

# ARAB REPUBLIC OF EGYPT

## THE INSTITUTE OF NATIONAL PLANNING



**Memo No (999)**

**The Theory of Money and Monetary  
Equilibrium in Socialist Economy  
An Study in Political Economy of Socialism**

**Part I**

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## PERFACE

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The present work, on the basis of the Marxian "Political Economy", treats the problems of "The Theory of Money and Monetary Equilibrium". The author consider the analysis of these problems as a crucial and important in the development of theorizing the principles of the political economy of socialism. At the same time the author consider this analysis as a continuous study which was opened by Prof. Z. Fedorowicz (1959) and was developed in many of his other works (1962, 1967).

The work is divided into Introduction and Six Chapters. Both the Introduction and the first two Chapters are used as a general theoretical background, and are mainly concerned with describing and analysing the mutual relationships between the laws of political economy which govern the development of the society. The Introduction, therefore, is concerned with the role of the law of value in a socialist economy. The First Chapter discusses the relationship between the rational behaviour (and choice) of the society (the conditions of the optimum welfare state) and the organization system. The analysis is carried on the basis of the valuable study of Prof. A. Wakar and his collaborators. The Theory of the Direct Economic Calculation (DEC) which was introduced, in special, by Prof. A. Wakar and J. Zielinski and which will be considered as a theoretical base of our whole study, is given and discussed in details.

The second chapter contains what is called the "Optimal Formula" of economic organization and decision making. Both of the introduction and the first two chapters will appear as a separate part of the whole work which will appear in three parts.

Chapter three which will appear in the part II discusses the theory of money in socialist economy.



Its main aim is to analyse two main points. The first point is the essence and the role of money in socialist economy in general and especially in the DEC. The second point is a theoretical discussion on the unsettled problem concerning the neutrality of money. What concerns us here is the neutrality of money in a socialist economy.

The rest of the work (three Chapters) will constitute part III of the work. They are concerned with the conditions of monetary equilibrium in a socialist economy. In general it was accepted (following Prof. Fedorowicz) that there are three conditions of monetary equilibrium. (One may recall that in a capitalist economy it is accepted that there are, also three conditions of monetary equilibrium; Wicksell/1931/ and Myrdal /1935/.). Each of the three Chapters contains the analysis of a separate condition. Of course, it must be stressed that the three conditions are related to each other and cannot be separated.

I am deeply convinced by Prof. O. Lange statement that "progress in science is not made by throwing overboard old theories and thinking up new ones, but by painstaking working to enrich and perfect existing scientific knowledge" (in "Pisma ekonomiczne i spoleczne 1930-1960" - Papers in Economics and Sociology 1930-1960/1961/). I hope that I have done something in this direction.

My first acknowledgements are due to my Teacher, Professor Zdzislaw FEDOROWICZ, who sponsored the work, and without his creative suggestions, and without the time which he devoted to me, my study would have failed to achieve its goal.

I should like to express my thanks to the Members of the Seminar which is led by Prof. Zdzislaw Fedorowicz at the Department of Finance at the Central School of Planning and Statistics, who were kind enough to discuss and follow up my work.

I am particularly grateful to Dr. Urszula LIBURA and my colleague Mr. Mahmoud A. Hussien who were kind enough to read the whole work and to point out certain gaps and ambiguities in my presentation.

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## Introduction

1.

The basis of any scientific study in the political economy of socialism is the assumption that there exist, in any socialist society, objective economic laws. These objective laws, emerge and operate due to the principle that the socialist society is subject to and develops through contradiction<sup>1)</sup>. According to the theory of historical materialism there are two kinds of contradictions which are the moving force of the social development<sup>2)</sup>:

- 1- first, the contradiction between the development of production forces (means of production) and the restrictive character of the relations of production;
- 2- second, the contradiction between the mode of production and the superstructure of organization and management of the economy.

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1) Mao Tay Tong: "Quatre Essays Philosophiques", Pekin 1966. This sentence must be understood dialectically. Marxism-Leninism which regards social laws dialectically, sees that they operate under the consciousness of the men; in the sense that when saying that objective laws will ultimately take effect, they do not mean that certain changes will occur in society by themselves, but that sooner or later social forces interested in the realization of those laws, will arise, and these forces, by their struggle, will put these laws into effect.

2) O. Lange: "Political Economy of Socialism" - in "Problems of Political Economy of Socialism", Editor O. Lange, New Delhi, 1969.



These two basic contradictions arise in the course of development of a capitalist economy, as well as in the course of development of a socialist economy. But there is a basic difference between a socialist society and the one based on class domination (capitalist economy). This difference is that in societies based on class domination, the contradictions are related to the classes interests, and take the form of class struggle.

In other words the contradictions in these societies are being antagonistic in character. In a socialist society, based on the base of the social ownership of the means of production and is a classless in character, the contradictions are, generally, non-antagonistic in their character.

Beginning with this principle we shall proceed to discuss the problem of the law of value and its operation in the socialist society. The discussion of this problem is not intended to be comprehensive but rather a summing-up of the important results of the long-history discussion about this problem. In summing-up this discussion, it is possible to distinguish between the following trends:

1. The Classical Marxists (Marx and Engels)

In his notes on a book by Adolf Wagner in which he suggested that Marx's theory of value constituted the corner-stone of his socialist system, Marx unequivocally replied that his investigations into the theory of value had reference to the capitalist production relations, and not to the application of the theory to a socialist economy <sup>1)</sup>. The economic category of "value" and the question of the manner in which the "law of value" operates, has relevance only

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<sup>1)</sup> Marx: "Works", vol. XV, pp. 456 and 459.



to what Marx and Engels called "commodity production". There is no big doubt that Marx and Engels elaborated the law of value as being uniquely associated with systems of commodity production, coming into operation as commodity production developed and ceasing to operate when commodity production ended <sup>1)</sup>.

At the same time, Marx and Engels, believed that the socialist society will not be a commodity-production economy. "The seizure of the means of production by society", said Engels, "puts an end to commodity-production (relations A.S.)" <sup>2)</sup>. To Marx and Engels evidently socialism and commodity-production relations were mutually exclusive terms. Socialism would necessarily destroy the basis of commodity-production relations, and thereby enable the end of the operation of the law of value to be brought about.

The second element in Marx and Engels view was the principle that in socialist economy labour will be directly social labour. Engels wrote "from the moment when society enters into possession of the means of production and uses them in direct association for production, the labour of each individual however varied its specifically useful character may be, is immediately and directly social labour" <sup>3)</sup>, and consequently, labour will have a direct social character.

## 2. The Trend among the Soviet Economists until the Publication of Stalin's Economic Problems"

This was the view of Marx and Engels on the law of value and its operation in socialist economy. It seems that the

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1) Engels: "Anti-Duhring", p.361; Marx: "Capital", Vol.I, Progress Publishers, Moscow, 1963, p.61.

2) Marx: "Works", vol, XV

3) "Anti Duhring", pp. 339-40.



reasons of advancing such a view was that they believed that the socialist revolution would come in a fairly advanced capitalist country which will enable the proletariat to take up all the means of production and to run the production of commodities on a direct base. This view of Marx and Engels has been accepted by many marxist economists in the Soviet Union after the October Revolution. In this period, whether inside the Soviet Union or outside it, there was a tendency to liquidate the science of "Political Economy" under socialism. The well-known advocator of this opinion was Bukharin in the Soviet Union and Rosa Luxemburg in Germany. In a planned socialist economy, since the leading categories of the Marxian Political Economy-commodity, value, profit, wages, etc., would have no relevance in an organized socialist economy, political economy would disappear <sup>1)</sup>.

This view was based on the idea that the economic laws which regulate the different economic categories will disappear and that the conscious planning of economic activity must replace these economic laws in socialism. This attitude towards economic laws was related to the trend of "apologisation" of political economy.

Prof. Lange defined this attitude as the "research in the field of political economy was hampered by dogmatism and a tendency to turn science into apologetics. In the field of political economy, the distortion consisted in efforts to transform, Marxist analysis of the play of economic laws into an idealistic, voluntaristic conception of the course of the economic process in which the dialectics of the social forces are replaced by leadership,

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<sup>1)</sup> Bukharin: "Economics of the Transition Period", Moscow 1920;  
Meek, Roland: "Studies in the Labour Theory of Value",  
London 1956, pp. 263-4.



these controversies, notably the notion that "the economic laws of socialism differ in kind from those of capitalism; the idea that the category of value might continue to exist in a different form in socialism." These ideas are one type of approach to study political economy, and were expressed in a textbook under the title "An outline of Political Economy"<sup>1)</sup>. In all societies, the authors of the book argue, the requisite equilibrium between production and consumption must be brought about somehow, i.e. the distribution of labour among the different branches of production must somehow be made to correspond with society's needs.

By this time the organization<sup>2)</sup> of socialist economy shown all its weakness and negative sides. Lenin criticized this system of organization and appraised it negatively "experience had proved that we were wrong"<sup>3)</sup>. This experience was changed by the introduction of NEP/New Economic Policy/. The change which was considered (from the point of view of some economists) as a deviation from the road of communist construction of the new society, was nevertheless accepted as a necessity to solve the problems which had arose through practice. The discussion and the interpretations of exchange, prices, and money

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- 1) Lapidus and Ostrovitianov: "An Outline of Political Economy", Engl. Transl. from Russ. in 1929, London.
  - 2) The base of this organization was to set up, immediately after the Revolution, a communist organization of production and distribution. This stage which was later called "war communism" was marked by the strictest centralism, which was believed to be true Communism. This communism was put into practice in industry by means of "glavkism, i.e. complete lack of enterprise independence, and strict centrally planned and controlled production and distribution. In agriculture, the system of "prodrazvertka" was used. This system means the appropriation of all surpluses without compensation.
  - 3) V.I. Lenin: "Selected Works", vol. III, p. 696. Foreign Languages House, Moscow.