of street processions and demonstrations.

These civil rights are ensured by placing at the disposal of the working people and their organizations printing presses, stocks of paper, public buildings, the streets, communications facilities and other material requisites for the exercise of these rights.

ARTICLE 126

In conformity with the interests of the working people, and in order to develop the organizational initiative and political activity of the masses of the people, citizens of the USSR are guaranteed the right to unite in public organizations: trade unions, cooperative societies, youth organizations, sport and defense organizations, cultural, technical and scientific societies; and the most active and politically-conscious citizens in the ranks of the working class and other sections of the working people unite in the Communist Party of the Soviet Union (Bolsheviks), which is the vanguard of the working people in their struggle to strengthen and develop the socialist system and is the leading core of all organizations of the working people, both public and state.

ARTICLE 127

Citizens of the USSR are guaranteed inviolability of the person. No person may be placed under arrest except by decision of a court or with the sanction of a procurator.

ARTICLE 128

The inviolability of the homes of citizens and privacy of correspondence are protected by law.

ARTICLE 129

The USSR affords the right of asylum to foreign citizens persecuted for defending the interests of the working people, or for scientific activities, or for struggling for national liberation.

ARTICLE 130

It is the duty of every citizen of the USSR to abide by the Constitution of the Union of Soviet Socialist Republics, to observe the laws, to maintain labor discipline, honestly to perform public duties, and to respect the rules of socialist intercourse.

ARTICLE 131

It is the duty of every citizen of the USSR to safeguard and fortify public, socialist property as the sacred and inviolable foundation of the Soviet system, as the source of the wealth and might of the country, as the source of the prosperity and culture of all the working people.

Persons committing offenses against public, socialist property are enemies of the people.

ARTICLE 132

Universal military service is law.

Military service in the Armed Forces of the USSR is an honorable duty of the citizens of the USSR.

ARTICLE 133

To defend the country is the sacred duty of every citizen of the USSR. Treason to the motherland—violation of the oath of allegiance, desertion to the enemy, impairing the military power of the state, espionage—is punishable with all the severity of the law as the most heinous of crimes.

CHAPTER XI

THE ELECTORAL SYSTEM

ARTICLE 134

Members of all Soviets of Working People's Deputies—of the Supreme Soviet of the USSR, the Supreme Soviets of the Union Republics, the Soviets of Working People's Deputies of the Territories and Regions, the Supreme Soviets of the Autonomous Republics, the Soviets of Working People's Deputies of the Autonomous Regions, and the area, district, city and rural (stanitsa, village, hamlet, kishlak, aul) Soviets of Working People's Deputies—are chosen by the electors on the basis of universal, equal and direct suffrage by secret ballot.

ARTICLE 135

Elections of deputies are universal: all citizens of the USSR who have reached the age of eighteen, irrespective of race or nationality, sex, religion, education, domicile, social origin, property status or past activities, have the right to vote in the election of deputies, with the exception of insane persons and persons who have been convicted by a court of law and whose sentences include deprivation of electoral rights.

Every citizen of the USSR who has reached the age of twenty-three is eligible for election to the Supreme Soviet of the USSR, irrespective of race or nationality, sex, religion, education, domicile, social origin, property status or past activities.

ARTICLE 136

Elections of deputies are equal: each citizen has one vote; all citizens participate in elections on an equal footing.

ARTICLE 137

Women have the right to elect and be elected on equal terms with men.

ARTICLE 138

Citizens serving in the Armed Forces of the USSR have the right to elect and be elected on equal terms with all other citizens.

ARTICLE 139

Elections of deputies are direct: all Soviets of Working People's Deputies, from rural and city Soviets of Working People's Deputies to the Supreme Soviet of the USSR, are elected by the citizens by direct vote.

ARTICLE 140

Voting at elections of deputies is secret.

ARTICLE 141

Candidates are nominated by election district.

The right to nominate candidates is secured to public organizations and societies of the working people: Communist Party organizations, trade unions, cooperatives, youth organizations and cultural societies.

ARTICLE 142

It is the duty of every deputy to report to his electors on his work and on the work of his Soviet of Working People's Deputies, and he may be recalled at any time upon decision of a majority of the electors in the manner established by law.

CHAPTER XII

ARMS, FLAG, CAPITAL

ARTICLE 143

The arms of the Union of Soviet Socialist Republics are a sickle and hammer against a globe depicted in the rays of the sun and surrounded by ears of grain, with the inscription "Workers of All Countries, Unite!" in the languages of the Union Republics. At the top of the arms is a five-pointed star.

ARTICLE 144

The state flag of the Union of Soviet Socialist Republics is of red cloth with the sickle and hammer depicted in gold in the upper corner near the staff and above them a five-pointed red star bordered in gold. The ratio of the width to the length is 1:2.

ARTICLE 145

The capital of the Union of Soviet Socialist Republics is the City of Moscow.

CHAPTER XIII

PROCEDURE FOR AMENDING THE CONSTITUTION

ARTICLE 146

The Constitution of the USSR may be amended only by decision of the Supreme Soviet of the USSR adopted by a majority of not less than two-thirds of the votes in each of its Chambers.

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