CHAPTER - V

SOME PROBLEMS OF SOCIALIST PLANNING
Any discussion of a few problems of Socialist planning should be preceded by a representation of the difference between Capitalism and Socialism. Prof. Pigou states:

"A Capitalist economy or Capitalist system is one of the main part of whose productive resources is engaged in Capitalist Industries. Substantially this comes to the samething as the definition offered by Mr. and Mrs. Sidney Webb. By the term capitalism or the Capitalist system, or, as we prefer, the Capitalist civilization, we mean the particular stage in the development of industry and legal institutions in which the bulk of the workers find themselves divorced from the ownership of the instruments of production in such a way as to pass into the position of wage-earners, whose subsistence, security and personal freedom seem dependent on the will of a relatively small proportion of the nation, viz., those who own and through legal ownership, control the organisation of the land, the machinery and the labour force of the community, and do so with the object of making for themselves individual and private gains." 1 Then Professor Pigou proceeds to define

define Socialism: "A socialised industry is one in which the material instruments of production are owned by a public authority or voluntary association and operated, not with a view to profit by sale to other people, but for the direct service of those whom the authority or association represents. A socialised system is one the main part of whose productive resources are engaged in socialised industries." 2 Pigou adds further: "But, under the influence of the Russian experiment, the definition of general socialism has been modified. Twenty years ago there was little talk of central planning. Socialism entails, it was then held, (1) the extrusion of private profit making, in the sense of one man or group hiring other men and selling their output for profit to a third party; and (2) the public or collective ownership of the means of production (other than human beings)." 3

According to Mr. H.D. Dickinson, Socialism and centralised planning go pari passu to-day. This explains why the phrase 'planned production' tends to take its (socialism's) place. Prof. Maurice Dobb seeks to draw a contrast between a Capitalist Society and a Socialist Economy in his book "Political Economy and Capitalism". According to him, in a socialist economy multifarious decisions in regard to production are taken in ignorance of all the people. Yet these decisions are officially stated as unified and co-ordinated. The capitalist society is

2. Ibid; p.2. 3. Ibid; p.6.
is unplanned and that the socialist society is wholly planned. The socialist economy has for its main aim a rapid rate of increase of the capital-construction until the saturation point of capital equipment is reached. The socialist society is interested in planning its investment program. With the aid of planning, Socialists are keen on attaining the ideal goal of capital saturation. Such a system of planning is conspicuously absent in a capitalist society. In a capitalist country the investment problem is one of saving and investment, while in a socialist country it is a problem of distributing labour between various types of production. According to Marx, industries may be classified into those which produce means of consumption, and those which bring out, the means of production. The Industries which produce the means of production will have a number of gradations, in accordance with the 'time-destination' of such means. The main economic problem consists of dividing the national income into two proportions, viz., one devoted to consumption goods and the other to constructional ones.

In a capitalist country every entrepreneur is forced by the law of the market to act in the light of price-movements. Price-movements imply to cover the prices of both consumption goods and the factors of production including intermediate goods. Maurice Dobb observes that a planned society is faced with the problem of allocation of resources and consequently of relative productivities in various uses. The traditional doctrine of
of value which implies the existence of free-competition will not have any significant place in a socialist State. The major decisions governing investment and production are co-ordinated and unified in a socialist system. It provides no room for diffusion among many autonomous units. Nevertheless, a few areas of competition may exist in a socialist system - a competition among consumers buying in a free retail market, and among labourers habituated in the choice of an occupation by wage differences. In a Capitalist State, however, the major economic decisions of the State are taken by the entrepreneurs. According to Maurice Dobb, the first elementary economic postulate of a socialist country is that the total money value of finished consumer goods must equal the total of wage incomes over a given period. The second elementary economic postulate is the allocation of resources in such a way that will ensure maximum productivity. The third elementary economic postulate centres round the necessities between the different stages of production. Maurice Dobb also makes a graphic distinction between Capitalism and Socialism. In a Capitalist society, he states, the interest of property is dominant while that of human beings carries little or no weight. The condition is, just the reverse in a socialist society. Dobb's analysis, thus, conforms closely to Marx's economic theory. Dobb propounds that the problem of planning in a Socialist Country is one of allocation of labour among different uses and occupations. Capital, according to him is 'stored up labour' and land is the gift of nature at the disposal of the community as a whole.
The operation of the pricing system in a socialist economy has to be examined with care. Price may be regarded as the index of the worth of a commodity in terms of other commodities price may also represent an exchange ratio. This is noticeable in a socialist economy as well. The fundamental point is one of measuring the relative scarcities of different commodities or goods in reference to demand for the same. Due to the relative urgency of one's demand, one pays a higher price for a commodity.

If the whole-economy be under a thorough-going and comprehensive rationing system, the working of the pricing system would become unnecessary and irrelevant. Such a wholesale and permanent rationing system cannot, however, be introduced and made effective in an economy. There must be room for the freedom of choice of consumers to some extent. If such a freedom be given, the pricing system would be found to operate. Certain basic requirements of life are supplied in a Socialist country in disregard of their costs and prices.

The salient features of socialism are an absence of private property in land and capital, public ownership and utilisation of the means of production, and production for the maximum possible satisfaction of human wants and not for profit as such. If there be any profit, it must swell the public exchequer of the State. No price is charged for the system of community supply of certain goods and services of which no price is even in the capitalist economy. The state provides defence
defence and internal security, medical services, communication facilities, a certain standard of education, etc.; and for which, too, no specific price is charged. The socialist economy has a greater scope for social or community consumption. A socialist economy provides a minimum and reasonable standard of food, housing accommodation, and clothing for all. There is very little scope for the working of the price-system in regard to the articles of daily necessity. But in a capitalist country the basic requirements of life are sometimes sold in the market at a high price. The common people cannot, therefore, buy such daily necessaries of life. A sudden upward movement of their prices is the cause of it all. It is also the outcome of the operation of the laws of supply and demand. The high price of essential commodities in a capitalist country may also be due to the profiteering speculative motive of the capitalist. A socialist country does not provide for any scope for artificial restrictions of supply because the State regulates the prices of essential commodities. The operation of the pricing system is not an end in itself; it is only a means to an end. This operation aims at satisfying human wants according to relative needs, requirements, and urgencies. The relative urgencies or needs of demand become significant only above a certain minimum level of consumption which is necessary for the maintenance of life.

The pricing system also operates in a socialist economy
economy for many consumer goods like conventional necessities, comforts, and certain luxuries, etc. According to Professor Ludwig Von Mises, rational calculation in the capitalist economy is based on the prices expressed in terms of money. Prof. Mises seeks to demonstrate that if the pricing system is applied to all the intermediate products and factors of production, then an economic use of the available resources is possible.

F.A. Hayek, George Halm, and others have elaborated and developed Professor Von Mises' point of view. The critics of Socialism are wrong to contemplate that a socialist economy has no room for the pricing system. H.D. Dickinson, in his book *Economics of Socialism*, has not accepted the viewpoint of Professor Mises and other Austrian economists. According to him, pricing system may operate in a Socialist country in respect of consumer goods and factors of production. In this connection, Maurice Dobb writes: "Previously there had been tacit agreement that if things were to be priced, a market must exist to do the pricing. The assumption Dr. Lange rejects, at least so far as intermediate goods and capital are concerned. His contention is that the prices which form the basis of economic calculation need be no more than accounting prices, which do not require a market to clear them and need not be represented in any actual transactions. These prices can figure simply in the books."

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4. Reference may be made of the book "Collectivist Economic Planning" - by F.A. Hayek and Others. (pp. 137 and following)
books of accountants and be fixed by a process of trial and error, on the simple principle that all things of which there is at any time a surplus should have their accounting prices lowered and those of which there is a definite supply should have their prices raised. The shifting of prices would continue until the thing in question neither in surplus nor definite supply but the current supply was exactly carried off by the demand, the correct or equilibrium prices, would have been reached. Here Dobb draws a contrast between the two solutions offered by Professor Dickinson and Professor Lange in regard to the pricing system in a Socialist country. Dobb adds:

"Firstly, according to the well-known solution of Professor H.B. Dickinson there is nothing inconsistent with socialism in having actual market prices for such things (factors of production). Industrial Managers would compete with one another for land, labour and capital and plant and raw materials, by a process of market bidding in such a way that the prices at which these were supplied 'found their own level' - a level at which the demand for them was equated with the available supply. According to the second version (usually associated with the name of Professor Lange), there need be no actual prices, other than the retail market for final consumer goods; it would be sufficient if there were accounting-prices established by process of trial and error; Industrial Managers

Managers taking their decisions about output and investment on the basis of these accounting-prices being moved up and down at intervals until there was no longer any excess demand or unused supply. It is not altogether impossible to think of the 'trial and error' or 'accounting prices' solution as a purely planning technique. But, in the form, in which it is outlined by Prof. Lange, it was clearly intended to operate as a decentralised mechanism with one set of rules for managers of enterprises or industries and another set for the central economic authorities. 6 Professor Paul Sweezy remarks: "Perhaps the most striking feature of (Prof. Lange's) model is that the function of the Central Planning Board is virtually confined to providing a substitute for the market as the co-ordinator of the activities of the various plants and industries. The truth is that Lange's Board is not a planning agency at all but rather a price fixing agency; in his model productive decisions are left to a myriad of essentially independent units". 7 More recently Professor Lange refers to the views of many a Marxian economist who finds no economic laws in a socialist economy. Rosa Luxemburg once remarked that the proletariat revolution is the last act of political economy as a science. Once the view prevalent in Soviet Russia was that Socialism was guided by the principle of 'voluntarism'. It implied the absence of

Quoted by Maurice Dobb in 'On Economic Theory And Socialism', p.58.
of the operation of economic laws. But Stalin's book, 
_Economic Problems of Socialism_, states that this was later 
on discarded by Soviet Russia.

According to Prof. Lange, some types of economic 
laws operate in a socialist economy. Firstly, the laws 
of historical materialism operate in a socialist economy 
as in a Capitalist society. In a Socialist society, too, 
the development is effected through contradictions which 
are not, however, associated with class struggles or 
clash of class-interests. Social conflicts ensue there 
on account of the existence of different social strata. 
Normally the conflicts are between the requirements of 
the economic basis and of those of the antiquated super-
structures. Frictions continue till the adaptation of 
the super-structure to new requirements of the economic 
basis is completed. Professor Lange does not accept 
Rosa Luxembourg's view that the proletarian revolution 
is the last act of political economy as science. He 
shows that Marx, Engels, and Lenin did not hold such a 
view. In Professor Oscar Lange's opinion, the economic 
laws operate in a Socialist country under a conscious 
and purposive direction. He says that "economic laws 
can be made to operate in accordance with the human will". 
This new interpretation of the significance of economic 
law deserves a specific notice. According to Prof. Lange, 
the first type of economic laws is one that concerns 
production and reproduction (i.e., capital replacement and 
accumulation). Such laws are operative in both socialist 
and
and capitalist economy. The fundamental laws of the socialist economic system, viz. the socialist relations of production. Socialist relations of production consist in the social ownership of the means of production. It has two consequences, viz., production and all economic activities are guided by the doctrine of maximum satisfaction of wants (in a capitalist country the guiding factor is private profit), and the planned direction of the economic process. Thus it is that the operation of non-elemental economic laws in a socialist country is consciously directed by human purposes. Prof. Lange holds that such laws are characteristic of a socialist society and not applicable or applied to a capitalist economy. The consideration of the maximum satisfaction of human wants is not, however, altogether irrelevant in a capitalist economy. The consumers cannot be forced to buy whatever goods may be made available to them in order to ensure profits for the suppliers. Profit consideration is not wholly irrelevant to a socialist system. Profit is nothing but surplus. This may lead to capital accumulation and a gradual increase of net investment. It should be pointed out that the deliberate creation of surplus had been a prior goal of socialist planning in Soviet Russia. Surplus of this sort is essential to the fulfilment of the present targets. The difference between private profit and State-earned surplus is not very much fundamental. In either case deprivation is inflicted upon certain sections of the community. In Soviet
Soviet Russia, the system of production planning is found to work. 8

Professor Durbin's elaborate views on 'Economic Calculus in a Planned Economy' deserve to be considered. He cogitates: "......... there are no theoretical or logical difficulties in the use of an accurate pricing system in a planned economy. I accept Mr. Lerner's view that there is no reason to abandon the search for an economic or utilitarian calculus in an industrial system controlled by a central Authority. I further concede the argument advanced by Prof. Robbins and Prof. Hayek that the solution of a system of simultaneous equations by the Central Authority is not a practicable procedure. To this extent I must disagree with the thesis of Mr. Dickinson's original article in this controversy. (Price in a Socialist Economy by Dickinson). I am, however, wholly in agreement with him that planned economics differ in no way from laissez-faire systems that renders them less suited to solve the problems of economic calculus. The object of this article is to suggest an alternative system to that advanced by him - one that I believe to be more practicable - and so to refute the arguments advanced by Profs. Mises, Halm and Hayek, in Collectivist Economic Planning. (Routledge). ....

......... If the Central Authority issues to all production units two instructions: (a) that they shall calculate

8. The argument is based on certain modern versions of Socialism (Vide Dickinson: Economics of Socialism; Lange and Taylor: On Economic Theory of Socialism, etc.)
calculate the marginal productivity to them of all mobile resources; (b) that mobile resources shall everywhere be moved to the positions of highest calculated productivity; there seems to be no reason to suppose that any different distribution of resources would arise than that arrived at by perfect competition. All logical, theoretical and accountancy problems are common to both types of systems. It may be very difficult to calculate marginal products. But the technical difficulties are the same for capitalist and planned economies alike. Prof. Durbin goes on reflecting: "......... a planned economy can through the greater power to vary the money income of the community possessed by a unified investing and saving authority, through the better and firmer type of society that could be raised upon its foundations, and in general through the superiority of conscious reason over blind instinct in the achievement of any end whatever, be made into a better economy than a laissez-faire economy can ever hope to be. But these are wider and more practical questions. Social science, and not economic theory, can alone hope to find an answer to them".

Rigid State regulation in the form of rationing for conventional necessaries, comforts and certain luxuries is conspicuous by its absence in a socialist country. In a Socialist country the State at first wants to produce those goods which are urgently needed by

10. Ibid; p. 155.
by the people. Once socialism is firmly established, after overcoming the initial hurdles in its establishment, the Socialist State tries to produce commodities for comforts and luxuries.

In a Socialist country, the main problems of the price-system crop up with the supply and utilisation of the factors of production. The pricing system in a socialist economy is generally so utilised and operated as to serve the best interest of the community. There prices will be indices of alternatives. The planning authority in a Socialist country proceeds on the basis of historically given prices. There is scope for periodical readjustment or alteration. The said authority goes by a certain process of trial and error. It calculates the costs of production on the basis of wage of labour, interest for capital, and rent for land. Rent and interest veer round the accounting principles. Expenses on the basis of the prices of factors will be estimated by different State departments which utilise the factors. If any factor be in short supply, its price will go up. In view of a heavy demand for such a factor, the planning authority will enhance its price. Then the production programme has got to be readjusted by the different departments through the least possible absorption of the costly factor. This factor will be in surplus in case curtailment of demand for it. Its price is to be lowered then. A great demand will, again, follow the lowering of its price. The product being scarce
scarce again, its price is to raised. This is how the price-system may be properly utilised in a Socialist country to bring about the rational allocation of resources.

In a capitalist economy the cost curves including the average total cost-curve and the average variable cost curve are all U-shaped. The economies of large scale production in a capitalist country gradually reaches the lowest possible point which may be termed as the point of optimum production. After a certain stage, the cost curve steadily goes upwards. Thus the operation of the law of increasing returns gradually yields place to operation of the law of diminishing returns. These laws are found to operate in a socialist economy because of the process of pushing production beyond a certain limit. The supply of certain factors, being fixed or in elastic, is sure to bring into operation the law of diminishing returns.

Signs of competing demands are noticed in a socialist economy as well. Its allocation of factors will be left to a process of automatic adjustment by the fixation of their values according to accounting principles. It should be borne in mind that land, capital, labour etc., will have their definite costs. Each department will have to measure the costs of factors utilised by it against the values which may be obtained for the final products it turns out. In case of goods required for community consumption, the demand for a part of the products
will be deemed as Governmental demand. The Governmental producing department will pay payment from these departments of the Government which pass on the goods to the buyers. In respect of other consumer goods, the consumers have a full freedom of choice. The prices offered by them for such goods are measured up against their costs by the respective Government departments. In a socialist economy, too, a process of cost price adjustment operates. The cost of production curve is, however, not much materially different in a Socialist country.

A minimum rate of profit is accrued by the cost of production curve in a Socialist country. Under socialism production system is not based on profit motive. Its purpose is to supply goods required to meet human wants and demands. Profits may be wanting in case of some specific commodities, but there must be profit in a Socialist country. Sorokin remarks: "Lenin attached great importance to profit, emphasising that every enterprise should work profitably, should fully cover its expenditure out of its income and should profit society. Lenin considered profitability the most important principle of cost accounting. The character of the trust, endorsed by Lenin in 1921, stated that the trust is a State enterprise, set up with the aim of increasing profit."

"It goes without saying that the profit of a socialist enterprise differs radically from capitalist profit. Under socialism profit is primarily an index of
of the effectiveness of production of an enterprise. The September Plenum of the Central Committee of the C.P.S.U. stressed that the setting of a profit target raises the importance of the production costs. This index should be assigned a special place in the technical, output and financial plan of the enterprise.

"..... Profitability has been assigned an appropriate place in the system of plan indices characterising the activities of an industrial enterprise". 11 Profit is used as an accounting principle and the accrued profit will be credited to the social fund. Some products are produced at a loss in view of the broader interest of the community. Certain commodities are produced for making some profits also as a matter of accounting procedure. Profit is earned as a surplus in a Socialist country or as a means of providing the where-with-all for expansion and further development. A surplus in the form of profit is created to help facilitate capital formation in a socialist economy. For in the absence of any capital formation no economic development and progress is possible. Professor W. Arthur Lewis remarks: "..... the main source of savings in any economy is profits, distributed or undistributed". 12 Professor Lewis adds further: "In practice, judging by the U.S.S.R., the State capitalist can accumulate capital even faster than the private capitalist. Since he can use for the purpose...

11: Sorokin : op. cit. p.245.
purpose not only the profit of the capitalist sector (disguised as taxation) but also what he can force or tax out of the peasant, or squeeze out of the economy as a whole by inflation". 13 Professor Lewis reflects in this connection further: "We have 14 noted the growth in the modern world of a new class of State capitalists (e.g. U.S.S.R. and India) who for one reason or another are determined to create capital rapidly on public account. These State of capitalists are just as relevant as private capitalists in so far as they hold similar views on the importance of saving and of productive investment". 14 The above excerpts make it clear that profit is not wholly irrelevant in a socialist economy which does not exhibit any relentless profit hunting as in a capitalist economy. Profit is sometimes deliberately encouraged in socialism by a broad social objective of accelerating national development. Profit occasionally emerges in another way when a gap exists between costs and prices due to the objective economic situation. At times the scarce supply of a commodity tends to increase its price on account of an increasing pressure of demand for it. Profit is, thus, introduced as an accounting principle in a socialist economy. It is credited to the social fund which helps meet the requirements of community consumption or of capital formation.

13. Ibid; p.256
There is a marked difference between the capitalistic profit and the socialistic profit. No outrageous craze for profits is discerned in socialism. Besides, the monopolistic practice leading to an artificial scarcity, in search of super profits, is almost absent in socialism. In sum, there happens to be a total elimination of private monopoly. An artificial maintenance of a gap between price and cost also terminates completely. All this follows to prove that the fundamental laws of increasing and diminishing returns hold good in socialism too. The law of diminishing returns originates from the inherent limitations in the supply of certain factors. These limitations are also seen to exist in socialism which reveals the U-shape of the cost curve as well. Modern economists explain consumer behaviour in the light of the indifference curve analysis. The basic matter in consumer behaviour analysis consists in the idea of complete freedom of choice for the consumer - a freedom conspicuously absent in socialism. The objects of community consumption are mainly determined by the fiat of the State which always consider the essential and basic requirements of men. It is rather a guarantee of the fulfilment of wants on the widest possible scale. The consumer’s freedom of choice counts little in a capitalist society also. Maurice Dobb points out serious limitations of a consumer’s choice in a capitalist country. The freedom is confined to choice between the range of available alternatives. The exercise of a consumer’s freedom of choice results in a conflict between the interests of the individual and those of the society.

Probably
Probably the consumer's freedom of choice is not really a very valuable factor in capitalism. The loss of consumer's freedom under a socialist economy might be compensated by an assurance of satisfaction of the vital needs of the teeming millions of a country. The consumer's freedom of choice should not be considered a goal. The main objective should be the highest possible satisfaction of human wants. In a Socialist country, consumer's freedom remains confined to a limited number of persons. The loss of freedom for some men is, however, more than made up by an increase of satisfaction of the larger number of people in the Socialist country.

The observations of Leontyev and Sorokin are quite relevant in the present context. Leontyev remarks:

"The price of a commodity produced in a socialist enterprise is a monetary form of its value. Having mastered the law of value the socialist State fixes prices on commodities proceeding from the socially necessary expenditure of labour on their production.

"The Programme of the C.P.S.U. states that the system of prices should be constantly improved, that it should be brought in line with the tasks of communist construction, with technological progress, with the growth of production and consumption and cuts in production outlays.

"Hence, the price of a commodity is based on its value, i.e., on the sum total of socially necessary labour expended,
expanded, the expenditure of the line and embodied labour needed for the production of the commodity.

"Price serves first and foremost as a universal means of accounting in planned socialist commodity production. Prices are fixed to stimulate technological progress, expand production and steadily lower costs. Furthermore, prices are fixed so as to coordinate the consumer demand for definite commodities with the possibilities of increasing their output. That is why it is sometimes necessary to fix for some commodities prices which deviate from their value.

"An important aspect of the price policy is that it promotes economy in the expenditure of scarce types of raw materials, the introduction of new materials and the transition to locally available fuel and raw materials. The relation of prices of individual commodities is fixed to stimulate the consumption of goods the output of which can be rapidly expanded (owing to the availability of raw-materials, productive capacities, etc.).

"The basic trend in price policy in the period of communist construction is to lower the prices in an economically rational way on the basis of the growth in the labour productivity and the reduction of production costs. An essential condition for the lowering of retail prices is a cut in the production and circulation costs per unit of output". Leontyev goes on saying:

"A new and very important form of organisation of industry that has been advanced by practical requirements are branch associations working on a cost accounting basis. ....

"The State allots material and monetary means to the socialist enterprise working on a cost accounting basis. Three means are the assets of the enterprise.

"The enterprise uses its assets for the production of output. The finished output is realised, i.e., is sold for money to other production enterprises or to trading organisations. The enterprise uses the proceeds to pay for the expenditure needed to continue production. In this way the assets issued to the enterprise are in constant turnover.

"The means of production at socialist enterprises form their productive assets. They are divided into fixed assets and the assets in turnover. The fixed assets embrace the means of labour, the assets in turnover - the objects of labour.

"The fixed assets serve the production process over a number of production cycles. They transfer their value to the finished product piecemeal over a long period. They maintain their physical form during the whole production process.

"The assets in turnover are completely used up in every production cycle. Accordingly they transfer their value to the finished products in full. During the production
production process they change their form and become new products, satisfying some social want. His remarks on cost-accounting deserve consideration: "..."

Cost accounting is the most important instrument for ensuring thrift at socialist enterprises.

"Cost accounting is a method of planned management of socialist enterprises based on a comparison of their expenditure and the results of production in value (money) terms. It helps systematically to lower the socially necessary expenditure of labour.

"Socialist cost accounting is based on the utilisation of the objective economic laws of socialism, notably the law of labour economy, the law of planned, proportionate development and the law of value."

"Cost accounting aims at ensuring the profitable operation of enterprises. Every enterprise operating on a cost accounting basis must not only cover its expenditure out of its proceeds but must also yield a certain profit. Leontyev also lingers on cost accounting and price fixing: "In socialist economy prices play a major role. First of all the price is the common denominator with the help of which all the expenditure on production is compounded and compared with the results of..."

of production. The price system is the focus in which gather all the threads of the planned management of the national economy. The price co-ordinates the whole complex aggregate of relations within the individual branches and those between the different economic branches.

The price on industrial output expresses either the relation between State enterprises operating on a cost accounting basis (wholesale prices) or the relation between the State and individual members of socialist society in the sphere of the distribution of consumer articles (retail prices).

The price of a commodity is based on its average branch production costs. But the price cannot be equal to the costs.

The price of the commodities, embodying the whole sum of the socially necessary expenditure on its production, is made up of the average branch cost of the commodities plus a definite profit. The sum of the profit included in the prices of all commodities produced by society is equal to the value of the whole product of the surplus labour expended in social production. The sum of prices of all commodities produced by the socialist economy is equal to the sum of their values.

Profits grow through an increase of the proceeds as a result of an expansion of production and through the decrease of outlay, as a result of lowering production costs. Therefore, profit is the most general criterion for
Sorokin says: "The law of planned, balanced development emerges and begins to operate when public ownership of the means of production and socialist production relations have been established."

"Like all other economic laws of socialism, the law of planned, balanced development expresses socialist production relations. "

"Socialist ownership unites enterprises which were formerly disassociated and vied in competition. Socialist ownership breaks down the barriers private ownership raises between enterprises and economic spheres. Under capitalism enterprises are linked sporadically through marketing and competition, but under socialism, where all enterprises belong to a single owner - society - they are linked directly through a single economic plan. The abolition of private and the establishment of public ownership of the means of production have joined the multitude of individual enterprises into a single economic body. This huge, complex economic body with its many interconnected branches, belonging to society as a whole, can be organised only on a social scale and on a planned basis."

"By uniting production on a social scale, socialist-ownership becomes the basis for the nation-wide cooperation of labour."

"... large scale machine industry, unlike the preceding stages, imperatively calls for the planned regulation of production and public control over it". 20

"Large-scale machine production prepares some of the material conditions for planned economy even under capitalism. Capitalism makes a clean break with natural economy, thereby accentuating the problem of expanding the market. The whole country becomes a market for the output of large enterprises and especially the monopolies. Large firms often succeed in extending the market even beyond national borders. Capitalism increases production by concentration, by using ever larger instruments of labour, and by introducing specialisation of production and strengthening the links between enterprises. As production assumes an increasingly social character, large-scale machine industry creates trusts and banks - the administrative apparatus of the capitalist socialisation of production. But under capitalism this only exacerbates the antagonistic contradiction between social production and private appropriation, and aggravates the disproportionality of the economy. Anarchy and crises of over-production are corollaries of production based on private ownership.

While capitalist socialisation leads up to planning, socialist ownership of the means of production, and socialist socialisation make planning indispensable. Under socialism there is no private ownership and no exploitation.

exploitation of workers, and in these conditions large scale machine production and the concentration and specialisation of production grow at an unprecedented rate. Socialist society creates an apparatus for accounting and planning which develops the economy in accordance with social requirements and available resources". 21

"Economic laws operating under socialism, amongst them the basic economic law, the law of planned, balanced development, the law of distribution according to work done, and the law of value, function simultaneously and in inter-relation. The study of the intricate, complex of economic laws and the elaboration of plans in conformity with their operation may be said to comprise the scientific approach to planning. The theory, methodology and method of planning spring from the requirements of objective economic laws and their corresponding economic policies". 22 "The socialist revolution inherits from the capitalist system developed commodity - money relations. Objective conditions for the manufacture of commodities and for the operation of the law of value remain in force during the transition period to socialism and in the socialist society itself. During the transition period commodity production and the law of value continue to exist, but under the influence of the socialist sector of the economy they begin to play a positive role.

They

They are used particularly to link the development of State industry with the peasant economy and promote the socialist reorganisation of Small Scale Commodity farming by combining public and private interests.

Under socialism labour-power is not a commodity and therefore there is no surplus value. In socialist society the law of value and competition do not act as regulators of production, they yield this role to the law of planned, balanced development.

"Under socialism commodity-money relations have historico-relative validity; ......." 23

Engels remarked: "Balancing of useful effects and expenditure of labour on making decisions concerning production was all that would be left, in a communist society, of the politico-economic concept of value". 24 Marx held the same view and therefore he declared:

"After the abolition of the capitalist mode of production, ....... the determination of value continues to prevail in the sense that the regulation of labour-time and the distribution of social labour among the various production groups, ultimately the book-keeping encompassing all this, become more essential than ever". 25

"Value indices are universally applied in socialist economy." 26

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23. Ibid pp.41-42.
In a socialist society value indices do not express the production relations of individual producers but are used for the accounting of directly social labour and social requirements. Accounting and calculation in terms of value has to do not only with the law of value but also with the law of saving labour time, the law of the steady growth of the labour productivity and the socialist principle of distribution. Many economists who speak of the growing importance of the law of value under socialism, do not seem to notice this.

In a planned economy both the effective demand and the necessary amount of goods can be precisely determined for a year or more in advance. The balance sheet of the income and expenditure of the population enables the planning bodies to establish correct proportions between the effective demand of the population and the volume of trade.

Socialist enterprises do not need an open market to realise their output and to buy raw materials; they realise their goods and receive supplies according to material and technical supply plans. The demand and supply of commodities on the Soviet Market is accounted and planned by society.

In the Soviet Union goods are produced and sold mainly by socialist enterprises.
The practice of planning state and co-operative trade in the Soviet Onion has shown that the total volume of commodity production laid down in the plan corresponds to social requirements and the purchasing power of the population. This means that the labour expended on the production of commodities is recognised as social-necessary labour and is fully compensated for by the buyer through the mechanism of the market. Since the volume of the commodity supply and prices, on the one hand, and the incomes of and commodity consumption by the population, on the other are determined according to plan, supply and demand play a minor role in regulating trade.

Planning of the cost of commodities, quantity and quality, the fixing of prices in accordance with the value of commodities and of the general volume of trade in accordance with the effective demand of the population, in conditions when the living standards of the population are steadily growing, excludes the blind operation of the law of value and price fluctuations from the socialist market. At the same time the planning of trade and particularly of retail prices continues to be an extremely complicated problem. Planning of trade (the circulation of commodities and their supply in conformity with the money incomes of the population) is important also in solving problems of consumption and the division of the national income into accumulation and consumption.

Trade on the socialist market is a circulation of use values and values; its volume depends on the amount on
and price of available goods. ....... the law of value are observed in socialist planned economy and that it is skilfully applied both in organising commodity production and in price-regulation. Prices have a particularly important part to play in trade - they greatly affect the relations between the classes of socialist society ....

"Since prices are dictated by value, it obviously follows that the requirements of the law of value must be strictly observed. One of the requirements of the law of value can be formulated as follows: the sum total of prices for all commodities must equal the sum total of their value.

"The sense of this requirement is that only when such balance exists can commodity producers sell newly created value, reproduce all the elements of production and continue it on the previous or on an increased scale.

"But the law of value demands that there be a balance not only between the sum total of the prices of all commodities and their values but also that the price and value of every commodity should coincide.

"Under socialism the price-form, allowing for a lack of correspondence with value, is used as a lever to change economic proportions in a planned way", 26

We have taken the liberty of quoting many lines from G. Sorokin's book. It will, no doubt, help understand some problems of socialist planning well.