THE PROFIT CONCEPT IN THE SOVIET ECONOMY

by

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CHAPTER I

INTRODUCTION

> Russia which once boasted of burying capitalism now is borrowing some of the ideas of capitalism.*

The above statement is an example of many such remarks which have appeared in Western periodicals in recent years. Such a statement suggests that the recent Soviet reforms and growing interest in profit and profitability signify the inability of the "command system" to solve economic problems. Further, such reforms appear to point to a shift toward the use of the market mechanism.

In general, Westerners have been skeptical as to whether centralized planning could ever become a workable substitute for the 'impersonal' and 'regulating' force of the market mechanism. The feasibility of central planning at first was as strongly rejected by the West as it was accepted by the East. The unfortunate experiences of the West during the Great Depression of the Thirties, however, seemed to make the United States more open-minded in assessing the practicality of centralized planning.

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*U. S. News and World Report, (September 28, 1964), p. 119.

As soon as Stalin disappeared from the Soviet scene, the rigid pattern of planning ceased to be followed by his successors. One after another the new Soviet leaders and their administrations spoke of needed changes: changes in the areas of planning, relationships between central planners and firms, responsibilities of the enterprise managers, and profit and profitability of the firms. This attitude towards reform in the Soviet Union once again has led to speculation in the West in regard to the plausibility of central planning. Such speculation has been manifested in statements such as "Creeping capitalism in Russia," "transition to the capitalistic principle of pursuing profits," "the end of centralized planning," and a great many others.[+] If credit is given to such statements, it would appear that the Soviet system may be evolving toward some form of the capitalistic system.

One prominent feature of the reforms appears to be the extensive use of profit within the Soviet system. The purpose of this paper is to investigate whether or not the Soviet system makes use of the capitalistic concept of profit. In considering this problem, it is necessary to establish whether profit is a uniquely capitalistic phenomenon or if it is also relevant to a non-capitalistic economy. Furthermore, if the Western concept of profit is being used in the Soviet economy, would this necessarily render their socialistic

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[+]P. Wohl, "Boring From Within: Soviet Union is Beset by Creeping Capitalism," Barrons (June 12, 1961), Vol. 41, pp. 5-6. "Creeping Capitalism: That is What the Russian Establishment is Worried About," Forbes (September 1, 1964), Vol. 94, p. 15.

economy capitalistic. Finally, precisely what is the nature, role, and significance of profit in the Soviet system.

To establish whether or not the Soviet economy employs the capitalistic concept of profit, it is necessary to review the capitalistic profit theories as developed by the Physiocrats, classical and contemporary economists. The evolution of theories of profit in America has been chosen as representative of the capitalistic concepts of profit. In addition, the Marxian concept of capitalistic profit and its nature is discussed as Marx's analysis of capitalistic profit is presumed to be an account of how profit is generated in a capitalistic economy.

To understand the present nature and role of profit in the Soviet economy, it becomes essential to examine the recent economic reforms undertaken, since profit plays a major role in the recent Soviet economic reforms.

The study of capitalistic theories of profit begins with the Physiocratic concept, and ends with the major roles assigned to profit in capitalism as presented in Chapter II.

Chapter III is primarily concerned with the Marxian concept of profit in regard to its nature and origin.

The present concept and role of profit in the Soviet Union in the context of recent economic reforms are discussed in Chapter IV.

CHAPTER II

THE DEVELOPMENT OF CAPITALISTIC CONCEPTS OF PROFIT

A Historical Perspective

The concept of profit has existed since the earliest time of recorded history. However, since economics as a science finds its foundation in the revolt of the Physiocrats against the doctrine of mercantilism in the middle of the eighteenth century, this discussion begins with the Physiocratic concept of profit.

The Physiocrats

The Physiocrats emphasized agriculture as the sole source of 'produit net' and introduced the view that trade, commerce, and industry did not produce a surplus, but merely paid their respective way. They regarded exchange as sterile for it did not lend itself to a rise in additional wealth. "Purchases represented by commerce are merely exchange of value for equal value, without loss or gain on one side or the other."[1] To the Physiocrats profit was the reward of labor. They recognized, however, that the work of the profit makers was of a different order than that of other workers, indicating that profit was the reward of a special

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[1]Alexander Gray, The Development of Economic Doctrine (London: Longmans, Green and Co., Ltd., 1961), p. 104.

type of labor involving an element of uncertainty, superintendence, and direction.[2] Although the theory of profit did not receive much attention from the Physiocrats, it is possible to combine their concepts of profit: ". . . the reward for the work of superintendence and direction, as compensation for undefined risks and as interest on capital."[3]

The Classical Economists

Adam Smith dealt with the concept of profit more formally, and even headed a chapter on profits.[4] Smith expressed his concept as follows:

> The profits of stock, it may perhaps be thought, are only a different name for the wages of a particular sort of labor, the labor of inspection and direction. They are, however, altogether different, are regulated by quite sufficient principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labor of inspection and direction. They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock.[5]

We note that Smith, while critical of the Physiocratic view that profit is a reward for a particular labor of inspection and direction, explains profit to be a reward to stock (capital),

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[2]James P. Beddy, Profits (Dublin: Hodges, Figgis & Co., 1940), p. 14.

[3]Ibid.

[4]Adam Smith, Wealth of Nations (Homewood, Illinois: Richard D. Irwin, Inc., 1963), I, Chapter 9.

[5]Ibid., Chapter VI, p. 39.

to the people who manage or employ it. According to Smith, profit was divided into two parts: "that which pays the interest, and which belongs to the owner of the stock, and that surplus part which is over and above what is necessary for paying interest."[6] Interest he viewed to be that portion of profit which is paid to the lender as compensation for the use of his capital,[7] and the portion of the profit which remained after payment of interest belongs to the borrower as compensation to him for he "runs the risk and takes the trouble of employing it."[8]

Smith distinguished between wages and profit, which he considered to be regulated by quite different principles. Profit, as distinct from wages, must have a relationship to the value of stock employed. Profit thus was a kind of gross interest, and was considered as the third constituent of distribution. Distribution itself consisted of rent, wages, and profit.

Smith continually spoke as though profit were largely or entirely interest, or at least interest plus payment to the risk for employing the capital. This is evident by his continual reference to profit of stock. To generalize Smith's theory, "Profit is equivalent to the total return to capital, and that therefore interest is merely a constituent element in profits."[9]

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[6] Ibid., Book V, Chapter II, p. 329.

[7] Adam Smith, Wealth of Nations, Book I, Chapter VI, p. 42.

[8] Ibid., p. 52.

[9] Gray, Development of Economic Doctrine, p. 137.

Malthus also subscribed to the idea that profits arose from the use of capital. Like Smith, he spoke of distribution to consist of three portions: rent, profit, and wages.[10] He also thought of interest as a portion of profits.[11] Malthus' general treatment of profit, according to Beddy, was less comprehensive than that of Adam Smith and "his failure to clearly distinguish profits from interest and to divorce them from capital renders his views of little value.[12]

Ricardo, like Malthus, followed Smith in speaking of profits as the "profits of stock." His theory of profit was an integral part of his distribution theory, which itself was the main of his concern. Like Smith, he pointed out that there were three shares in distribution, wages, rent, and profits. Ricardo did not attempt to solve the problem of the origin of profit "and by seeming to regard real capital or capital goods as representing only the labor that produced them, he left the road open to Marx's 'exploitation' doctrine, that all 'interest' or 'profit' arises from or through underpayment of labor."[13] Ricardo, in regard to profit, is not clear

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[10]Thomas R. Malthus, Principles of Political Economy (New York: Augustus M. Kelley, 1964), p. 262.

[11]Ibid., p. 285. [12]Beddy, Profits, p. 24.

[13]Overton H. Taylor, A History of Economic Thought (New York: McGraw-Hill Book Company, Inc., 1960), p. 211.

but he insists that whatever increases wages necessarily decreases profit, and nothing can affect profit but the rise in wages.[14] Therefore, profit was a residual share after the payment of wages and rent (if such was payable).

John Stuart Mill's theory of profit was not much improvement to that of his predecessors. By including interest in profits he was led to the conclusion that the more capital used in relation to labor in production, the greater will be the profit element. Furthermore, if the time required to produce a commodity is longer than production of another, the profit on the former will be greater.[15] Profits resulting from the possession of capital, he said, should be recognized as two parts; one part being equivalent for the use of capital itself, and the other portion payment for risk and labor of the capitalist:

> The surplus is partly compensation for risk. By lending his capital, on unexceptionable security, he runs little or no risk. But if he embarks in business on his own account, he always exposes his capital to some, and in many cases to very great, danger of partial or total loss. For this danger he must be compensated; otherwise, he will not incure it. He must likewise be renumerated for the devotion of his time and labor.[16]

While English economists were formulating their theories on profit, J. B. Say in France came up with a rather different theory

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[14]David Ricardo, The Principles of Potential Economics and Taxation (London: J. M. Dent and Sons, Ltd., 1962), pp. 70-71.

[15]Beddy, Profits, p. 33.

[16]John Stuart Mill, Principles of Political Economics, Book 2 (New York: Augustus M. Kelley, 1961), p. 406.

of profit which later became the keystone of more than one theory of profit.[17] He made a distinction between the profits of industry and the profits of capital, in place of wages and profits which was so common in England. He explained the existence of a function in business other than that of superintendence. Say contended the function of businessmen fell into two categories: businessmen co-ordinated supply and demand in addition to supervision. While the wage of superintendence rewarded the activity of supervision, it did not cover the co-ordinating function of the businessmen.[18] Say dealt with the profits of 'industry' and the 'profits of capital' separately. He earns the profits of industry who is skillful, and "directs the business of production, and is the center of many bearings and relations," who ". . . profits by the knowledge and by the ignorance of other people, and by every accidental advantage of production."[19] Profits of capital consisted largely of interest, but also included an element of risk. The element of risk, however, is included in both profits, since when capital is lent by one man to another a certain amount of risk is undertaken by each of the parties:

> The borrower may lose his profits or wages of industry, because he has to meet the fixed interest payments and principal repayments. The lender runs the risk that the borrower's resources will prove inadequate.[20]

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[17]Beddy, Profits, p. 35. [18]Ibid., p. 35.

[19]Edmund Whittaker, A History of Economic Ideas (New York: Longmans, Green and Company, 1943), p. 616.

[20]Ibid., p. 617.

In short, then, to Say, profit was first a wage to the entrepreneur and second, a reward for risk taking.[21]

Alfred Marshall

According to Marshall, profit represented a share of normal expenses of production which could not long differ from the 'normal supply price' of its components: "of the capital needed; of the ability and energy required for managing the business; and of the organization by which the business ability and the requisite capital are brought together."[22]

Marshall recognized the risk of loss as an element to be allowed for in the calculation of profit, not only that losses must be set against gains in reckoning the average rate of profit received or anticipated, but that to a prudent capitalist uncertainty itself is a disadvantage for which he wants to be compensated. But he rejected the view that the whole of profit, after deducting a fair equivalent for earnings of management, could be explained away as compensation for risk.[23]

Development of Profit Theory in America

The development of profit theory is not to be found in any series of positive contributions, each new development

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[21] F. H. Knight, Risk, Uncertainty and Profit (New York: Harper and Row, 1965), p. 25.

[22] R. G. Hawtrey, "The Nature of Profit," The Economics Journal, No. 61 (September, 1951), p. 493.

[23] Ibid.

adding to that of its predecessor. However, different new contributions are important mainly as they subtract from a common beginning.[24] The process is a successive refinement of a concept. The start is taken from the classical concept of profit as exemplified by John Stuart Mill. According to Mill, profit is composed of interest, wages of management, and the reward for risk bearing.[25] In the development of profit theory in three successive stages, each of these three component parts has been rejected by American economists, leaving no content whatever to the old definition.

The first notable development was separation of interest from the concept of profit which had been accepted by classical economists. Credit in this connection should be given to General Francis A. Walker. He emphasized the importance of the entrepreneur and differentiated between the entrepreneur and the capitalist; "though the distinction had been made by J. B. Say and had been adopted by almost all continental economists at a much earlier date."[26]

According to Walker, industry produces a certain amount of wealth, from which each participating factor is entitled to a

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[24] S. William Hopkins, "Profit in American Economic Theory," Review of Economic Studies, I (October, 1933), p. 60.

[25] Mill, Principles, Book 2, Chapter 15, Sec. 1, p. 406.

[26] Beddy, Profits, p. 54.

share. The landlord receives a rent, in the Ricardian sense. The capitalist receives interest, whose rate is determined by the law of supply and demand. The entrepreneur receives profit, determined by the Ricardian rent principle. He visualized a margin of no-profit enterprises, with individuals possessing superior abilities receiving profit as a sort of rent.[27] Profit then was akin to rent paid for exceptional business ability over and above the ordinary ability required for management and superintendence which could be rewarded by a wage or salary. He spoke of exceptional business ability which made many men millionaires, and of the lack of it which caused many long established and reputable business concerns to collapse through insufficient management.[28]

Walker's theory of profit as the 'rent of business ability,' was dismissed after Marshall, Clark, and Hobson had shown that all incomes were like rent in their determination, and with this point once made clear, the rent theory reduced itself merely to a wage theory and its special significance disappeared.[29]

Walker's emphasis on profit as a reward to the business ability (wage of management) invited much criticism which eventually succeeded in separating the wages of management from profit. The

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[27] F. A. Walker, "The Source of Business Profits," Quarterly Journal of Economics, No. 1 (April, 1883), pp. 265-268.

[28] Ibid.

[29] F. H. Knight, Risk, Uncertainty and Profit, (New York: Harper & Row, 1965), p. 31.

most important contribution in this regard came from Frederick B. Hawley. In Hawley's view, profit is not the reward for management or skillful co-ordination of the other factors of production. Profit is simply the price paid by the society for the assumption of business risks.[30] His views arose from his assumption that an entrepreneur was a productive force different from other economic forces. As time progressed his views regarding the entrepreneur strengthened. He came to consider the entrepreneur as the only productive force, since all other forces such as land, labor, and capital were only tools and become useful only by being combined through the incentive of enterprise.[31] He regarded risk-taking as the inevitable accompaniment of dynamic production, and considered those who took the risk worthy of receiving profit. He did not consider the reward of risk-taking mere insurance against risks. In his opinion such risks would not be taken without the expectation of compensation in excess of actuarial value! Because exposure to risk is "irksome," risk-taking gives rise to trouble, anxiety, and disabilities of various kinds and these must, therefore, be rewarded by a payment over and above the actuarial value of the risk.[32] Profit, therefore, consisted of two parts: one part

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[30]F. B. Hawley, "The Risk Theory of Profit," Quarterly Journal of Economics, (July, 1893), VII, 459-479.

[31]F. B. Hawley, "A Positive Theory of Economics," Quarterly Journal of Economics, (February, 1902) No. 16, pp. 233-264.

[32]Hawley, Quarterly Journal of Economics, (July, 1893), p. 464.

represented the actuarial value of the risk involved; and the remaining part represented an inducement to suffer the irksomeness of being exposed to the risk.

Hawley further asserted that risks had to be assumed in order to qualify for profit. If an entrepreneur shifts the risks by insuring against them, he will cease to be an entrepreneur and would not receive any profit. Therefore, profit arises only in connection with uninsured risks, and until the uncertainty ends with the sale of the entrepreneur's product, the amount of the profit cannot be determined.[33]

Hawley recognized monopoly gain as a form of economic reward which fell outside of his profit theory. He placed monopoly gains in a separate category and considered distribution to consist of rent, wages, interest, profits, and monopoly gains. He could not completely disassociate monopoly gains from profit, so he tried to clarify this position by stating that monopoly gains were to be found merely as additions to the remaining shares in distribution. There were monopoly rents, monopoly wages, and monopoly additions to profits.[34] Monopoly gains did not arise from the operation of productive forces. They were merely distributive gains and did not constitute a form of industrial income at all. He stated that a

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[33] Ibid., p. 465. [34] Ibid., p. 468.

monopolist could make no profits, since there was no uncertainty about the cost and selling prices of the goods in which he dealt, but he nevertheless obtained monopoly gains from some advantages which sheltered him from competition.[35]

Realizing the difficulty of separating monopoly gain and reward for risk-taking in any one business, he looked to them as being almost one. Regarding theories which considered wages of management, interest, insurance, and monopoly gains as constituents of profit, Hawley stated that "The risk theory denies that any one of them with the quasi-exception of the latter, are such constituents;" and later, that "the reward for risk retained and the monopoly gain attached to it are therefore inseparable by any analysis found upon cost to the producer, and are both entitled to be considered as profit."[36] He held the view that monopoly gains attached to business concerns differed from monopoly gains attached to wages, rent, and interest; since the latter gains were predetermined and consequently entered the cost of production. The monopoly gain and profits, on the other hand, were not predetermined and did not enter into the cost of production.[37]

Aside from minor points of doubt, Hawley's theory is criticized on the ground of his assumption that there was a function of risk bearing which was quite separate from the functions of

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[35]Hawley, Quarterly Journal of Economics, (November, 1900), No. 15, pp. 75-105.

[36]Hawley, Quarterly Journal of Economics, (July, 1893), p. 462.

[37]Ibid.

providing land, capital, and labor.[38] Risk bearing is involved in all economic functions, and no one class bears it exclusively and no activity is free from it. Hawley's contribution to the development of profit theory was his elimination of wages of management from the concept of profit. By separation of the wages of management from the concept of profit, only the risk element remained of the classical definition. Meanwhile, a few economists were suggesting that even the risk element should be deleted; that is, the profit was not a universal distributive share at all. According to Veblen, profit arises out of favorable business situations, brought about either consciously or unconsciously, and is not the result of productive efforts of businessmen. On the contrary, it is due to the vested right or ownership, and is extorted from public in as large a sum as possible.[39]

It was John Bates Clark, however, who divorced profit from the last remaining factor of the classical definition: "risk bearing." "This last and complete separation necessitated the setting up of an entirely new concept of profit."[40] According to Clark, profits were the result of economic dynamics. They were a product of business equilibrium and tended to disappear as equilibrium was restored. His concept of profit is so closely related to his

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[38]Hopkins, Review of Economic Studies, (October, 1933), p. 60-64.

[39]Thorstein Veblen, The Theory of Business Enterprise (New York: Charles Scribner's Sons, 1932), pp. 374-400.

[40]Hopkins, Review of Economic Studies, (October, 1933), p. 63.

views on the general Theory of Distribution that a brief summary of the latter will clear the way to better understanding of the former.

Clark's treatment of distribution theory proceeded from the assumption that "all real knowledge of the laws of movement depends upon an adequate knowledge of the laws of rest."[41] He further assumed absolute freedom of competition, stationary capital and population. There were no inventions, no changes in productive processes and no consolidations of capital and labor.[42] In this way he eliminated the influences of progress and friction which he regarded as the main disturbing forces against free competition and static conditions. Thus, he cleared the way for the study of fixed standards and fixed prices. In his static state there existed perfect mobility of resources but there was no motion. Each factor received what it produced since cost and selling price were always equal. Clark's static prices are the 'natural prices' of the classical economist:

> The prices of goods in the older theories said to be 'natural' when they equal the cost of producing them; . . . in reality their 'natural prices' were static prices. They were those to which an actual market would conform, if dynamic influences were wholly to cease.[43]

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[41] John Bates Clark, The Distribution of Wealth (New York: The MacMillan Company, 1938), p. 442.

[42] Ibid., p. 72. [43] Ibid., p. 69

In considering the reward to labor in distribution, he made use of the Final Utility Theory, indicating that labor will be employed up to the point where the value of the additional product would only just cover the wage which the employer would have to pay to the additional worker. Assuming interchangeability of productive forces, the wages of the workers were equivalent to the wage of the least needed marginal worker. Since the wage of the least needed marginal worker was determined by his productivity, it followed that the wages of all laborers were determined by the principle of Final Specific productivity.[44]

Clark applied the same reasoning to capital, that is, interest tends to equal the product of marginal capital operating in an indifference zone. In his view, rent was unworthy of specific treatment. Rent, just like wages and interest, was the sum of a series of surpluses.[45] In other words, all incomes could be described as rent. Rent was a gross sum, but net rent and interest were identical.[46] (Equality of net rent and interest stems from the fact that Clark viewed land as capital.)* Having explained interest, rent, and wages, he was faced with the question of profits. His views on this rested on his conception of the functions of the entrepreneur. He drew a distinction between the work of an entrepreneur and superintendence or management. The manager performed

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[44] Ibid., p. 106. [45] Ibid., p. 195. [46] Ibid., pp. 334-353.

*See Chapter 22, Clark, The Distribution of Wealth.

duties which were labor and could be compensated by wages. He came to the conclusion that in a Static State, i.e.

> If society were without changes and disturbances, if competition were absolutely free, and if labor and capital were so mobile that the slightest inducement would cause them to pass from one brand of business to another, there would be no true profits in any business, and labor and capital would create and get the whole social income.[47]

Profits, according to Clark then, are the result exclusively of dynamic changes. "Obviously, from these changes two general results must follow: first, values, wages, and interest will differ from the static standards; second, the static standards themselves will always be changing."[48] Profit thus created goes to the entrepreneur because he is the co-ordinating owner of the finished or marketable goods. "He makes the supreme decisions which now and again lead to changes in the business."[49]

According to Clark, since dynamic developments in the course of time lead to static adjustments, that which goes to the entrepreneur as profit will go the laborers and the capitalists as wages and interest when the static conditions are achieved. Profit is then incentive which brings about improvement, which in turn provides permanent additions to wages and interest.[50]

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[47] John B. Clark, Essentials of Economic Theory (New York: The MacMillan Company, 1907), pp. 75-8.

[48] Clark, The Distribution of Wealth, p. 404.

[49] Clark, Essentials of Economic Theory, p. 123.

[50] Clark, The Distribution of Wealth, p. 411.

Thus it is apparent that Clark's conclusion was very optimistic and it stood as a bulwark of the existing capitalistic system.

It was upon this rudimentary foundation that F. H. Knight took the first steps toward the building of a new theoretical concept.[51] Knight rejects the proposition that the function of the entrepreneur is the co-ordination of factors of production made possible by the fact of his ownership. The co-ordinating factor, according to Knight, belongs to the salaried manager. The only function of the entrepreneur is the assumption of ultimate responsibility. To identify this responsibility as risk is incorrect, for risk is subject to actuarial computation.

Profit to Knight is a residual income to the entrepreneur after he has paid the returns to the other factors of production that he has hired. If the appropriate amount of wages, rent, and interest is paid from the income received by the entrepreneur for the use of the factors of production, the remainder of the residual return would be profit or loss to the entrepreneur. Under the conditions of perfect knowledge of all relevant economic circumstances and no uncertainty of the future events, and under perfect competition, profit will cease to exist. In such a situation each factor will be paid by its marginal value product, and there could not be a residue.

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[51]Knight, Risk, Uncertainty and Profit, p. 43.

What prevents perfect competition is uncertainty and therefore uncertainty is the ultimate cause of profit. Ordinary risk is measurable. It can be expressed as a cost whose amount can be estimated with relative accuracy. True uncertainty, however, is an unmeasurable risk; either the time of its occurrence or its amount cannot be estimated with the reliability necessary to account for it as an estimated cost. Thus the entrepreneur who operates his firm under conditions where his calculations must be based on items which cannot be accurately measured is likely to miscalculate in his valuation of the contributions of the factors of production. If entrepreneurs as a group are over-optimistic, they will over-pay the factors and have negative profits. If entrepreneurs as a group are pessimistic, they will underpay the factors of production and realize profit. The true cause of profits, therefore, according to Knight, is the presence of uncertainty which causes the realized events to deviate from the expected events.[52]

J. F. Weston, taking the next step, states: "Since profit is the result of uncertainty and 'uncertainty results in the deviation of actual from expected returns,' then 'profit is the difference between ex ante and ex-post incomes.'"[53] Although Weston makes

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[52] Ibid., Chapters 9-10.

[53] J. Fred Weston, "A Generalized Uncertainty Theory of Profit," American Economic Review, Vol. 40 (March, 1950), No. 1, p. 46.

certain modifications in Knight's uncertainty theory of profit,[54] the origin of profit under such theory still remains in the "error in judgment" of the entrepreneur and "imperfection of knowledge" of the future events as well as imperfection of competition.

Current Concepts of Profit

There are many divergent views regarding the nature of profit among economists. In order to simplify the matter, we shall try to aggregate profit concepts briefly into three broad categories. First, attempt will be made to deal with those concepts that emphasize the manner in which profits are generated. The theories in this category are usually termed functional, for they attempt to explain profit as a reward for certain functions. Second, we shall consider the theories which classify profits in relation to recipients. In this class profits are examined as an income share which are given to a certain class or a particular type of individual in the population. Third, profit is sometimes seen as a windfall gain. In such cases, profit is not a return due to the performance of certain functions, but is a return as a result of an advantageous position in the business world.

Functional Theories of Profit

The fundamental problem in this category is to discover how profits arise. Although a great number of profit theories have dealt with this problem, the divergence of the answers is overwhelming.

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[54]Weston, American Economic Review, Vol. 40 (March, 1950), pp. 40-60.

Many of the functional theories, however, have their origins in both the classical economics and in the uncertainty theory as advanced by F. Knight.[55] According to Knight, under the conditions of perfect competition there would be no profit, because profit is the non-contractual residual that remains to the entrepreneur after payment of all other contractual costs. Under perfect competition all the plans would be realized and consequently no residual could arise. Profits arise because of the presence of uncertainty which causes the results to differ from plans. Uncertainty, being an unmeasurable risk, is the cause of profit.[56] The function of the entrepreneur in this regard is the assumption of ultimate responsibility which is uncertainty bearing, and the reward is the difference between anticipated and actual net income.

Knight's theory of profit has been modified by J. F. Weston, who has stated that "the relevant distinction for profit theory is not between risk and uncertainty, but between transformable and nontransformable risks."[57] A transformable risk in Weston's view is one which can be reduced, eliminated, or converted into a definite cost. The remaining nontransformable risks give rise to profit. Weston feels that "uncertainty results in the deviation of actual from expected returns, then profit is the difference between ex ante and ex-post incomes."[58] In the face of uncertainty the decision

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[55]Joseph W. McGuire, Theories of Business Behavior (Englewood Cliffs: Prentice-Hall, Inc., 1964), p. 54.

[56]Knight, Risk, Uncertainty and Profit, Chapter 9.

[57]Weston, American Economic Review, p. 10. [58]Ibid.

makers must decide on the course of certain actions, they must plan for the future, and they must expect certain outcomes. The anticipated result, according to Weston, is only by chance realized and if it is realized, there would be no profit since ex ante and ex post incomes would be equal.[59]

Profits are often considered as payment for performance of entrepreneural functions under conditions of uncertainty. Although there seems to be considerable agreement supporting this view, there is little agreement on the meaning of entrepreneural functions.[60] C. A. Tuttle considered the entrepreneur's function to be the organization of productive factors.[61] R. A. Gordon, on the other hand, defined it as business leadership.[62] Professor Schumpeter regarded the entrepreneur as the innovator, with profit resulting from innovation.[63] These are but a few of the various ways the function of the entrepreneur has been defined. But whatever this function may be, it is said, profit results from performing such functions.

Profit as a Distributive Share

For many economists, the purpose of the distribution theory is to explain the division of the total income among social groups.

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[59] Ibid., p. 46. [60] McGuire, Theories of Business Behavior, p. 55.

[61] C. A. Tuttle, "The Functions of the Entrepreneur," American Economic Review, Vol. 17 (1927), pp. 13-25.

[62] R. A. Gordon, Business Leadership in the Large Corporation, Part III, (Washington, D. C.: Brookings Institute, 1945).

[63] Joseph A. Schumpeter, The Theory of Economic Development, trans. Redvers Opic (Cambridge: Harvard University Press, 1934).

For this purpose, profit must be considered in some way which would give meaning to that share as an aggregate income.[64] Profits, therefore, are often defined according to the persons or institutions to which they accrue. In this sense, profit is the ex ante pure return that is allocated to, rather than originated by, specific persons, classes, or institutions.[65]

An immediate problem with this analysis has been the distribution of profits between institutions and persons. Is it possible for profits to be allocated to persons as well as to institutions? In accounting, reference is often made to undistributed profits, or retained earnings, which implies that profits could be withheld from individuals and accrue to the corporations. This matter has also been clouded by economists who discuss the enterprise and entrepreneur as one and the same, and who sometimes term profit as the return to the firm, and at other times talk of profit as the return to the firm's owners.[66] Davis, for example, considers that the firm is the entrepreneur and profit is the net income of the enterprise.[67] Weston, on the other hand, does not accept the convenient fiction of the impersonal institution as an ultimate income recipient separated by convention from the people who constitute it.[68]

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[64] R. M. Davis, "The Current State of Profit Theory," American Economic Review, Vol. 42 (January, 1952), pp. 245-64.

[65] McGuire, Theories of Business Behavior, p. 52.

[66] Ibid.

[67] Davis, American Economic Review, p. 249.

[68] Weston, American Economic Review, pp. 40-60.

If, however, profits are to be considered primarily as returns to persons, the difficulty would be the precise description of these individuals. Are profits received by the owners of a business enterprise? Or do executives receive profits? Or do both? In small enterprises where the ownership and management are not separated there would be no problems, for the owners who are also the managers will receive the profits. But in large corporations where ownership and management are separated, the definition of profit as return to one, or the other, or both, becomes confused, particularly if profits are considered to result from entrepreneurship. For who are the entrepreneurs in large corporations, stockholders or management? In this case R. A. Gordon claims that profits should include the income of nonowner entrepreneur.[69] There seems, however, to be an agreement among many economists that the important decision is the selection of men to make decisions.[70] In this view, then, the stockholders of a giant corporation could be considered entrepreneurs since they make final decisions to hire, fire, or retain the management.

Profit as a Windfall Gain

Profits may result by virtue of an advantageous position in business. For example, profits may arise for short periods as the

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[69]R. A. Gordon, Enterprise, Profit and Modern Corporations, Readings in the Theory of Income Distribution, pp. 558-570.

[70]McGuire, Theories of Business Behavior, p. 53.

result of particular circumstances that cause demand to exceed supply. Profits may also result because of market imperfection[71] and monopoly conditions. In this case, monopolies may obtain profits by selling their products at a higher price than that which would prevail under competitive market conditions. At the same time, the existence of certain obstacles may prevent new firms from entering the industries in which monopolies operate.

The Role of Profit in the American Economy

Having studied the development of profit concepts historically, some attention should be given to the role which profit plays in the American economy. While the economist has constantly been concerned with profit as a residual distributive share which is justified by the uncertainty which the capitalist entrepreneur faces, he has done so only under the assumption of pure competition. When he has analysed profit under conditions of monopoly, he has generally assumed that monopoly profit is an indication of misallocation of economic resources. On the other hand, since he typically views the businessman operating under conditions of pure competition, the economist might argue that the businessman pursues a profit motive, but that the businessman cannot hope to maintain profit except in a short run period. Thus, the existence of profit under

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[71] F. Machlup, "Competition, Pliopoly and Profit," Economica, IX (February and May, 1942), pp. 15-7, 154-56.

conditions of pure competition is the essential impetus which allocates resources in an optimal manner and by its very nature is a temporary condition.

Although the economist speaks of the roles of profit in the same way as does the businessman, the perception of the role of profit is different among businessmen. The distinction comes in this way: the economist analyses profit and distinguishes between short-run profit and monopoly profit. Typically the existence of short-run profit under competition reallocates resources and is thus desirable. Monopoly profit, on the other hand, is undesirable. The businessman does not make this distinction. He tends to lump both concepts of profit into one. He borrows portions of the profit concept by taking the assigned roles of profit as regards allocation, etc., but he generally neglects the distinction between competitive and monopoly profit.

American businessmen customarily do not view profit as a passive distributive income share which may be left over in the corporate pot after the other distributive shares have been paid out. To those actively engaged in business, profit is closely knit with the economic system under which they presumably operate. In the words of August C. Long, "Without the incentive of profit our free enterprise economy could not operate successfully."[72] G. Keith Funston, the President of the New York Stock Exchange, gives a

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[72]August C. Long, "What is Wrong and Right With Profits," Dun's Review and Modern Industry, Vol. 78 (September, 1961), p. 34.

definition of profit which is most representative of this concept among the businessmen in the United States:

> The meaning of profit is the spark which ignites and sustains our individual and free enterprise system. The search for profit is the main reason why people devote their time, their strength, their talents, their brain power, and their money to any business endeavor. For they know that when profits cease, their jobs are apt to cease also.
>
> The expectations of profits provides business with the incentive to produce and sell to the American people what they want, when they want it, and where they want it. You'll notice I said the expectations of profits, for profits are not always realized. Indeed, red ink may occasionally be found on the books of some of our best run companies. But when losses do occur, the American businessman does't need some central government bureau to tell him what to do. He knows what's wrong or he finds out in a hurry. And if he wants to stay in business, he takes steps immediately to correct whatever is wrong.
>
> Profits, then, are not an end in themselves. They are important only because they make possible the things a free people want . . . not only tailfins, and television sets, but better homes, better schools, improved highways, and scientific and medical research which makes life longer, fuller, richer.[73]

From this definition it appears that profit has three distinct roles; it acts as an incentive to growth, as a source of investment funds, and as a means of allocation of resources.

Profit as a Source of Investment

America's wealth, as well as her industrial power, has multiplied mainly as a result of the re-investment of industrial

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[73] G. Keith Funston, Controller, XXIX (October, 1961), p. 491.

profits by using these profits for the improvement of industrial facilities. "Many enterprises have grown from small beginnings into corporations of large size and financial strength because the owners plowed profits back into the business instead of hoarding them or using them for consumption purposes."[74] The high level of investment in American economic history has generally been associated with a high level of employment and overall prosperity. According to A. C. Long, in the post-war period alone, "The average investment for each production worker in the manufacturing industries rose from about $7,000 in 1946 to approximately $18,000 in 1959."[75] The steady growth of investments has been the main reason for the rise in both quantity and quality of tools provided by industry to supplement the efforts of labor.

The increase in investments has been largely responsible for the rise of the entire American output at an average rate of 2.4 per cent annually since 1900. This indicates that the amount produced with an hour's labor has been doubling every thirty years.[76] On the other hand, investment resulting from profit is a major source of employment. When the prospects of obtaining a profit are good, production and employment will increase. When the outlook for obtaining profit seems favorable, the gross national product and

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[74]Frank D. Newbury, The American Economic System (New York: McGraw-Hill Book Co., Inc., 1950), p. 19.

[75]Long, Dun's Review and Modern Industry, Vol. 78, p. 35.

[76]Ibid.

employment level react accordingly as new investments are injected into the economy in the form of new plants, new business, and new production facilities. "It is through profit that enormous sums are secured and spent annually to replace worn out or obsolete equipment and insure jobs for the future."[77] In addition, profits provide equipment for the incoming labor force of the future.

Profits are usually reinvested in two different ways: one way is known as the "captive" method, which involves withholding part of the after-tax profits in the corporation instead of paying them out as dividends. "Estimates show retained profit accounted for $82 billion worth of new investment in plants and equipment this past decade."[78] The second method of reinvesting profit is indirect: that is, some of the dividend expenditures are captured by corporations through the issuance of new stocks.

It is estimated by the United States Department of Commerce that the minimum amount needed to provide employment for ten million new workers during the present decade is $163 billion. If, however, the cost of capital should rise one-third by 1970, at least $200 billion would be required.[79] This shows the importance of profit as the source of investment since it effects the gross national product, employment, and increased productivity. As such, this role cannot be overemphasized.

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[77] Leonard J. Kopona, "Is Profit a Dirty Word," Banking, V-VI, (April, 1964), p. 112.

[78] Ibid., p. 116. [79] Ibid.

Profit as Incentive

Incentive means a good is produced because the producer is interested to make a profit from the sale of it. "Under capitalism the desire to make profit is the main incentive or motive of most individuals and groups who organize and carry on business enterprises of nearly all kinds."[80] It is the desire to earn a profit that causes people to strive to accumulate capital and to employ it. The possibility of making profit incites them to chance the risks which bring about new products, new businesses, great advances in living standards and material well-being.[81] In other words, an important role of profit as incentive is to encourage men to accumulate capital and risk their time and profit by initiating new enterprises to exert the extra effort on which progress depends.

> The real incentive is opportunity to win the top prizes by greater skill and ingenuity, by greater enterprise and better judgment, by the divining of new needs, and harnessing of new resources to earn more than the average profit. The profit incentive is the force that governs the decisions of businessmen and gives coherence and a common direction to the millions of independent decisions and plans of American Industry.[82]

Incentive for profit, furthermore, is a factor in determining the

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[80]James Haney Dodd, J. W. Kennedy, and A. R. Olson, Applied Economics, (Cincinnati: Southwestern Publishing Co., 1962), p. 23.

[81]Frank S. Capon, "Interpreting the Profit Motive," Controller, XXIX, p. 490.

[82]Newbury, American Economic System, p. 196.

demand for capital goods. It is the prospect of opportunity for gain which encourages the businessman to take the necessary steps in converting savings into investments.

Profit as the Guardian of Efficient Use of Resources

It is generally held that profit is the indispensable ingredient that makes the American economic system operate. "In the attempt to make profit entrepreneurs allocate resources in such a way as to maximize utility and provide consumers with the most favorable mix of goods and services."[83] If the entrepreneur is efficient and qualified in using resources in the most efficient manner, he will be rewarded with an economic profit. Should he misinterpret the needs or misallocate the resources, he will sustain an economic loss. Business losses, if continued, eliminate inefficient owners and managers. "The necessity for solvency guarantees that the country's capital, labor, and natural resources will be used most economically by the most skillful managers and that the greatest volume of goods will be produced for the least practicable expenditure of resources."[84]

Generally, those who possess energy, initiative, resourcefulness and ability to earn profit will accumulate capital and

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[83]Konopa, Banking, p. 114.

[84]Newbury, American Economic System, p. 202.

exercise more and more control over the available resources of the country. Those who lack these essential qualities fail to earn profits and so lose their power over capital. In short, the profitability of firms functions as a criterion in directing the resources from the least economical uses to the most economical channels.

Summary

The concept of profit has existed since the earliest time of recorded history, but its significance as an economic phenomenon found its origin in the writings of the Physiocrats. To the Physiocrats, profit represented the reward for the work of superintendence and direction as compensation for undefined risks and as interest on capital. In the classical view, profit was composed of interest, wages of management, and the reward for risk-taking.

In American economic development, however, the classical concept of profit was refined in three successive stages. In the first stage, interest was separated from this concept; and in the second and third stages, wages of management and risk-taking were respectively dissociated from the classical definition. In later development some considered profit to arise out of favorable business situations, and still others regarded it a result of dynamic changes in society, and some economists also viewed it as a residual income arising from uncertainty of events and imperfect competition.

In recent years certain economists[+] have found the origin of profit in the activities of the entrepreneur, and others have refined the uncertainty theory of profit.*

Regarding the functions of profit, it was disclosed that profit served as the source of the reinvestment of funds, as the incentive for undertaking, and finally as the guidance for efficient allocation of resources.

[+]Refer to "Functional Theories of Profit," p. 22.

*See page 21.

CHAPTER III

THE MARXIAN CONCEPT OF PROFIT

The value of all commodities, according to Marx, is merely congealed labor. Profit, including interest, is the surplus value created by labor and appropriated to the capitalist by the capitalist; this profit plus interest represents the wages withheld by the capitalist from the worker. Thus, profit consists of the fruit of exploitation of labor by those who own and control the means of production.

The Labor Theory of Value

Because profit is the surplus value and all value is created by labor, according to the Marxian concept, an analysis of surplus-value necessitates a clear understanding of the labor theory of value.

Commodity, Use-Value and Exchange Value

Marx saw the capitalist world as an immense accumulation of commodities. In his analysis he defined a commodity as "an object outside of us, a thing that by its properties satisfies human wants of some sort or other."[1]

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[1]Karl Marx, Capital: A Critique of Political Economy (New York: The Modern Library, 1906), Part I, Chapter I, p. 41.

A commodity is qualified as such in two ways. First, a commodity is useful. It has use-value to the consumer, which means that it must be in demand by an individual. Use-value is limited, however, by the physical properties of the commodity and cannot exist apart from that commodity.[2] "Use-values become a reality," Marx asserts, "only by use or consumption," and are also the essential components of all wealth, "whatever may be the social form of that wealth."[3]

In the second place, a commodity has an exchange value, a definite quantity of some other commodity or commodities. Let us assume for example, that a bushel of wheat is exchanged for X gold, Y silk, or Z shovels, etc. This is to say that the wheat is exchanged for other commodities in different proportions. It is clear that wheat has many exchange values in relation to other commodities. However, X gold, Y silk, and Z shovels each represent the exchange value of a bushel of wheat and therefore must be equal as exchange value to one another.[4] Consequently, "First: The valid exchange values of a given commodity express something equal; secondly: exchange value generally is only the mode of expression, the phenomenal form, of something contained in it, yet undistinguishable from it."[5]

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[2] Ibid., p. 42. [3] Ibid., p. 43.

[4] Ibid., p. 43. [5] Ibid.

Using the examples of wheat and silk, the exchange equation between them can be expressed thus: one bushel of wheat = Y silk; for whatever the proportions may be, there is something equally common to both silk and wheat, meaning that these two commodities must be equal to a third thing which is neither wheat nor silk.

This common property could not be physical or chemical properties of commodities, for these properties make up the use-value.[6] But exchange of commodities is an act characterized with total abstraction from use-value. If we abstract from the use-value that which does not account for this common something, we are left only with one common property. Both of these commodities are products of labor. That is, both possess human labor in abstract[7] (labor in general regardless of its form or quality). Now that we have discovered this common denominator to wheat and silk, these commodities tell us that human labor-power has been expended in their production; in other words, human labor is embodied in them. Values are a crystal of this social substance, namely labor.[8] A commodity, therefore, has value because human labor in the abstract has been embodied in it.

Measure of Exchange Value--Socially Necessary Labor

Since the value of a commodity is created by labor, the magnitude of its value, states Marx, is measured by the amount of labor embodied in the commodity. This seems to imply that the

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[6] Ibid., p. 44. [7] Ibid. [8] Ibid.

more inactive the laborer, the more value he will create. Anticipating this difficulty Marx states:

> . . . Some people think that if the value of a commodity is determined by the quantity of labor spent on it, the more idle and unskillful the laborer, the more valuable would his commodity be, because more time would be required in its production. The labor, however, that forms the substance of value is homogeneous human labor, expenditure of one uniform labor-power, composed though it be of innumerable individual units. Each of these units is the same as any other, so far as it has the character of the average labor-power of society, and takes effect as such; no more time than is needed on an average, nor more than is socially necessary.[9]

Here, then, are many commodity producers, and they spend different amounts of labor producing identical commodities. The magnitude of the value of a commodity, therefore, cannot be measured by each individual producer. If the magnitude of the value of a commodity were determined by the actual expenditure of labor by each producer, there would be no single magnitude of value for identical commodities. In exchange, however, identical commodities are of equal value. The magnitude of the value of a commodity is determined not by the individual labor-time spent by each producer, but by the labor-time which is socially necessary for the production of the given commodity.

Socially necessary labor-time means the time necessary for the making of one single commodity under average social conditions of production in the given branch of production. As a rule, the socially necessary labor time is determined by those conditions of production

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[9] *Ibid.*, p. 46.

in which the largest amount of commodities of the given kind is created.[10] The amount of socially necessary time determines the value of any commodity. "A commodity has a value, because it is a crystallization of social labor."[11] The magnitude of its value is determined by that social substance which is embodied in it.

Socially necessary labor time is constantly changing; also, the magnitude of value constantly changes. Changes in the socially necessary labor time occur as a result of changes in the productivity of labor. In turn, the labor productivity is affected by many factors such as the average amount of the skill of the workman, the state of technology, the organization of production, and physical conditions.[12] In general, the greater the productivity of the labor (average), the less the amount of socially necessary labor; the less the amount of labor embodies in a commodity, the less is its value. On the other hand, the less the productivity of labor (average), the greater the amount of socially necessary labor; the greater the amount of embodied labor in a commodity, the greater would be its value. Therefore, "the values of commodities are directly as the times of labor employed in their production, and are inversely as the productive powers of the labor employed."[13]

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[10] Ibid., p. 46.

[11] Karl Marx. Value, Price and Profit, p. 57.

[12] Ibid., p. 64.

[13] Ibid., p. 65.

Social Use-Value and Commodities

"A thing can be a use-value without having value."[14] By this, Marx means things whose utility to man is not created by labor; such as "air," "soil," and "natural meadows."[15] Furthermore, a thing may embody labor in its production and yet not become a commodity; this is in reference to goods produced and directly consumed by the producer himself.[16] Although the producer has produced use-value and has satisfied his own wants in the act of consumption, according to Marx, this producer has not created a commodity. A man creates commodity only when he is creating use-value for the others, in other words, social use-value.[17] In addition, if a thing does not have any utility, it is not a commodity; and labor expended in its production represents wasted labor. Therefore, nothing can have value unless it contains some use-value.[18]

The use-value inherent in commodities is a combination of two elements, matter and labor. If the labor expended be abstracted from the commodity, there will always be a material substance left. This principle tells us that, "the labor is not the only source of material wealth, of use-values produced by labour. As William Petty puts it, labour is its father and the earth its mother."[19]

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[14] Marx, Capital, p. 47. [15] Ibid., p. 48.

[16] Ibid., p. 48. [17] Ibid., p. 48. [18] Ibid.

[19] Ibid., p. 50.

Dual Character of Labor

In a capitalist mode of production, labor itself has a double character. It produces use-value as well as exchange value. To the variety of use-values corresponds a variety of useful human labor.[20] Use-values are as diverse as the diverse kinds of labor of which they are the product. The kinds of labor differ from one another in the methods and means of labor applied. A definite kind of particular labor is thus embodied in each use-value. However, irrespective of its definite feature, labor is always an expenditure of human energy--physical, mental, and nervous--and in this sense it is homogeneous human labor, labor in general. "Labor considered as an expenditure of human labor-power generally, without regard to its concrete form, is abstract labor, and it is this that creates the value of a commodity."[21]

Thus, in regard to use-value, labor embodied is of qualitative significance, and in relation to exchange value it is of quantitative character. Every type of labor can be expressed in terms of simple, least skilled forms of human labor. "Skilled labor counts only as simple labor intensified, or rather, as multiplied simple labor. . . ."[22] In other words, a given quantity of skilled labor would be equal to a larger quantity of simple labor. Therefore, a skilled laborer at a given time produces commodities with a higher exchange value than the one with relatively less skill.

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[20] Ibid., p. 49.

[21] Clemens Dutt (ed), Fundamentals of Marxism-Leninism (2nd rev. ed.; Moscow: Foreign Languages Publishing House, 1963), p. 214.

[22] Marx, Capital, p. 51.

Commodity, Money and Exchange

As earlier stated, a thing becomes a commodity only when it has use-value for other than the owner; if it has use-value for the owner, it ceases to be a commodity. For the owner it is only exchange value, or a material depository of exchange value.

For a commodity to become use-value, it must be capable of satisfying a particular want. If this condition is not met, the labor expended in its production would be useless labor. On the other hand, for a commodity's use-value to be realized there must be a general process of exchange. In the process of exchange, commodities leave the owner for whom they have no use-value and are transferred to people who desire the use-value inherent in the commodities.[23] In this process the material qualities of the commodities have not changed. What has been altered is its relation to man. In the hands of a tailor a coat is only the carrier of an economic relation, but in the hands of the customer the coat becomes use-value. "Thus, the only change of form that commodities undergo while becoming use-values, consists in the fact that they cease to be, as a matter of form, non-use-values to their owners, and use-values to those who do not own them."[24]

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[23]Karl Marx, A Contribution to the Critique of Political Economy (trans. 2nd German ed.; N. I. Stone, Chicago: Charles H. Kerr and Company, 1911), p. 42.

[24]Ibid.

In the process of exchange, Marx asserts, commodities become use-values and exchange values. As exchange values commodities are of equal quality, but they are different in quantity. As use-values, however, commodities are of different qualities. This dual character of a commodity in exchange leads to a difficulty. One and the same exchange appears to be an equivalence of things which possess equal quantities of labor time, and the exchange is also a relation of certain use-values designed for satisfaction of certain wants. Exchange seems to be equivalence on one hand and non-equivalence on the other.[25]

The problem is that in order to become an exchange value the commodity has to be disposed of as use-value, while its disposal as a use-value presupposes its existence as exchange value. Marx solves this apparent difficulty by assigning a universal equivalence to one commodity. This commodity is given, aside from the limited capacity of specific use-value, the ability to represent embodied social labor. The commodity acquires a new value in addition to its own particular use-value, which will be the same for everyone, and becomes the carrier of exchange value.[26] This particular commodity is money, which is of universal equivalence. In relation to money different commodities appear as different quantities of one and the same commodity.

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[25] Ibid., p. 47. [26] Ibid., p. 51.

> Money is a crystal formed of necessity in the course of the exchanges, whereby different products of labor are practically equated to one another and thus by practice converted into commodities. The historical progress and extension of exchanges develops the contract, latent in commodities, between use-value and value. The necessity for giving an external expression to this contrast for the purpose of commercial intercourse urges on the establishment of an independent form of value, and finds no rest until it is once and for all satisfied by the differentiation of commodities and money.[27]

Money, however, does not produce the exchange value, and neither does it make the commodities commensurable. Actually the exchange value of commodities finds expression in the money which has become the universal equivalent and common measure of value by a social act and necessity. The value of a commodity expressed in money is called its price. Price, therefore, is the monetary expression of the value of a commodity.[28]

The Law of Value

"The law of value is an economic law of commodity production, according to which the exchange of commodities is effected in accordance with the amount of socially necessary labor expended on their production."[29] In other words, the law of value means that one commodity is exchanged for another according to its value. Consequently, the price paid for a commodity should correspond to

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[27]Marx, Capital, p. 99. [28]Ibid., p. 107

[29]Dutt, Fundamentals of Marxism-Leninism, p. 216.

its value. But in actual fact the prices of commodities are either higher or lower than the values of the commodities because of the influence of supply and demand. When the demand exceeds the supply, the commodities are sold at prices above their values; when the supply is greater than the demand, the prices of commodities are below their values.[30]

In the long-run, however, the prices of commodities tend to gravitate towards their values. If the price of a commodity is greater than its value, it would induce a greater production; and as a result supply would increase, forcing the price of the commodity down close to its value. On the other hand, when the price of a given commodity falls below its value, production is curtailed, resulting in a shortage of the commodity in question. The reduction in supply will ultimately force the price up to the level of value. This indicates that the deviation of prices from values on the whole tends to cancel out. Therefore, at any given time the prices of commodities may deviate from their values, but "average prices over an extended period fairly accurately coincide with values."[31]

By the law of value, Marx has established the fact that in the long-run, surplus cannot emerge from selling commodities above their values; and by overcharging, what one capitalist

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[30] Ibid., p. 216. [31] Ibid., p. 217.

might gain would be another's loss. If the surplus does not emerge from selling commodities at prices above their values, whence does the surplus to the capitalist arise?

Surplus Value-Profit

> Surplus value is the source of capitalist profit. It is obtained by the capitalist from the laborer in the following manner: The value of labor power (its market price) is only its subsistence. . . . Since the laborer, working with modern machinery, is able to earn the value of subsistence (his wage) with only a few hours' work out of the working day, the value of his output for the remainder of the working day is appropriated by the capitalist as surplus value. Surplus value is the value created by the laborer but alienated by the capitalist.[32]

Labor and Labor-Power

In order to explain the source of surplus value, Marx drew a distinction between "labor" and "labor-power." This distinction was necessary, since in his view surplus value represented stolen labor-power in capitalist production.

What the workman gives to the employer represents greater value than what he receives in the form of wages. Marx separates the thing a workman sells to his employer in exchange for his wage from the thing the employer receives from the worker. They are actually one and the same, but in two different positions. Marx made use of a new term in this connection--"labor-power," which

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[32]Robert Freedman (ed), Marx on Economics (New York: Harcourt, Brace & World, Inc., 1961), p. 79.

he defined as "labor-capacity." Labor-power is the aggregate of the physical and mental capabilities possessed by man, which he uses whenever he produces material wealth.[33] From this Marx concludes labor to be labor-power in use. In the process of exchange between the workman and the employer, the workman sells labor-power, and the employer gets labor.[34]

Labor-power cannot be separated from the person of the workman, as the labor becomes embodied in commodities which the employer offers for sale in the market. Labor and labor-power represent different quantities of values and thus different prices. Labor-power itself is a commodity and subject to the law of value; whereas, labor, when used in creation of value, is not a commodity.[35] Surplus-value comes into being from the fact that the value of the product of labor is not the same as the value of the labor-power expended in the making of the product. The former is greater in magnitude than the latter; the difference between them accounts for the surplus value.

How Surplus is Created

By his inquiry into surplus-value, Marx provided an exhaustive analysis of the process by which workers are exploited under the capitalist system. His analysis begins with the fact that the

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[33]Marx, Capital, p. 185. [34]Ibid.

[35]G. D. H. Cole, What Marx Really Meant (London: Victor Gollancz, LTD, 1934), p. 231.

capitalists first purchase commodities needed for production. After production is completed, they sell the products for a greater amount of money than they themselves first advanced. This exchange can be shown as the following formula:

(1) M-C-M

This formula is different from the simple commodity circulation--C-M-C in that under the simple circulation the owner of the commodity sells it only to purchase another commodity. Therefore, the purpose of transforming commodity into money is only to purchase other commodity or commodities for satisfying wants. However, when the process of circulation takes the form of formula (1), then buying is not for the purpose of satisfying wants, but rather for the purpose of selling. Buying in order to sell would make sense only if the capitalist were to get more money by selling his product:

> Now it is evident that the circuit M-C-M would be absurd and without meaning if the intention were to exchange by this means two equal sums of money, £100 for £100. The miser's plan would be far simpler and surer; he sticks to his £100 instead of exposing it to the dangers of circulation.[36]

Whoever buys with the aim of selling buys to sell dearer. The increase in the initial value converts itself into capital, and therefore capital expands. Money, however, is the initial form of capital, and the capitalist mode of production begins with the purchase of means of production (raw material and equipment) and labor power. This is transformation of money capital into productive capital. Capitalists sell the produced product in the

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[36]Marx, Capital, pp. 164-65.

market and convert the produced commodities into money. But the amount of this money received is greater than the amount of initial money advanced. So the formula should more properly be M-C-M', "where M' = M +ΔM = the original sum advanced, plus an increment. This increment or excess over the original value I call 'surplus-value.'"[37] In the market where exchange takes place on the basis of equivalents, and as previously stated no surplus can be obtained by over-charging, how did M' become larger in magnitude than M? Marx's answer is:

> The owner of money can do this solely because he finds a commodity on the market, whose consumption possesses the special property of being a source of new value. This commodity is labor-power.[38]

If labor-power is the source of new value, we must find how its own value is determined before we can discover how it creates the surplus value. Marx asserts the following:

> The value of labor-power is determined, as in the case of every other commodity, by the labor time necessary for the production, and consequently also the reproduction, of this special article. So far as it has value, it represents no more than a definite quantity of the average labor of society incorporated in it.[39]

However, the labor-time required for the production of labor-power is the same as labor-time required for the production of the means of subsistence of the worker. These means of subsistence are

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[37]Marx, Capital, p. 168.

[38]Dutt, Fundamentals of Marxism-Leninism, p. 218.

[39]Marx, Capital, p. 189

historically determined and vary from one country to the next. The means of subsistence will also have to be large enough to ensure the perpetuation of the laboring class allowing them to raise a family.[40] In short, the labor-time required for the production of this means of subsistence determines the value of labor-power.

Assuming the money price of the means of subsistence to be $5, the employer therefore pays to the worker $5 daily. For this wage he requires the worker to work eight hours per day. The capitalist calculates somewhat in the following manner: let us assume that the worker has to assemble a watch in the eight hours that he works. The materials required for production of one watch costs ten dollars, and the other outlay--such as wear and tear of tools used, heating and cooling of the plant, etc.,--represents $2 for one day per worker. This amounts to a total of $17 for the watch that is assembled. The employer calculates that on an average he will receive a price of $22 from his customers, or $5 above and beyond his outlay. According to the law of value, commodities tend to sell at their values, meaning that the value of the watch must be $22. We noted however, that we could account only for $17 of this amount. Where did the extra $5 come from?

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[40] *Ibid.*, p. 190.

To find the source of this extra $5 we must realize that the capitalist buys labor-power and consumes it in the production process. He makes the worker embody his labor in commodities whose exchange value is then determined by the amount of socially necessary labor-time they contain. The product belongs to the capitalist who has employed the worker to expend his labor on materials and means of production which also contain embodied labor. The value of these materials will also be part of the exchange value of the finished product. To the value of materials another outlay must be added--the labor-time which is socially necessary. In buying labor-power, however, the capitalist has bought the use-value, but what he had paid to the laborer is the exchange value of the labor-power which is itself determined by the socially necessary labor time embodied in the laborer's means of subsistence.

The capitalist paid to the worker only $5, which was the exchange value of his labor-power, but the worker in the first four hours of work was able to produce this value. The next four hours he worked he produced five extra dollars which he did not receive, because his wage is determined by the exchange value of his labor-power and not its use-value. The second four hours the worker produced surplus-value for the capitalist. The capitalist was able to do this on the ground that he purchased labor-power of the worker and acquired the right to use the purchased commodity

> 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 buying 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.[41]

Labor-power in the capitalist society is a commodity like any other commodity, but at the same time it is a very peculiar one. Its peculiarity rests on its value-creating power, being the source of value and if properly treated, the source of more value than it possesses itself.[42] In such a society with a given state of technology, it produces greater value than it itself possesses, and with each technological advancement its surplus of daily production rises more than its daily cost.

Now let us refer again to the watch maker. During the first four hours of his labor-time, he assembles a part of the watch whose value is necessary for his own maintenance. Marx refers to this portion as necessary labor-time and the labor expended in this portion as "necessary labor." During the last four hours of labor-time he creates surplus-value. Marx calls this portion of the workers' labor-time "surplus-labor." Thus, surplus-value is created by the labor of a wage-worker over and above the value of his labor-power, and this surplus is retained by the capitalist.

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[41] Aveling, Eleanor Marx (ed.), Karl Marx: Value, Price and Profit (Chicago: Charles H. Kerr and Company, 1928), p. 78.

[42] Ibid., p. 216.

Profit and Its Division Among Various Capitalists

In the Marxian analysis, surplus-value appears as profit in the economic activity of the capitalist. Surplus-value is the only source of profit, and in fact it is profit itself:

> The surplus-value, or that part of the total value of the commodity in which surplus labor or unpaid labor of the working man is realized I call profit.[43]

Surplus-value is created by the labor of the working man. It is appropriated in the first place by the industrial capitalist who owns the enterprise. It is from him that all the other groups of the exploiting class receive surplus-value. The landlord is able to take part of that surplus under the name of rent because of his monopoly power over the land. On the other hand, many capitalists, by lending money to employing capitalists, claim part of the surplus-value as interest. Marx contends that

> Rent, interest, and industrial profit are only different names for different parts of the surplus value of the commodity, or the unpaid labor enclosed in it, and they are equally derived from this source and from this source alone. They are not derived from land as such or from capital as such, but land and capital enable their owners to get their respective shares out of the surplus value extracted by the employing capitalist from the laborer.[44]

If the employing capitalist should use his own capital and be his own landlord, it follows that he would pocket the whole of the surplus value. However, it is often the case that the employing capitalist (industrial capitalist) may need additional capital to increase or meet the demand set by production. To obtain the

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[43] Ibid., p. 20. [44] Ibid.

additional money capital, he will turn to other capitalists and borrow money capital for a definite period of time at the cost of a definite amount known as interest. Interest is that portion of the profit which the industrialist yields to the lending capitalist in return for being granted a loan. The employing capitalist, using the borrowed capital, hires workers and extracts surplus-value. He pays part of this surplus to the lending capitalist in the form of interest. It is clear then that the interest of a loan is a form of surplus-value.

Rent also is a part of the surplus-value. The agricultural capitalist either hires laborers and extracts surplus (in which case he does not part with the portion of surplus known as rent) or the owner of the land does not engage in agriculture himself. He leases the land to a capitalist who has decided to invest his capital in agricultural production. The capitalist hires agricultural workers who create surplus-value. This surplus-value goes primarily to the capitalist tenant-farmer, who divides it into two parts: one part being his profit which is equal to the average profit on the invested capital, the other part being the surplus over and above the average profit and is appropriated by the landlord. The mere ownership of land qualifies the landlord to receive a portion of surplus-value as rent, since without the proprietor's permission no one has the right to farm the land.

Summary

The economic world is an immense accumulation of commodities. These commodities have been produced for the use of others rather than the producers in order that they may be sold or exchanged, but in what proportion will they exchange? Marx says they will exchange according to the amount of socially necessary labor embodied in each commodity. Commodities sell at prices that on an average tend to represent their values which is the amount of socially necessary labor time. From this he concludes that surplus (profit) cannot arise from selling commodities above their values. The surplus actually arises from selling commodities at their values. To discover the origin of profit, Marx distinguishes between labor and labor-power. Labor-power is what a worker sells, and labor is what the capitalist buys.

Surplus-value arises because the labor-power is at the disposal of the capitalist and creates more value than is necessary for the subsistence of the worker. The labor-power is a very special commodity; it can create more than its own exchange value. The capitalist pays the wage which is the exchange value of labor-power and uses labor-power to create surplus above and beyond the wage paid to the worker. This is possible because the means of production are owned and controlled by the capitalist.

CHAPTER IV

PROFIT AND THE CURRENT ECONOMIC REVOLUTION IN THE SOVIET UNION

The problems of increasing production efficiency, improving the mechanisms of planning, and upgrading management are now the focus of attention of the economic science and practice in the Soviet Union. The question of profit and profitability occupies an important place among these problems. The general agreement among Soviet writers appears to be that the role of profit in the Soviet economy must be enhanced and that the existing procedures for planning, distributing, and using profits must be radically improved. It is on this basis that the recent economic reforms have arisen in the Soviet Union.

Economic Reforms

In September, 1965, the Plenary Meeting of the Central Committee of the Communist Party of the Soviet Union adopted a decision on improving the management of industry. In this meeting Premier Alexei Kosygin stressed that

> In tackling the problems of further developing industry and raising the living standards of the people, emphasis must be placed on improving the methods and forms of industrial management.[1]

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[1]Alexei Kosygin, "To Improve Industrial Management, Perfect Planning, Strengthen Economic Incentives," Soviet Life, XII (December, 1965), p. 6.

To this objective Kosygin proposed

> . . . that the system of cost accounting be strengthened and the economic stimuli in production be intensified by using on a larger scale such indices as price, profit, bonuses, and credit; that more material incentives be provided for increasing the interest of factory and office workers in improving the over-all results of the work of their enterprise.[2]

He further stated that

> The successful completion of building the material and technical basis of Communism, further raising living standards and strengthening the defense potential of the country largely depends on a correct solution of the problems of planning, management, and economic stimulation of production.[3]

The reason for such reforms, Kosygin implied, was the fact that the present-day scientific and technical revolution places in the foreground such problems as technical standards, quality of production, and efficient utilization of resources. "The center of gravity of peaceful economic competition between the socialist countries and the capitalist countries is today shifting precisely to these aspects of production."[4] Moreover, in recent years the national income and industrial output per ruble of fixed assets has declined, and the rate of growth of labor productivity has also somewhat slowed down. He pointed out, "For a long time we have not had the necessary correlation between the development of agriculture and the development of industry. The lag in agriculture has resulted in slowing down of the rate of development in industry."[5] Further elaborating, Kosygin indicated that

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[2] Ibid. [3] Ibid. [4] Ibid. [5] Ibid., p. 7.

errors in planning and a thoughtless "voluntaristic" approach in solving important economic problems have been responsible for the present trend in the Soviet economy. Said Kosygin, "We can and must improve the situation within the next few years."[6] The present forms of management, planning, and stimulation of industy appear no longer to operate in accordance with modern technical and economic conditions. It is therefore necessary "to increase the economic independence of enterprises and reduce the number of indices assigned from above, retaining only those aimed at raising production efficiency."[7] Furthermore, Kosygin stressed that the Leninist principle of cost accounting (that each enterprise must operate on a paying basis in order to cover expenditures through its income and must make a profit) must be strengthened and improved. To do this, Kosygin proposed the following measures:

> Firstly, the conditions must be created for enterprises to be able to solve their problems of improving production independently, for arousing their interest in utilizing to the utmost the fixed assets assigned to them for increasing output and the amount of profit they receive. It is therefore necessary to leave to the enterprises more of the profit that they derive so that they will be able to develop production, improve their techniques materially encourage their workers, and raise the working and living conditions of the industrial and office workers on their staff. The amount of profits to be left to the enterprise should be in direct proportion to the effectiveness with which it utilizes the fixed assets assigned to it, to the increase in volume of the goods it sells, to the improvement in the quality of its goods, and to the increased profitability of the enterprise. . . .

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

> . . . Secondly, it is necessary to strengthen the cost accounting system in interenterprise relations, to guarantee that enterprises adhere strictly to consignment deliveries as stated in concluded contracts, and to increase their material responsibility for discharging their obligations.
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> . . . Thirdly, on the basis of the cost accounting system it is necessary to provide material incentives for the entire personnel and every shop and section of the enterprise in order to make them interested not only in fulfilling their individual assignments, but also in improving the over-all results of the enterprise.[8]

Background of the Reforms

Kosygin's call for reform is not likely to have been an impetuous action. The movement actually began in the 1930's when several economists began to question Stalin's notions in learned journals, and it gathered momentum after Stalin's death. The idea had remained underground until in 1956, when Professor Evsei Liberman published an article in Kommunist arguing that the "efficiency and quality of plant output could be improved by paying more attention to the profitability of invested capital." (This article was discussed by Gilbert Burck in Fortune.)[9] The concept of profit, defined as revenue minus cost, was not anything new in the Soviet economy. But Liberman's idea of using profit to gauge the efficiency of both fixed and working capital, if not entirely new, impressed some influential economists like the late Vasily Nemchinov of the U.S.S.R. Academy of Sciences, who encouraged

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[8] Ibid., p. 7.

[9] Gilbert Burck, "The Toughest Management Job in the World," Fortune, No. 74 (July, 1965), p. 139.

Liberman to continue his work. Professor Liberman and other economists such as Professor Atlas, the late Academician Nemchinov, I. Malyshev (Assistant Head of the Central Board of Statistics), Academician Trapeznekov, Corresponding member of the U.S.S.R. Academy of Sciences L. Leontiyev, and many others have since proposed similar uses of profit.[10]

In 1962, Pravda printed an article in which Liberman argued that centralized planning should be improved and intensified and that enterprises should receive planned targets for the volume of goods to be delivered.[11] Liberman further argued that bonuses should be based primarily on the profitability of capital and that plant managers should be allowed to decide the size of their payrolls, productivity goals, costs, capital investment, and innovation policies. With profits used as an incentive, Liberman stated that managers would automatically use capital more efficiently, keep costs down, and produce better quality which consumers demanded. To encourage the honesty of the managers in their estimate of their abilities, he recommended that "profitability goals be set on a multi-year rather than an annual basis; and to encourage innovation, he recommended that targets be lowered for innovators."[12]

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[10] Evsei G. Liberman, "Profits and Professor Liberman," Soviet Weekly, No. 1242, (November 20, 1965), col. 1, p. 5.

[11] Ibid.

[12] Gilbert Burck, "The Toughest Management Job in the World," Fortune, No. 74 (July, 1966), pp. 73-78+.

Liberman's recommendations aroused a storm of criticism. Many of his proposals were supported, some were challenged, others required further study and collaboration or could be implemented only after the necessary prerequisites were created, especially important changes needed in the field of price formation.[13] "During this period the majority of Russian economists came to acknowledge that there was a need for a drastic overhaul; they were obviously shocked when they saw their rate of economic growth fall badly during their Seven Year Plan from 1959 to 1965."[14] Most observers came to realize that a long-run upturn in the growth rate would depend on the resolution of some basic underlying problems. What was needed was improvement of day-to-day operating procedures as well as reform of the process by which "long-run"

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[13]For a full discussion of this controversy see: B. Sukharevskii, "On Improving the Forms and Methods of Material Incentives," Problems of Economics, V (April, 1963), No. 12, pp. 3-12; I. Kasitskii, "The Main Question: Criteria for Premiums and Indices Planned for Enterprises," Problems of Economics, V (April, 1963), No. 12, pp. 12-15; A. Zerev, "Against Oversimplification in Solving Complex Problems," Problems of Economics, V (April, 1963), No. 12, pp. 15-19; V. Nemchinov, "Making Enterprise Interested in More Insensive Plans," Problems of Economics, V (April, 1963), No. 12, pp. 19-21; K. Plotnikov, "E. G. Liberman: Right and Wrong," Problems of Economics, V (April, 1963), No. 12, pp. 21-24; L. Al'ter, "Incentives Must Be Linked with the Long-Term Planning of an Enterprise," Problems of Economics, V (April, 1963) No. 12, pp. 24-26

[14]Marshal I. Goldman, "Economic Revolution in the Soviet Union," Foreign Affairs, Vol. 45 (January, 1967), pp. 319-331.

changes were made. All of this would necessitate a more productive use of the country's capital as well as encouragement and stimulation of innovations.[15]

The Need for Reforms

By the early 1960's, the planning of the Soviet economy had become so complex that the central planners were finding it more and more difficult to make efficient decisions without help from factory managers. There were simply too many eventualities for Moscow to be able to plan for them. Yet the central planners insisted on controlling the day-to-day operation of the enterprises. The managers were given little or no authority to deviate from quantitative plans, usually drawn up a year or more in advance. Moreover, plant managers were often led to produce items not in demand or of bad quality and also build reserves against unexpected events:

> . . . frequently the plans drawn up for the respective enterprises are not coordinated as far as production, construction, manpower, and material and technical quotas are concerned, the plan targets being distributed arbitrarily among the various enterprises; as a result, the necessary stability of plans is not ensured. This encourages management to build up reserves against unexpected changes and to show extreme caution in forecasting possible rates of growth.[16]

The Russians discovered that their capital production had fallen badly. Between 1950 and 1958, the additional average capital investment per worker necessary to produce an additional dollar's

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[15] Ibid.

[16] Sukharevskii, "On Improving the Forms and Methods of Material Incentives," Problems of Economics, V, (April, 1963), p. 4.

worth of goods was $3.50. But between 1958 and 1964, the average more than doubled to $7.80.[17] Capital was less productive because of inefficient operating methods and the erroneous practice of planning according to the level achieved. For example, the production quotas for enterprises were set according to previous years' performances. This practice also dampened initiatives. "The initiative displayed by a plant turns against that plant because the following year it receives still higher quotas, while those that have been lagging receive easier plans."[18]

The problem of inefficiency of capital was further intensified because capital was treated as a free good. There was no interest on capital used by the plants. As a result factory managers would try, whenever possible, to hoard capital, particularly raw materials, for their productive needs. In this way they could secure themselves against transportation tie-ups and supply shortages.[19]

As a result of the foregoing factors, little innovation arose within the factory itself. When priorities were high enough, impressive innovations resulted such as in space and military projects.

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[17]Burck, Fortune, p. 74.

[18]Sukharevskii, Problems of Economics, V, p. 4.

[19]Goldman, Foreign Affairs, p. 321.

However, lesser projects did not enjoy the instant innovation which seemed to characterize Western industry. When innovation came, it was usually too late and too costly. For example,

> Russian officials now admit that during the five years required to work out the production problems of the Ural 4 Computer and the Zaporozhets automobile, both had been made obsolete by production advances in the West.[20]

Suggestions to Implement the Reform

What Russians needed was some system that would provide them with self-generated flexibility and growth. Only then could they improve the rate of economic growth. To this end the concept of the automatic self-regulator was introduced, which would encourage the enterprises to mobilize all their internal reserves and make rational use of their financial, material, and manpower resources.

The role of such an automatic self-regulator can be performed by profitability, according to Liberman.[21] The idea is that if a constant relationship is established between profitability and the material incentive funds built up by the enterprise; and if maximum premiums are provided for indices stipulated by the plan, the enterprises themselves will be interested in higher planned quotas. The introduction of such an index, in Liberman's view, will make it possible to expand the rights of enterprises and to reduce to a

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[20] Ibid.

[21] Sukharevskii, Problems of Economics, V, pp. 4-5.

great extent the number of indices planned by the economic councils for the enterprises under their jurisdiction.[22]

The outcome of the economic reforms would be responsible for certain drastic changes. No longer will factories be assigned quantitative output targets. Under the new scheme, the performance of enterprises will be gauged by volume of sales and profits on invested capital both in consumer and producer industries. The reformed policies adopted a slightly revised set of gauges which, in addition to profits, included rate of return on capital, interest, capital charges, and rent. Whenever possible, economic standards and charges (interest, rent, etc.) would be set several years in advance. In this way it is expected that the managers will seek to do their best without fear that their targets will be increased the moment they show signs of improved operation.[23]

In order to increase flexibility, Soviet authorities are introducing new supply procedures. "Whenever possible, enterprises are authorized to work out their own purchase and sale agreements without the interference of ministerial authorities."[24] This, it is hoped, will provide less reason for managers hoarding supplies in their warehouses.

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[22] Ibid.

[23] Kosygin, Soviet Life, XII, pp. 6-8.

[24] Goldman, Foreign Affairs, p. 323.

The new scheme recognizes explicitly that paying for the use of capital is a good thing because this compels an enterprise to make efficient use of capital.[25] With the new criteria of the rate of return on capital and interest charged on capital, Soviet authorities hope the manager will have a strong incentive to cut back on his capital stock. Anything the manager does to increase the profit-to-capital ratio will presumably lead to a more efficient use of capital and a reduction of inventories. By reducing the level of capital use, the rate of return to the enterprise will be further improved because interest and capital deductions would be lower, and, therefore, profit will be higher.[26]

Liberman[27] and other economic reformers* believe that decentralization is a necessary step in the right direction. They are convinced that the reform will make central planning more effective. They disagree with opponents of reform who argue that the use of direct contracts, market research, advertising and profit will mean the end of central planning or excessive diversion of natural resources from capital to consumption sector.+ On the contrary,

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[25]Burck, Fortune, p. 142. [26]Goldman, Foreign Affairs, p. 324.

[27]Evsei G. Liberman, "The Plan, Direct Ties and Profitability," Problems of Economics, IX, (January, 1966), pp. 27-31.

*See: N. K. Baibakov, "Tasks of Economic Planning in New Conditions," Problems of Economics, VIII, (January, 1966), No. 9, pp. 32-38.

*V. Trapeznikov, "For Flexible Economic Management of Enterprises," loc. cit., VII, (January, 1965), No. 9, pp. 3-8.

+Some of the opponents include:

the reformers believe that freeing the planners from so many small details will make it possible for the planning organization to concentrate their efforts on issues of more importance such as long-term goals and major investment needs.

The Role of Profit in the Soviet Economy

In the recent economic reform undertaken in the Soviet Union, great emphasis has been placed upon fundamental economic problems. Reforms have been directed toward improving planned management, increasing the efficiency of production, effectively utilizing and saving resources, and mobilizing the internal reserves of the enterprises. To accomplish these tasks certain procedures such as the acceleration of technical progress, development of new branches of production (as well as the elimination of obsolete methods of production), and utmost specialization have been outlined in the sphere of economic life.

Necessity of Profit

Soviet authorities realize that the task of building a more productive society requires increasing the amount of profit and the efficiency of its use. This attitude is clearly projected

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+L. Vaag and S. Zakharov, "Payment for Production Assets and Enterprise Profits," Problems of Economics, VII, (May, 1964), No. 1, pp. 27-38; A. Zerev, Problems of Economics, V, pp. 15-19.

in their policies toward profit and the profitability of the enterprises. Profit functions as one of the essential indices of a Soviet enterprise because profit reflects increased labor productivity, efficient allocation of resources, growth of output and reduction in production costs.[28] The amount of profit and its rate (ratio of profit to the cost of production) is one of the criteria by which the operation of a given enterprise could be evaluated. Profit as an index of economic results of the operation of an enterprise, as well as the source of an incentive fund, functions as one of the economic stimuli to improve the enterprise's operation. The level of profitability serves as an important guidepost in choosing the most efficient investment for the planned output of particular goods.[29]

According to L. Gatovskii, the objective necessity of profit in the Soviet economy is dictated by a number of factors:

> First, socialism develops on the basis of expanded reproduction and consequently, it is impossible without the production of surplus product. Second, socialist reproduction inevitably takes place in the value form as well; therefore, the socialist surplus product appears in its monetary expression, i.e., as the net income of society. Third, the net income of the society necessarily must assume the form which serves society as an index of the efficiency of operation of the basic link of the national economy, namely, the enterprise, and as a stimulus to its improvement.[30]

Cost Accounting and Profit

Cost accounting is finding a prominent position in the

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[28] L. Gatovskii, "The Role of Profit in a Socialist Economy," Problems of Economics, X, (February, 1963), No. 10, p. 12.

[29] Ibid., p. 12. [30] Ibid., p. 11.

Soviet Union, and profit is an integral part of cost accounting. The essence of cost accounting is that any enterprise should cover its expenditure from its own income and should realize a profit over and above this. The justification of the use of cost accounting in the Soviet economy is that "the system of cost accounting makes every enterprise interested in obtaining a bigger profit and, consequently in making better use of labor, material, and financial resources."[31] The system of cost accounting, however, does not reflect production and efficient use of resources for the sake of profit alone. The goal of socialist production remains to be the creation of social use value. The cost accounting system primarily stimulates economizing and efficient use of the means of production under the disposal of the enterprise, as opposed to squandering or holding on reserve the productive factors.[32]

Socialistic Profit

The principles of cost accounting and profitability are by no means new concepts in the Soviet Union. "The Soviet System has long made use of profit motive one way or another."[33] Lenin repeatedly stressed the necessity of operating socialist enterprises without loss and at a profit. He noted that profit derived

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[31] Ibid. [32] Kosygin, Soviet Life, XII, p. 7.

[33] Hans B. Thorelli, "Libermanism is Not Liberalism," Business Horizon, XXX, (Summer, 1965), pp. 45-47.

in the socialistic mode of production would serve the economic and social interest of the working class.[34] He wrote, "The operation of state enterprises without losses and at a profit is also defense of the interest of the working class."[35]

Profit is a universal category of production, expressing in money the value of surplus products. It has been in existence since the beginning of social divisions of labor and commodity exchange. For this reason, there is no justification that capitalism should be considered to have a monopoly on the use of profit.[36] Profit in the Soviet Union is an outward expression of the economy achieved in the expenditure of social labor. "There is nothing in our profit except hours of saved labor, tons of economised materials and 'Kwh' of electricity."[37] This is why profit can function as an indicator of the efficiency of socialistic enterprises, and as regards the entire national economy, a growth of profits testifies to the higher effectiveness of social production.[38]

Profit under socialism is quite different from profit under capitalism. For one thing, "when the selling price is fixed . . . the enterprise cannot make a profit by restricting output and

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[34]Liberman, Soviet Weekly, (November 20, 1965), p. 5.

[35]S. Khavina, "Bourgeois Views on the Essence and Role of Profit in the Socialist Economy," Problems of Economics, VIII, (December, 1965), pp. 34-42.

[36]Liberman, Problems of Economics, IX, p. 31.

[37]Liberman, Soviet Weekly, p. 5. [38]Ibid.

raising its prices."[39] The enterprise can make a profit only by enlarging its output and reducing costs. As Liberman stated,

> Our profit, if one starts from the fact that prices correctly reflect the average cost of production of the branch / of industry/, is nothing else but the effect of increasing productivity of social labor expressed in a money form. That is why we can, in basing ourselves on profitability, encourage real efficiency of production. At the same time encouragement is not enrichment. Profit cannot be transformed into capital, since no one can privately acquire means of production with his bonus, neither the manager nor the trade union nor individuals.[40]

In the Soviet Union, profit is not invested at will by any individual or group of individuals for private enrichment.[41] Profit belongs to those who own the means of production, namely, the society as a whole.

Under socialism, a large portion of profit is used for expansion of socialistic production and improvement of social and cultural services. Profit is neither the sole, nor the dominant, aim of production. [42] The primary objective of production remains the physical output for satisfaction of the requirements of people and of production. All profit goes for planned expansion and improvement of production, and for free social services to the entire population.[43] Profit cannot be increased through speculation,

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[39]Maurice Dobb, "Economic Changes in the Socialist Countries," New World Review, No. 33, (November, 1965), p. 48.

[40]Ibid. [41]Liberman, Problems of Economics, IX, p. 3-5.

[42]Ibid. [43]Ibid.

monopoly pricing, nonequivalent exchange with under-developed countries or pressure upon the wage level. Profit simply reflects the growth of social productivity manifested in monetary form. That is why bonuses can be paid for actual production efficiency proceeding from profitability criteria. For this reason profit is used to encourage those who directly create it.[44] Bonuses, however, cannot be turned into private capital. No individual in the Soviet Union can use the bonuses to acquire privately any means of production.[45]

> It is very important to note that profit and profitability can in no way be regarded as categories inherited from capitalism, and therefore as rudimentary categories which we will tolerate as disagreeable necessities and will try to get rid of as quickly as possible.[46]

The category of profit, Gatovskii asserts, is "inseparably bound up with the law of socialist accumulation."[47] This law contains three interconnected elements:

> The need for the production of net income, the necesssity of a distribution which ensures expanded reproduction at the required rate, and lastly, the subordination of the process of production and distribution of the net income to the aim of advancing the material and cultural standards of the people.[48]

The continual growth of profit, we are told, is the source of continuous growth of socialist production on the basis of the

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[44] Ibid. [45] Liberman, Soviet Weekly.

[46] Liberman, Problems of Economics, VIII, p. 8.

[47] Gatovskii, Problems of Economics, X. [48] Ibid.

latest technology. Furthermore, the productive utilization of profit presumably ensures technical progress and growth in the productivity of social labor.[49] In turn, the steady increase in labor productivity creates the possibility for increasing the mass of profit.

The primary purpose of profit is, therefore, to provide incentive to the rational management of the enterprise and "efficient use of living and past labor in it."[50] Consequently, it is expected to play the part of an economic stimuli. Being an economic stimulus, however, profit cannot serve as the motive force of the development of the socialist economy as a whole, because "the chief aim of the economic development of socialist production is to meet the requirements of the entire society and each of its members."[51] Therefore, the society's interests reflected in its development plans are assumed to play the leading and guiding role, while the interests of the personnel of the enterprises as expressed by profits are to be of subordinate character. Encouragement to produce profit in the Soviet Union under foregoing considerations is expected to strengthen the socialist principle of payment for work according to its quality and quantity.

Distribution of Profit

While it is a form of the value of the surplus product, "the profit of a socialist enterprise is not a form of surplus value."[52]

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[49] Ibid. [50] Ibid. [51] Ibid. [52] Khavina, Problems of Economics, p.37.

The collective ownership of the means of production presumably excludes all exploitation, as profit represents "material expression of the economic interest inherent in socialism and not private interest."[53] After a certain predetermined portion of the profit is transferred into the state budget to serve the society's need as a whole, the remaining portion is used to meet the needs of the enterprise. This remainder is available for the discretionary use of the factory manager.[54] He is entitled to put a specified portion of this net profit into three funds--the Incentive Fund, the Cultural and Housing Fund, and the Development Fund.[55] All three funds are designed to improve the productivity of the enterprise. Since the quantity of these funds is determined by "the growth of production, improved quality, increased profits and greater profitability of production,"[56] they are expected to stimulate the workers' interest in reducing costs "more than in the past when extra pay and bonuses depended on the quantities produced."[57]

Managers and engineers will receive all their bonuses from the incentive fund, but for the blue-collar workers there will also be some payment from the old wage fund; so that the worker is not penalized if his performance is good, but the enterprise

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[53]Ibid. [54]Goldman, Foreign Affairs, p. 324. [55]Ibid.

[56]Kosygin, Soviet Life, XII. [57]Goldman, Foreign Affairs.

fails to realize a profit for reasons beyond his control.[58] The size of the bonuses varies from industry to industry, and generally the administration does not participate in the distribution of workers' share. For example, in Truck Depot No. 1 in Moscow, which has a fleet of 1,100 motor vehicles and employs 2,500 truckers and office workers,[59] the drivers and workers decide who is entitled to the profit and how much of it. This arrangement takes place quarterly in the trade union meetings.[60] Every driver is entitled to 10 per cent of his three months' earnings, but with certain qualifications.

> When the question came up at the meetings, the workers decided that those who were responsible for losing money for the depot should get less than their share of the profits. For instance, Antonov, one of the drivers, had broken traffic regulations. His license was revoked for one day and his truck stood idle. It was clear to everybody, including Antonov himself, why his 10 per cent was cut to five.[61]

Although the administrators do not directly participate in distribution of incentive fund, "there is a formula that puts a limit on the amounts of profits that can be spent this way, in order to be sure that wages do not increase faster than productivity."[62]

The Development Fund is of particular significance because it is designed to encourage innovation and investment by the enterprise

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[58] Ibid.

[59] Nikolai Popov, "Sharing the Profits," Soviet Life, II, (February, 1966), No. 113, pp. 34-35. [60] Ibid., p. 35. [61] Ibid.

[62] Goldman, Foreign Affairs.

itself. The share of profits that can be put into this fund is related to the size of the capital of the enterprise--"Ultimately as much as one-fifth of all the capital investments made in the Soviet Union may come out of the Development Funds of individual enterprises."[63] There seems to be a connection between this kind of decentralization of investment and the direct incentive payments to the workers and managers, "because the Development Fund, by increasing the importance of self-financing for each enterprise, gives managers much more control than they had in the past."[64]

The Cultural and Housing Fund, which also comes from the net profit withheld by the enterprise, is expected to finance "Social and Cultural undertakings and housing construction."[65] This fund is to be used for housing construction over and above the central resources allocated for this purpose.[66] In addition, it is used to finance building and maintaining preschool institutions, "Young Pioneer Camps, rest homes, sanatoriums," as well as meeting other socio-cultural needs.[67]

It is apparent from the foregoing considerations that the better the enterprise functions in the way of efficient utilization of resources and reducing costs, the more opportunities it will have for raising wages as well as improving the living conditions of

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[63] Ibid. [64] Ibid. [65] Kosygin, Soviet Life, XII, p. 7.
[66] Ibid. [67] Ibid.

its workers. In the words of Gatovskii,

> The proper employment of profit, with a full account of the nature and advantages of the socialist system of economy, is a prerequisite for the successful building of the communist economy. For raising the efficiency of production, accelerating its growth rates, and consequently for improving the living standards of the people.[68]

A Return to Capitalism?*

The reforms undertaken in the Soviet economy do not signal a return to capitalism. "Capitalism itself, as we economists well know, is difficult to define and is usually only described."[69] Generally, private property represents the keystone of capitalism, and on this point the Soviets have not given way at all.[70] The Russians are primarily interested in efficiency and decentralization of planning to cut down on bureaucracy. "The Soviet manager still receives no stock options and has no part of ownership."[71]

The obvious purpose of all recent reforms is to combine strong central direction with more flexible execution at lower levels than had been permissible under Stalin.[72] Under these

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*Millions of Westerners see the introduction of consumer oriented production and market competition in a limited sense in Soviet economy as an indication that the Russians are about to embrace the western views on socio-economic organizations. In fact, some speculate that in the near future Soviets might abandon their central planning and adopt the western market mechanism in solving their economic problems, in relation to prices, rent, interest and profit. See U.S. News and World Report, (September 28, 1964); Business Week, (September 25, 1965), (September 4, 1965); Time, (February 12, 1965).

[68]Gatovskii, Problems of Economics, X.

[69]Carl B. Turner, "The Liberman Proposals and the Soviet Economy," The Quarterly Review of Economics and Business, VI, (Summer, 1966), pp. 17-24. [70]Ibid. [71]Ibid.

conditions, it is natural that the principle of 'economic accountability' is receiving increased attention and application. Under this principle, managers of the individual enterprises assume the responsibility for independent administration best suited "to reach the precise but broad goals assigned them under the central plan."[73] More precisely, this includes the right to contract directly with the suppliers on one side and consumers on the other, plus a considerable range for managerial discretion, and "generally makes varying indices of profitability the basis for managerial rewards."[74]

The set of reforms now underway in the Soviet economy is but one step in the direction of needed adjustment and improvement of the Soviet type of central planning. These reforms will neither make the Soviet economy perfect, nor will they return it to capitalism. Most likely, in the course of trial-and-error practice, by experimenting with new methods and not completely depending on the most asinine solutions, they are likely to end up at least a little better off than they were. And even that much would account for progress.

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[72] Hans Apel, "Is Russia Planning Becoming More Capitalistic," Challenge, XIII, (June, 1965), pp. 18-22.

[73] Ibid. [74] Ibid.

CHAPTER V

CONCLUSIONS

In view of the previous chapters and in relation to the hypothesis of this paper certain conclusions follow.

Profit is neither a unique nor an exclusively capitalistic phenomenon and, therefore, is relevant to a non-capitalistic system. In a capitalistic economy, profit serves in three capacities: as a source of reinvestment funds, as a guide to the proper allocation of resources, and as an incentive for undertaking.

As a source of reinvestment funds, profit is obviously applicable to the Soviet State, but not to individual citizens whose wages are restricted from investment. The efficient allocation of resources is the responsibility of the Soviet state and its design of planned economy. However, there could be a relation between profit and resource allocation at the enterprise level providing prices are not arbitrarily set too high or too low. Profit motive as a main vehicle of expansion and growth by the indivudals and corporations is neither consistent nor functional within the Soviet system; however, in a limited sense of deeming profit, incentive is instrumental to increasing productivity and the efficient use of resources.

The Marxian concept of the nature and origin of profit would be applicable to any growing economy regardless of the form of the system, for economic growth requires surplus regardless of how such surplus may be created.

The Relevance of Capitalistic Profit

The term capitalism refers to a system in which the material instruments of production are owned or hired by private individuals. These individuals direct and control the production machinery with the objective of selling at a profit the goods and services they help to produce. Under such a system, the main goals of production would appear to be the extraction of profit, while in theory it leads to satisfying human wants and improving the socio-cultural aspects of life.

The Soviet economy, however, is characterized by the socialistic conditions of production in which all means of production are socially owned and controlled. The production of goods and services is directed and supervised by the Soviet state. Under such a system, production supposedly has been directed towards satisfaction of the bio-social and cultural needs of the people.

Considering the similarity in the objectives of capitalistic and socialistic production, how effectively can the functioning of capitalistic profit be applied to the Soviet economy?

In the capitalistic system, three distinct roles are assigned to profit: it serves as the source of reinvestment funds; it is

the source of incentive or motive for undertaking; and finally, it guides the efficient allocation of resources.

Profit has a major role in a capitalist economy as the source of reinvestment funds as it has been a dominant factor in expanding industrial development, in a rising gross national product, and by increasing employment and overall growth. In addition, reinvested profit provides equipment for the incoming labor force of the future. In ascribing economic growth and mounting employment levels as important criteria for defining the role of profit in a capitalistic system, it is essential to note that profit has universal applicability in growing nations--regardless of a nation's economic system. This is because the fundamental assumption underlying any overall growth theory is the creation of surplus. Without the creation of surplus, neither capitalism nor socialism could realize any overall economic growth. The transformation of the Soviet economy from a semi-feudal and peasant state to that of a highly industrialized system testifies to the fact that: first, surpluses must have been created; and second, such surpluses must have been reinvested. Therefore, the creation of surplus (profit) and its reinvestment is not unique in capitalism, but rather a neutral economic law applicable in any growing economic system.

The difference between the capitalistic and socialistic use of surplus seems to be the utilization of profit. Under capitalism, profit accrues to individuals and corporations who may or may not reinvest if the prospect of making additional profit does not seem

favorable. In the socialistic economy, however, profit does not represent a return to certain individuals or enterprises to be used as a source of creating private capital and reinvesting for further gain, but rather profit accrues to the state. Acting for the state, the central planners guide the investment of profit into areas which supposedly contribute most to the society's well being.

Profit as an incentive is the main reason for undertaking in capitalism. Without it the successful operation of a private enterprise system allegedly would not be possible. This would imply that regardless of the social necessity of certain goods and services, production may not take place if the venture should prove to be unprofitable.

Because of the social ownership of resources, profit as an incentive does not seem applicable to the Soviet economy. In a society in which the means of production are not privately owned and in which a central committee plans the overall production of goods and services, profit as a motive for undertaking loses its potency. To assert that the capitalistic motive is applicable would seem to be a contradiction to the definition of social ownership and control of the means of production.

In a socialistic economy, profit could indeed be one of the results of production, but a result which constitutes a public benefit; whereas, in the Western definition profit is a return to an entrepreneur or a monopolist. The entrepreneur or monopolist,

therefore, may be motivated by profit in the West, as the return would be his alone. However, the central planners in the Soviet Union do not divide the profit among themselves.

Profit could be used as an incentive in Soviet economy in a limited sense. It was earlier discussed that if the enterprises economized in the use of resources and realized a profit (total revenue minus total cost), a portion of such profit would be distributed to the plant personnel. Such a division of profit, it was argued, would create incentive to the workers as well as the managers to increase their efficiency. Under this condition profit is not functioning as an incentive for undertaking per se, but rather as an incentive to increase productivity by reducing cost and introducing more effective methods of operation. Whatever the workers of an enterprise may receive above and beyond their wages in the name of profit would be nothing but the fruit of increased productivity, or to put it more properly, increased wages.

Although the term incentive is used in both economies, the implications seem to be quite different. In the West it signifies a broad motive for undertaking, and in the Soviet Union it manifests a motive limited to increasing productivity and efficiency.

Finally, profit serves to allocate resources efficiently.* Since in capitalism prices are assumed to be determined by the

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*This would be meaningless under conditions of monopoly production, for monopolies can arbitrarily set high prices and use resources uneconomically by producing below capacity, yet still realize profits. This feature of monopoly is not possible to the Soviet manager at the firm level, only at the state planning level.

forces of supply and demand, incurring a loss or obtaining a profit may reflect the inefficiency or efficiency of an enterprise. Assignment of such a role to profit in the Soviet economy would encounter two difficulties. First, most often prices are arbitrarily established by the government. This means profit or loss of an enterprise may not reflect efficiency in the use of resources. A Soviet enterprise may use its resources efficiently, but low prices set by the government may cause the enterprise to incur a loss and vice versa. Second, certain goods may be produced which are essential, yet unprofitable in the monetary sense. This again does not reflect the efficient allocation of resources. Only if prices are set which are close to the average cost in any given line of production will the profitability be a criteria for efficiency.

The Relevance of Marxian Profit

Elaborating the labor theory of value and expanding its scope, Marx attempted to understand the phenomenon of capitalist production and explain the emergence of profit. The explanation was found in the fact that the labor power which the capitalist purchased produced more value than what it was paid for as the value of its labor. The surplus value that it produces would have accrued to itself if the means of production had not been alienated by the conditions of capitalist production. The appropriation of the surplus value provides the foundation for the emergence of profit. The appropriation of the surplus value by the capitalists

is due to the fact that the means of production are alienated from the workers and owned by the capitalists. The surplus value emerges because the labor-power chooses itself or is forced to choose to work for a far longer time to produce goods of greater value than are necessary for its maintenance and reproduction at the prevalent standard of living in any particular society.

It is important to note that the emergence of such a surplus is in no way dependent on the alienation of the means of production from labor-power except in the sense that under the conditions of alienation the owners of the labor-power are bound to be forced to produce such a surplus. However, surplus could be produced when the alienation is absent. It should therefore be realized that the confinement of surplus value to conditions of capitalist production is analytically unjustifiable. The emergence of surplus-value is the direct result of the increase in productivity beyond the bio-social minimum which is, according to Marx, a precondition of capitalist production. This condition merely makes the emergence of surplus a possibility but does in no way necessitate it. The crucial point is the forcing of oneself or being forced by another to work for a longer time producing more value than would be sufficient to live at the other level.

It follows then, with an increase in productivity, that one may produce goods equivalent to the former value in less time or work the same amount of time and produce greater value. If the

former choice be made, the economy will be static; if the latter, it would be developmental.

The emergence of surplus value, thus, is a sign of a developing economy and is, in fact, merely another name for it. The important point is that the economy of the Soviet Union is considered developmental, indicating that the Soviet economy has been growing and continues to grow under socialistic mode of production. If there is economic development, we can infer "exploitation," for exploitation is merely the appropriated surplus-value used for capital for invesment, rather than as revenue for consumption.

This relationship of economic development to "exploitation" in the Marxian sense cannot be confined to conditions under capitalism alone. This relationship is essential and is related only externally to the social forms under which the economic development takes place. The differences of social conditions under which development occurs would be reflected more on the form rather than the content of exploitation. In the capitalistic system, labor is exploited by the capitalist; and under non-capitalistic conditions of production, the state assumes the exploiting role. It seems to be the rule of the game of a developing economy that some form of exploitation must exist if economic development and future security is desired.

This problem of socialist exploitation did not occupy Marx's mind, since he envisioned the socialist revolution would take place

in a society where productive forces would have developed to their utmost under conditions of capitalism. In Marx's view exploiting the peasantry and the proletariat would already have been done by capitalists who, in pursuing profit, would have created an industrial apparatus and technology that would have taken the production to unknown heights when the socialists would take control and get all the glory by distributing equitably all the goods thus produced. But this situation did not occur, for when the Bolshevik Revolution took place, the Russian economy was by no means highly industrialized. It was through the appropriation of surplus value and re-investment in the capital sector that Soviet leaders have been able to create one of the leading industrial nations of the world.

From the foregoing discussion it is clear that the Marxian theory of capitalist profit (surplus value) has been applied in Soviet economic development, and that the only thing which has been different must be found in the form of the appropriation of the profit. In the Soviet Union profit has not been appropriated by an individual or a corporation, but rather by the State. Many Soviet leaders and economists would argue the fact that the aim of the Soviet economic development has not been and is not for the sake of profit, but rather for the sole purpose of improving the living standards, furthering educational possibilities and creating of social well-being. But this argument with all its possible validity does not alter the fact that the Soviet peasantry and

proletariet have suffered as much as Marx felt the workers under the capitalist mode of productions suffered.

Strictly from an economic point of view, the Marxian theory of profit would be applicable to any developing economic system, for development would mean a need for new investment and new investment would require surplus. If, however, all the value created by labor in the Marxian sense is returned to the laborer and none is appropriated by the capitalist or State, then a static and non-developing economy would be the result. Thus, accepting the labor theory of value and attributing all new value created to labor, no developing economy would escape the Marxian concept of surplus value and exploitation.

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