

# Origin of Capitalism in Russia

An Old Essay by Lenin

## TRANSLATOR'S NOTE

Except for the brief concluding remarks, this is the first English translation of Chapter I of Lenin's famous *The Development of Capitalism in Russia*, first published in 1899 under the pseudonym of V. Ilyin.

It is significant to observe that Lenin embarked on a detailed study of "the process of formation of the home market for large-scale industry" in Russia as a direct consequence of his theoretical debates with the *Narodniki*, "Populist" writers who exercised a considerable influence on Russia intellectual groups in the 1890's. He first undertook to refute, on a purely theoretical basis, the Narodnik view that "the home market in Russia... contracts as a result of the disintegration of the peasantry and as a consequence of the impossibility of realizing surplus value without a foreign market." He then presented with meticulous care statistical data which supported his theoretical view and makes his book an exemplary piece of scientific research.

In the preface to the book, Lenin states that he examined the principal theoretical postulates of abstract political economy in the first chapter in order to be relieved of "the necessity of having repeatedly to refer to theory in the further exposition of the subject." Although the principal theoretical discussion is comprised in Chapter I, the Stalinists have so little respect for the theoretic interests of English-speaking Marxists that this important theoretical chapter was omitted from the work when it was finally published, in an abbreviated form, in English in the 1930's.

The present translation has been made from the second, or 1908, edition, which has been reprinted in all subsequent editions. Quotations by Lenin of English works have been reproduced from the original English. Lenin's citations from Marx's *Capital* are, in most instances, both from the German and Russian translations. The present translator has cited the pages from the Moore and Aveling translation. There are only two instances—one quotation from Proudhon and one from Rodbertus—where it has been impossible to find the quotations in the original and it thus became necessary to retranslate from the Russian. All footnotes are Lenin's own, except those signed by the translator.—F. FOREST.

The market is a category of commodity production, which, in its development, is transformed into capitalist production, and only under the latter circumstance acquires complete domination and general prevalence. Therefore, in order to examine the fundamental theoretical postulates about the home market, we must proceed from simple commodity production and follow its gradual transformation into capitalist production.

## I. The Social Division of Labor

The social division of labor is the basis of commodity production. In it, manufacturing industry is separated from extractive industry. Both of these are divided into subordinate classifications and sub-classifications, which produce particular products in the form of commodities and exchange them with those of all other industries. The development of commodity production thus leads to an increase in the number of separate and independent branches of industry. The tendency of this development consists in this: to convert into a separate branch of industry not only the production of specific products, but also of separate parts of the product; and not only the production of a product, but also the various operations in the processing of the raw materials for use in the product. Under natural economy, society was comprised of groups of generally similar household units (patriarchal peasant families, primitive rural communes, feudal estates) and each of these units performed all phases of economic life, beginning with the production of various types of raw materials

and ending with their final preparation for use. Under commodity production, there are created dissimilar economic units, the number of separate branches of economy increases, and the number of economic units which perform the same economic function decreases. This progressive development of the social division of labor is the primary factor in the process of the home market for capitalism:

... On the basis of a production of commodities and its absolute form, capitalist production... [says Marx] these products are commodities, use-values, which have an exchange-value which can be realized, converted into money, only to the extent that other products face them as commodities and values. They have an exchange-value to the extent that they are not produced as immediate means of subsistence for the producers themselves, but as commodities, as products which become use-values only by their conversion into exchange-values (money), by being got rid of. *The market for these commodities develops through the social division of labor; the separation of the productive labor into various departments transforms their respective products mutually into commodities, into mutual equivalents, makes them serve mutually as markets.* (*Das Kapital*, III, 2, 177-8. Russian translation, page 526. The emphasis is ours, as is the case with all quotations, unless it is specifically stated otherwise.)<sup>1</sup>

It is self-evident that this separation of manufacturing from extractive industry, of manufacture from agriculture, transforms agriculture itself into an industry, i.e., into a branch of economy which produces commodities. This process of specialization, which separates various phases of the manufacture of products from one another, creating an ever greater number of branches of industry, develops also in agriculture, creating regions of specialized agriculture (and the system of agricultural economy\*) which causes exchange not only between the products of agriculture and industry but between various products of rural economy. This specialization of commodity (capitalist) agriculture appears in all capitalist countries, manifests itself in the international division of labor and also appears in post-reform Russia, as we shall show in detail below.

Thus, the social division of labor is the basis of the whole process of the development of commodity production and capitalism. It is quite natural, therefore, that our Narodnik theoreticians declared this (latter) process in Russia to be the result of artificial measures, a result "of a deviation from the path," etc., etc., tried to gloss over the fact of the social division of labor in Russia, or to minimize its significance. V. V., in his article, "The Division of Agricultural and Industrial Labor in Russia" (*The European Courier*, 1884, No. 7), "denied" "the domination in Russia of the principle of the social division of labor" (page 347), declared that with us the social division of labor "did not arise fundamentally from the mode of life of the people, but attempted to slip in through the crevices" (page 338). N—on, in his *Outlines*, deliberated thus

<sup>1</sup>*Capital*, III, 747—Tr.

\*Thus, for example, I. A. Stebut, in his *Basis of Field Culture*, distinguishes the systems of agricultural economy according to the principal market products. The major systems of economy are three: (1) husbandry ("grain," according to the terminology of A. Skvortsov); (2) cattle breeding (chief market product—the products of cattle) and (3) industrial ("technical," according to the terminology of A. Skvortsov), the chief market products—agricultural products destined for technical transformation. Cf. A. Skvortsov: *The Influence of Steam Transportation on Rural Economy*, Warsaw, 1880, page 58 Z.

about the increase in the quality of grain destined for sale: "This phenomenon could mean that the grain produced is divided more evenly throughout the nation, that the Archangel fisherman now eats Samar bread, and the Samar farmer's dinner is made appetizing with Archangel fish. In reality, nothing of the sort occurs." (*Outlines of Our Post-Reform Social Economy*, St. P., 1899, page 37.) Without any supporting data and contrary to generally known facts, he here directly decrees the absence of the social division of labor in Russia. The Narodnik theory about the "artificiality" of capitalism in Russia could not indeed be established, except by denying the very basis of commodity economy—the social division of labor—or by declaring it to be "artificial."

## II. The Growth of the Industrial Population at the Expense of the Agricultural Population

Since, in the economic epoch which preceded commodity economy, manufacturing industry was united with extractive industry, chief of which is agriculture, the development of commodity production is represented by the separation from agriculture of one branch of industry after another. The population of a country with a poorly developed (or completely undeveloped) commodity production is almost exclusively agricultural. However, we need not construe this to mean that the population is concerned only with agriculture. It signifies only that the population engaged in agriculture itself processes the products of agriculture, that exchange and division of labor are almost completely absent. The development of commodity production, consequently, signifies *eo ipso* the separation of an ever greater part of the population from agriculture, i.e., the growth of the industrial population at the expense of the agricultural population:

*It is the nature of capitalist production to reduce the agricultural population continually as compared to the non-agricultural, because in industry (strictly speaking) the increase of the constant capital compared to the variable capital goes hand in hand with an absolute increase, though relative decrease, of the variable capital; whereas in agriculture the variable capital required for the exploitation of a certain piece of land decreases absolutely and cannot increase, unless new land is taken into cultivation, which implies a still greater previous growth of the non-agricultural population. (*Das Kapital*, III, 2, 177. Russian translation, page 526.)*

Thus it is impossible to imagine capitalism without an increase of the commercial-industrial population at the expense of the agricultural population, and everyone knows that this phenomenon is revealed in high relief in all capitalist countries. It is hardly necessary to demonstrate the tremendous significance of this circumstance, because it is indissolubly connected both with the evolution of industry and with the evolution of agriculture. The establishment of industrial centers, the increase in their number and the attraction they hold for the population can only have a most profound influence on the entire organization of the village, can only promote the growth of commercial and capitalist agriculture. All the more remarkable is the fact that the representatives of Narodnik economics completely ignore this law, both in their purely theoretic discussions and in their discussions about capitalism in Russia (about the peculiarities of the manifestations of this law in Russia we will treat in a more detailed manner below, in Ch. VIII). In the theories of V. V. and N—on about the home market for capitalism, there is omitted this vital detail: the withdrawal of the population from agricul-

<sup>2</sup>*Capital* III, pages 748-7. All emphasis, except when otherwise stated, is Lenin's, the reader will recall.—Tr.

ture to industry and the influence this exerts upon agriculture.\*

## III. The Disintegration of the Small Producers

Until now we dealt with simple commodity production. Now we proceed to capitalist production, i.e., we assume that instead of simple commodity owners we now face, on the one hand, the owners of the means of production, and, on the other, the wage worker, the seller of labor power. The transformation of the small producer into a wage laborer presupposes his loss of the means of production—the earth, instruments of labor, shop, etc.—i.e., his "impoverishment," "ruin." There is a view that this disintegration "lessens the buying capacity of the population," "contracts the home market" for capitalism. (N—on, l.c., page 185. Also, 203, 275, 287, 339-40 and others. This viewpoint is also held by V. V. in the majority of his works.) We are not concerned here with the factual data about the course of this process in Russia—in the succeeding chapters we will examine these data in detail. At the present time the question is posed purely theoretically, i.e., with reference to commodity production in general during its transformation into capitalist production. The writers mentioned above pose this question also theoretically, i.e., from the single fact of the disintegration of the small producers they deduce the contraction of the home market. Such a viewpoint is entirely incorrect; its stubborn survival in our economic literature can be explained only by the romantic prejudices of Narodism (as to this, cf. footnotes to the article). They forget that the "freeing" of one segment of the producers from the means of production necessarily presupposes the transfer of these means of production into other hands—their transformation into capital. It presupposes, consequently, that the new owners of these means of production now produce in the form of commodities products which formerly were consumed by the producer himself, i.e., they expand the home market. It presupposes, furthermore, that, in expanding their production, these new owners create a demand in the market for new instruments, raw materials, means of transportation, etc., and also for means of consumption (the enrichment of these new owners naturally presupposes an increase in their consumption). They also forget that it is by no means the well-being of the producers that is of importance for the market, but the fact that he has money. A decrease in the well-being of the patriarchal peasant, who previously existed in a predominantly natural economy, is completely in consonance with the increase in his hands of a sum of money, because the greater the ruination of such a peasant, the more must he resort to the sale of his labor power and the greater is the portion (although absolutely smaller) of article of consumption that he must purchase on the market.

With the setting free of a part of the agricultural population, therefore, their former means of nourishment were also set free. They were now transformed into material elements of variable capital [capital spent in the purchase of labor power]. (*Das Kapital*, I, 776.)<sup>3</sup>

The expropriation and eviction of a part of the agricultural population not only set free for industrial capital, the laborers, their means of subsistence, and material for labor; it also created the home market. (*Ibid.*, 778.)<sup>4</sup>

<sup>3</sup>We pointed out an identical attitude toward the question of the growth of the industrial population on the part of the West-European romantichs and the Russian Narodniks in the article, "Toward a Characterization of Economic Romanticism, Simondist and our own Simondists."

<sup>4</sup>Lenin is referring to his article, "Toward a Characterization of Economic Romanticism," referred to above.—Tr.

<sup>5</sup>*Capital*, I, 317.—Tr. <sup>6</sup>*Ibid.*, page 317, Lenin's emphasis.—Tr.

Thus, from the abstract-theoretic point of view, the disintegration of the small producers in a society of a developing commodity production and of capitalism signifies exactly the opposite of that which the Messrs. N—on and V. V. wish to deduce from it; it signifies the creation, and not the contraction, of the home market. If this same Mr. N—on, who declares *a priori* that the ruin of the Russian small producers signifies the contraction of the home market, quotes at the same time the contradictory assertions of Marx cited above (*Outlines*, pages 71 and 113), it merely demonstrates the remarkable capacity of these writers to confound themselves with quotations from *Capital*.

**IV. The Narodnik Theory of the Impossibility of Realizing Surplus Value**

A further question in the theory of the home market consists in the following. It is well known that the value of a product in capitalist production falls into the following three parts: (1) the first replaces constant capital, i.e., the value which existed previously in the form of raw and auxiliary materials, machines and instruments of production, etc., and which is only partly reproduced in the new product; (2) the second part replaces variable capital, i.e., covers the wages of the worker, and, finally (3) the third part consists of surplus value, which belongs to the capitalist. It is commonly assumed (we present this question in the spirit of Messrs. N—on and V. V.) that the realization (i.e., finding a corresponding equivalent, a sale on the market) of the first two parts presents no difficulties because the first part goes for production and the second part for consumption by the working class. But how is the third part—surplus value—realized? It cannot be wholly consumed by the capitalists! And our economists come to the conclusion that "the way out of the difficulty" in the realization of surplus value is "the acquisition for a foreign market" (N—on, *Outline*, Part II and XV in general and page 205 in particular; V. V., *Oversupply of the Market by Commodities in From the West*, 1883, and *Outlines of Economic Theory*, St. P., 1895, page 179 ff). The necessity of a foreign market for a capitalist nation is postulated by these writers in this manner—that the capitalists cannot otherwise realize the products. The home market in Russia, they assert, contracts as a result of the disintegration of the peasantry and as a consequence of the impossibility of realizing surplus value without a foreign market. Since a foreign market is not within reach of a young country that so lately came to the path of capitalist development, the lack of foundation and still-birth of Russian capitalism are declared by them to be proved on the basis of these *a priori* (and theoretically incorrect at that) considerations!

Mr. N—on, discussing realization, evidently had in mind the Marxist theory on this question (although he does not mention Marx by so much as a word in that part of the *Outlines*) but he failed utterly to understand it and perverted it to non-recognition, as we shall presently see. Therefore a curious thing occurred: his views coincided in all essentials with the views of V. V., whom no one can accuse of "non-understanding" of the theory because it would be the greatest untruth to suspect him even of the slightest acquaintance with it. Both authors present their doctrines as if they were the first to discuss this subject, drawing certain conclusions as if they came "out of their own heads." In the most Olympian manner, both ignore the discussion of the old economists on the subject, and both repeat the old mistakes which were refuted

in a most detailed manner by Marx in the second volume of *Capital*.<sup>\*</sup> Both authors reduce the whole question of the realization of the product to the question of the realization of surplus value, evidently assuming that the realization of constant capital does not present any difficulty. This naïve view encompasses a profound error, from which flowed all subsequent mistakes in the Narodnik doctrine of realization. In reality, the difficulty in the question of explaining realization arises precisely in the explanation of the realization of constant capital. In order to be realized, constant capital must again be returned to production and this realization occurs directly only when the products of such capital are means of production. If the product that replaces the constant part of capital consists of means of consumption, then its direct return to production is impossible. Exchange becomes necessary between that department of social production which produces means of production and that which produces articles of consumption. In precisely this fact lies the whole difficulty of the question, *unnoticed* by our economists.

V. V. represents the question in general as if the aim of capitalist production would not be accumulation, but consumption. Deeply philosophical, Mr. N—on states that "in the hands of a minority there is a mass of material objects, which exceeds the consuming capacity of the organism (*sic!*) at the given moment of their development" (i.e., 149); "not the modesty and abstention of the manufacturers serve as the reason for the surplus production, but the limitations or insufficient elasticity of the human organism [!], which has not succeeded in expanding its consuming capacity with a rapidity equal to the growth of surplus value" (*Ibid.*, 161). He tries to present the matter as if he did not consider consumption to be the aim of capitalist production, as if he took into consideration the rôle and significance of the means of production in the question of realization. In actuality, he did not at all clarify to himself the process of circulation and reproduction of the whole social capital, and thus entangled himself in a whole series of contradictions. We will not stop to examine all these contradictions in detail. (Cf. pp. 203-5, *Outlines*, by V. V.) That is a very thankless task (partly fulfilled now by Bulgakov\* in his book, *About Markets Under Capitalist Production*, M., 1897, pages 237-245). Furthermore, to prove this criticism of the discussions of Mr. N—on, it is sufficient to analyze his final conclusion, namely, that the foreign market is the solution to the problem of the realization of surplus value. This conclusion of Mr. N—on (in essence, only a repetition of the conclusions of V. V.) shows in the most graphic manner that he has not understood at all either the question of realization of the product in capitalist society (i.e., the theory of the home market) or the rôle of the foreign market. In fact, is there an ounce of common sense in dragging the foreign market into the question of realization?

The question of realization consists in this: How to find in the market the different elements of the product to replace the value components of the capitalist product (constant capital, variable capital and surplus value) and the material components of the product (means of production and means

<sup>\*</sup>Particularly astounding under the circumstances is the audacity of V. V., which transcends all literary license. In explaining his doctrine, he reveals a complete ignorance of the second volume of *Capital*, where the question of realization is dealt with. V. V. here brazenly declares that he "utilized the Marxist theory for his schemata." (!!). (*Outlines of Economic Theory*, III, *The Capitalist Law (self?) of Production, Distribution and Consumption*, page 182.)

<sup>\*</sup>It is not superfluous to remind the contemporary reader that Mr. Bulgakov and also the oft-quoted Messrs. Struve and Tugan-Baranovsky had tried to be Marxists in 1898. Now they have all safely turned from being "critics of Marx" into ordinary bourgeois economists. (Remark to the second edition.)

of consumption, which are in part articles of necessity and in part articles of luxury). It is clear that foreign trade should be abstracted from this problem, because introducing it not only does not by a hair's breadth advance the solution, but rather pushes the solution further away, transferring the question from one country to several countries. The same Mr. N---on, who finds in foreign trade "the way out of the difficulty" of realization of surplus value, deals with the question of wages, for example, thus: by that part of the annual product which they receive in the form of wages, the direct producers—the workers—"can withdraw from circulation only that part of the means of existence which in value equals the gross sum of wages" (203). It may be asked: how does our economist know that the capitalists of the given country produce precisely that much and precisely that kind of articles of consumption that can be realized by wages? How does he know that, in this instance, one can get along without a foreign market? Obviously, he cannot know that. He has merely eliminated the question of the foreign market because, in the discussion of realization of variable capital, what is important is the replacement of one part of the social product by another, and it is not at all important whether this occurs within one country or within two countries. In relation to surplus value, however, he shifts from this necessary postulate and instead of offering a solution, he simply shirks the question and shifts to the question of foreign markets.

Sale of the product in a foreign market itself calls for an explanation, i.e., the necessity to find an equivalent for the portion of the social product sold, finding one type of capitalist product that can replace the one sold. That is why Marx states that "it is not at all necessary to take into consideration" the foreign market and foreign trade in the analysis of realization, because: "The introduction of foreign commerce

into the analysis of the annually reproduced value of products can, therefore, produce only confusion, without furnishing any new point in the aspect or solution of the problem." (*Das Kapital*, II, page 469.)

Messrs. V. V. and N---on stated that they fully appreciated the contradictions of capitalism, and pointed to the difficulty of realizing surplus value. In actuality, their appreciation of the contradictions of capitalism is extremely superficial because, if we are to speak of "difficulties" of realization, and about crises flowing from these difficulties, etc., then we must acknowledge that these "difficulties" are possible not alone in relation to the surplus value, and that they are not only possible but are necessary, as regards all parts of the capitalist product. Difficulties of this sort, depending upon the disproportionality in the division of different branches of production, constantly arise not only in the realization of surplus value, but also in the realization of variable and constant capital; not only in the realization of the product in articles of consumption but also in means of production. Without such "difficulties" and crises, capitalist production in general, the production of individual producers for an unknown market, cannot exist.

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\*The paragraph from which Lenin quotes the above phrase and the following sentence reads: "Capitalist production does not exist at all without foreign commerce. But when we assume annual reproduction on a given scale, we also assume that foreign commerce replaces home products only by articles of other use-value, or natural form, without affecting the relations of value, such as those of the two categories known as means of production and articles of consumption and their transactions, nor the relations of constant capital, variable capital and surplus value, into which the value of the products of each of these categories may be dissolved. The introduction of foreign commerce," etc., as above. (*Capital*, II, page 546.)—Tr.

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# Origin of Capitalism in Russia - II

An Old Essay by Lenin

The editor neglected to point out in the last issue that the title of Lenin's essay has been changed for typographical reasons. The actual title reads, "The Theoretic Mistakes of the Narodniki," and the essay is Chapter I of Lenin's *Development of Capitalism in Russia*. Additionally, the reader's attention is called to the inadvertent omission last month of the page number in *Capital*, Vol. I, to which footnote 4 of Lenin's article referred. It should read, page 819.

[Continued from Last Issue]

## V. The View of Adam Smith on Production and Circulation of Social Production as a Whole in Capitalist Society, and Marx's Criticism of These Views

In order to analyze the doctrine of realization, we must begin with Adam Smith, who laid the basis of the erroneous theory on this question. Adam Smith divided the price of a commodity into only two parts: variable capital (wages, according to his terminology) and surplus value ("profit" and "rent" are not united into one with him, so that he counted three parts).<sup>\*</sup> In the same manner he divided the aggregate of commodities, the entire annual product of society, according to those classifications, and directly related them to the "revenue" of the two classes of society: workers and capitalists (manufacturers and landlords with Smith).<sup>\*\*</sup>

How does he explain the omission of the third component part of value—constant capital? Smith could not avoid noticing this part, but he considered that it also is reduced to wages and surplus value. This is how he deliberated on the subject:

Into the price of corn, for example, one part pays the rent of the landlord, another pays the wages or maintenance of the laborers and laboring cattle employed in producing it, and the third pays the profit of the farmer. These three parts seem either immediately or ultimately to make up the whole price of corn. A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer, or for compensating the wear and tear of the laboring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a laboring horse, is itself made up of the same three parts" (that is: rent, profit and wages). "Though the price of the corn, therefore, may pay the price as well as the maintenance of the horse, the whole price resolves itself either immediately or ultimately into the same three parts of rent, labor and profit."<sup>\*\*\*</sup>

Marx calls this the "surprising" (II, page 366) doctrine of Smith: "His proof consists simply in the repetition of the same

contention."<sup>†</sup> Smith "sends us from Pontius to Pilate" (I, B. 2, Aufl., page 612).<sup>††</sup> In stating that the price of the instrument of production itself falls into those three parts, Smith forgets to add: and the price of those means of production which are used in the production of these instruments. The erroneous exclusion of the constant portion of capital from the price of the product is connected in A. Smith (and equally in the economists who followed him) with an erroneous concept of accumulation under capitalism, i.e., the expansion of production, the transformation of surplus value into capital. Here too Smith omitted constant capital, assuming that the part of surplus value which is transformed into capital is consumed by the productive workers, i.e., is fully spent for wages, when in reality the accumulated part of surplus value is spent on constant capital (means of production and raw auxiliary materials) plus wages.

Marx criticized this view of Smith (and also Ricardo, Mill and the others) in the first volume of *Capital*, (Part VII, *The Accumulation of Capital*, Ch. XXIV, *Conversion of Surplus Value into Capital*, Sec. 2, *Erroneous Conception, by Political Economy, of Reproduction on a Progressively Increasing Scale*). Marx remarks there that in the second volume "it will be shown that the dogma of A. Smith, adopted by all his successors, hindered political economy in understanding even the most elementary mechanism of the process of social reproduction." (I, 612).<sup>†††</sup> A. Smith fell into this mistake because he confused the value of the product with the newly-created value: the latter really falls into variable capital and surplus value while the first includes, in addition to these, the constant capital. The mistake was exposed in the analysis of value by Marx, who had established the distinction between abstract labor creating new value and concrete, useful labor transforming the previously existing value into a new form of a useful product.

The explanation of the process of reproduction and circulation of the entire social capital is especially necessary in solving the question concerning national income in capitalist society. It is extremely interesting to observe that A. Smith, in speaking of this last question, was unable to proceed with his erroneous theory which excluded the constant capital from the whole production of the country:

The gross revenue of all the inhabitants of a great country compre-

<sup>\*</sup>Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, 4th ed., 1801, Vol. I, page 75. Book I, *Of the Causes of Improvements in the Productive Powers of Labor, and of the Order According to Which Its Produce is Naturally Distributed among the Different Ranks of the People*, Ch. VI, *Of the Component Parts of the Price of Commodities*. (Russ. tr., Biblikov, St. P., 1888, V. I, page 111 (Modern Library Edition, page 58—Tr.)  
<sup>\*\*</sup>Ibid., I, page 76, Russ. tr. I, c. page 174 (Modern Library, page 52—Tr.)  
<sup>\*\*\*</sup>Ibid., I, pages 75-76. Russ. tr., I, page 171. (Modern Library, page 50.)

<sup>†</sup>*Capital*, II, page 441.—Tr.  
<sup>††</sup>*Capital*, I, 647, but there the phrase, "from Pontius to Pilate," is translated as "from pillar to post."—Tr.  
<sup>†††</sup>The above quotation is from the first edition of *Capital*, which is unavailable in English, and can be found in the 1872 Russian translation on page 509. In the later editions of *Capital*, Marx substituted for this sentence an entire paragraph, which appears as the last paragraph on page 447, Kerr edition.—Tr.

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hends the whole annual produce of their land and labor; the net revenue, what remains free to them after deducting the expense of maintaining, first, their fixed, and, secondly, their circulating capital; or what, without encroaching upon their capital, they can place in their stock reserved for immediate consumption, or spend upon their subsistence, conveniences, and amusements. (A. Smith, Book II, *Of the Nature, Accumulation, and Employment of Stock*, Ch. II, Vol. II, page 18, Russ. II., II, page 21.)

Thus, out of the entire production of the country, Smith excluded capital,\* asserting that it is resolved into wages, profit and rent, i.e., on (net) income; but in the gross revenue of society he includes capital,\* separating it from articles of consumption (net revenue). Marx seizes upon this contradiction of Smith: how can capital be included in income if capital had not previously existed in the product? (Cf. *Das Kapital*, II, page 355).<sup>10</sup> Unwittingly, A. Smith here acknowledged the three component parts of the value of the whole product, not merely variable capital and surplus value but also constant capital. In the subsequent discussion, Smith hits upon another important distinction, which has tremendous significance in the theory of realization.

The whole expense of maintaining the fixed capital must evidently be excluded from the net revenue of the society. Neither the materials necessary for supporting their useful machines and instruments of trade, their profitable buildings, etc., nor the produce of the labor necessary for fashioning those materials into the proper form can ever make any part of it. The price of that labor may indeed make a part of it; as the workmen so employed may place the whole value of their wages in their stock reserved for immediate consumption. But in other sorts of labor, both the price (of labor) and the produce (of labor) go to this stock, the price to that of the workmen, the produce to that of other people. (A. Smith, *Ibid.*)<sup>11</sup>

Here there is a suggestion of recognizing the necessity of distinguishing the twofold character of labor; one, to produce articles of utility capable of inclusion in "net revenue"; the other, to produce "useful machines, instruments of trade, buildings, etc.," i.e., products which can never be used for personal consumption. This is already one step toward recognizing the fact that to explain realization it is absolutely necessary to distinguish between two forms of consumption: personal and productive (i.e., reverting to production). The correction of these mistakes of Smith (omission of constant capital from the value of the product, and confusion of personal with productive consumption) made it possible for Marx to construct his remarkable theory of realization of the social product in capitalist society.

The economists between A. Smith and Marx all repeated the mistake of A. Smith<sup>12</sup> and therefore did not advance a step. What confusion therefore reigns in the theory regarding national income we shall see later. In the dispute which occurred regarding the possibility of general commodity overproduction—Ricardo, Say, Mill and others on the one hand, and Malthus, Sismondi, Chalmers, Kirichman and others on the other—both sides accepted as a basis the erroneous theory of Smith and therefore, according to the just remark of Bulgakov, "as a result of the erroneous points of view and incorrect formulation of the problem itself, these controversies

could lead only to empty and scholastic disputes." (L.c. page 21. Cf. the description of these disputes by M. Tugan-Baranovsky, *Industrial Crises*, etc., St. P., 194, pages 377-380.)

## VI. The Marxist Theory of Realization

From the above it follows that the basic postulates on which the Marxist theory is built consist of the two following premises: First, that the entire product of a capitalist country, like that of an individual product, is comprised of the following three parts: (1) constant capital, (2) variable capital, (3) surplus value. For him who is acquainted with the analysis of the process of production of capital in Marx's first volume of *Capital*, this postulate is self-evident. The second postulate is that it is necessary to distinguish two great departments of capitalist production: Department I, the production of means of production, or objects which serve productive consumption, that is, are utilized in production which is consumed, not by people, but by capital; and Department II, the production of means of consumption, i.e., articles used for personal consumption. "In this one division there is more theoretic sense than in all the preceding controversies regarding the theory of markets" (Bulgakov, l.c. 27).

One may ask why such a division of products into their natural form is necessary in the analysis of the reproduction of social capital when the production and reproduction of the individual capital was analyzed without such a division, entirely ignoring the question of the natural form of the product. How is it possible to introduce the question of the natural form of the product into a theoretic examination of capitalist production built entirely on the exchange value of the product? The answer is that in the analysis of the production of individual capital the question where and how the product will be sold, where and how the articles of consumption will be bought by the workers and the means of production by the capitalist, was abstracted as a question that had nothing to contribute to that analysis and was not related to it. There we had under analysis only the question of the value of the separate elements of production and the results of production. Now the question consists precisely in this: Where will the workers and capitalists get their means of consumption? Where will the latter get means of production? How will production meet these demands and create the possibility of expanding production? Consequently we have here not only "a reproduction of value, but also of material" (Stoffersatz, *Das Kapital*, II, 389).<sup>13</sup> Hence it is absolutely necessary to distinguish between types of products which play entirely different rôles in the process of social production.

Once we take into consideration these basic postulates, the question of realization of the social product in capitalist society presents no difficulty. Let us first assume simple reproduction, i.e., repetition of the process of production in the existing quantities, the absence of accumulation. It is evident that the variable capital and surplus value of Department II (existing in the form of articles of consumption) are realized by the personal consumption of the workers and capitalists of this department (because simple reproduction presupposes that the whole surplus value is used up and not an iota is transformed into capital). Further, in order to be realized, variable capital and surplus value existing in the form of means of production (Department I) must be exchanged for articles of consumption for the capitalists engaged in the production of means of production. On the other hand, the

<sup>10</sup>Modern Library edition, page 271.—Tr.

<sup>11</sup>Evidently because he is paraphrasing Smith, Lenin here uses the word, capital, instead of constant capital.—Tr.

<sup>12</sup>*Capital*, II, page 419. This is not a quotation from Marx but a paraphrase by Lenin of Marx's second paragraph on that page.—Tr.

<sup>13</sup>Modern Library edition, page 271. Lenin's emphasis.—Tr.

<sup>14</sup>For example, Ricardo asserts: "The whole produce of the land and labor of every country is divided into three portions: of these, one portion is devoted to wages, another to profit, and the other to rent." (*Works*, tr. Ziber, St. P., 1857, page 221.) (*Principles of Political Economy and Taxation*, 1891, page 286.—Tr.)

<sup>15</sup>*Capital*, II, page 456.—Tr.

constant capital existing in the form of means of consumption (Department II) can be realized only by exchange for means of production in order again to be converted into production the following year. Thus we have an exchange of variable capital and surplus value in the means of production for constant capital in the means of consumption. Workers and capitalists (in the department of means of production) receive in this manner their means of existence, and the capitalists (in the department of means of consumption) sell their product and receive constant capital for new production. Under conditions of simple reproduction, these exchanged parts must be equal to each other: the sum of variable capital and surplus value in the means of production must be equal to the constant capital in the articles of consumption. On the other hand, if we assume reproduction on an expanded scale, i.e., accumulation, the first magnitude must be greater than the second because there must be present a surplus of means of production to begin *new* production.

Let us return, however, to simple reproduction. There remains a realized part of the social product, specifically, the constant capital in means of production. It is realized partly by exchange between capitalists in this department (for example, coal is exchanged for iron because each of these products serves as a necessary material or instrument in the production of the other) and partly by direct conversion into production (for example, coal is mined in order to be utilized in the same undertaking in order once again to mine coal; seed in agriculture, etc.). So far as accumulation is concerned, then, the point of departure is, as we have seen, an abundance of means of production (which are derived from the surplus value of the capitalists of this department) as well as transformation of part of the surplus value in the articles of consumption. We consider it superfluous to analyze in detail how this additional production will be united with simple reproduction. Our task does not comprehend a special analysis of the theory of realization. As an explanation of the mistakes of the Narodnik economists, which will permit us to draw certain theoretical conclusions about the home market, the above will suffice.\*

In the question which most concerns us, i.e., the home market, the growth of capitalist production and, consequently, of the home market, proceeds not so much with respect to articles of consumption as to means of production. To put it otherwise: the growth of the means of production outdistances the growth of articles of consumption. In fact, we saw that the constant capital in articles of consumption (Department II) is exchanged for variable capital plus surplus value in the means of production (Department I). But, according to the general law of capitalist production, constant capital grows faster than variable. Consequently, constant capital in the articles of consumption must grow faster than variable capital and surplus value in the articles of consumption, and constant capital in the means of production must grow faster yet, outdistancing both the growth of variable capital (plus

\*Cf. *Capital*, Vol. II, Part III, where both accumulation and division of articles of consumption into articles of necessity and articles of luxury, and money circulation and exhaustion of the original capital, etc., are analyzed in detail. For the readers who are unable to acquaint themselves with Vol. II of *Capital*, it is possible to recommend the analysis of the Marxist theory of realization in the above quoted book of C. Bulzakov. The analysis of Bulzakov is more satisfactory than that of M. Tuzn-Baranovsky (*Industrial Crises*, pages 407-448), who made very unsuccessful deviations from Marxism in the construction of his own schemata and insufficiently explained the Marxist theory—more satisfactory also than the analysis of A. Skvortsov (*Basic of Political Economy*, St. P., 1929, pages 281-293), who holds incorrect views on the very important questions of profit and rent.

surplus value) in the means of production and the growth of constant capital in the articles of consumption. Thus the growth of the home market for capitalism to a certain degree is "independent" of the growth of personal consumption, being consummated particularly in the field of productive consumption. However, it would be incorrect to construe this "independence" to mean a complete divorce of productive consumption from personal consumption. The first can and must grow faster than the second (by this its "independence" is limited) but it is obvious that in the final analysis productive consumption always remains linked to personal consumption. Marx treats this question thus:

We have seen in Volume II, Part III, that a continuous circulation takes place between constant capital and constant capital... [Marx means constant capital in the means of production which is realized by exchange between capitalists of the same department]... which is in so far independent of individual consumption, as it never enters into such consumption, but which is nevertheless definitely limited by it, because the production of constant capital never takes place for its own sake, but solely because more of this capital is needed in those spheres of production whose products pass into individual consumption. (*Das Kapital*, III, 1, 289, Russ. tr., page 215.)<sup>11</sup>

This enhanced use of constant capital is nothing other than an enormous development of the productive forces, expressed in terms of exchange value, because the principal part of the rapidly developing "means of production" consists of materials, machines, instruments, buildings and all other adjuncts of large-scale and especially machine production. It is quite natural, therefore, that capitalist production, developing, as it does, the productive forces of society, and creating large-scale production and machine industries, is distinguished by the striking expansion of that department of social wealth which consists of means of production:

That which distinguishes in this case [that is, in the production of means of production] capitalist society from a society of savages is not, as Senior thinks, that it is a privilege and peculiarity of a savage to expend his labor during a certain time which does not secure for him any revenue convertible into articles of consumption, but the distinction is the following:

- (a) Capitalist society employs more of its available annual labor in the production of means of production (and thus of constant capital) which are not convertible into revenue in the form of wages or surplus value, but can serve only as capital.
- (b) When a savage makes bows, arrows, stone hammers, axes, baskets, etc., he knows very well that he did not spend the time so employed in the production of articles of consumption, but that he has simply stocked his supply of means of production, and nothing else. (*Das Kapital*, II, page 436, Russ. tr., page 335.)<sup>12</sup>

This "conscious recognition"<sup>13</sup> of one's relation to production has been lost in capitalist society because of the characteristic fetishism which represents social relations between people in the form of relations between things as a consequence of the transformation of every product into a commodity produced for an unknown consumer and subject to realization in an unknown market. And since for the individual manufacturer the *kind* of product he produces is a matter of complete indifference—every product gives him an "income"—this superficial, individualist point of view was adopted by the theoretician-economists toward society as a whole and hindered them from understanding the process of reproduction of the entire social product in capitalist production.

The development of production (and consequently of the

<sup>11</sup>*Capital*, II, 239.—Tr.

<sup>12</sup>*Ibid.*, pages 300-310.

<sup>13</sup>Lenin is referring in the phrase "he knows very well" in this above quotation from Marx, which was translated into Russian as "conscious recognition."—Tr.

home market), because it relates chiefly to means of production, appears paradoxical and undoubtedly does present a contradiction. This is genuine "production for production's sake," expanded production without a corresponding expansion of consumption. However, this is not merely a doctrine but real life; it is this contradiction which corresponds to the very nature of capitalism and to other contradictions of this system of social production. It is precisely this expanded production without a corresponding expansion of consumption which is in consonance with the historic mission of capitalism and its social structure: the first characteristic consists in the development of the productive forces of society; the second prevents the utilization of these technical achievements for the benefit of the masses of the population. Between the limitless striving for expansion of the productive forces characteristic of capitalism and the limited consumption of the people (limited as a consequence of their proletarian composition there is undoubtedly a contradiction. Precisely this contradiction is affirmed by Marx in those very postulates which are glibly quoted by the Narodniki as if they supported their views about the contraction of the home market, the non-progressive character of capitalism, etc. Here are some of these postulates:

Contradiction in the capitalist mode of production; the laborers as buyers of commodities are important for the market. But as sellers of their own commodity—labor power—capitalist society tends to depress them to the lowest price." (*Das Kapital*, II, 505.)<sup>10</sup>

... The conditions... realization... are limited by the... proportional relations of the various lines of production and by the consuming power of society... But to the extent that the productive power develops, it finds itself at variance with the narrow basis on which the conditions of consumption rest. (*Das Kapital*, III, 1, 225-6.)<sup>11</sup>

The barriers, within which the preservation and self-expansion of the value of capital resting on the expropriation and pauperization of the great mass of producers can alone move, these barriers come continually in collision with the methods of production, which capital must employ for its purposes, and which steer straight toward an unrestricted extension of production, toward production for its own self, toward an unconditional development of the productive forces of society... Thus, while the capitalist mode of production is one of the historical means by which the material forces of production are developed and the world market required for them created, it is at the same time in continual conflict with this historical task and the conditions of social production corresponding to it. (III, 1, 232. Russ., 194.)<sup>12</sup>

The last cause of all real crises always remains the poverty and restricted consumption of the masses as compared to the tendency of capitalist production to develop the productive forces in such a way that only the absolute power of consumption of the entire society would be their limit." (III, 2, 21. Russ. tr., 395.)<sup>13</sup>

In all the above quotations the contradiction between limitless striving to expand production and limited consumption is attested, and nothing else.<sup>14</sup> Nothing is more absurd than to conclude from the quotations from *Capital* that Marx did not consider it possible to realize surplus value within a capitalist society, as if he explained crises by insufficient consumption. In his treatment of realization, Marx demonstrated

<sup>10</sup>*Capital*, II, page 505, footnote.—Tr. <sup>11</sup>*Ibid.*, III, pages 225-227.—Tr. <sup>12</sup>*Ibid.*, page 232.—Tr. <sup>13</sup>*Ibid.*, page 395.

<sup>14</sup>It is precisely this sentence which the eminent (eminent in a Herostrian manner) Ed. Bernstein quotes in his *Die Voraussetzungen*, etc. (Stuttg., 1909, page 67). (*Evolutionary Socialism*, page 73.—Tr.) It is of course natural that our *... list*, turning from Marxism to the old bourgeois economy, should have hastened to declare that this arises from a contradiction in the Marxist theory of crises, and that such a view on the part of Marx "is not very different from Rodbertus's theory of crises." In reality, there exists a "contradiction" only between the pretensions of Bernstein on the one hand and his non-sensical eclecticism on the other. The degree to which Bernstein failed to understand the theory of realization is clear from his very curious argument that the tremendous growth of the mass of surplus value necessarily signifies an increase in the number of proprietors (or an increase in the well-being of the worker) because the capitalists themselves and their "servants" (*ibid.* Page 31-2) cannot "consume" the whole surplus value! (Remark to the second edition.)

that "in the final analysis the exchange between constant capital and variable capital is limited by personal consumption," but that same treatment showed the true meaning of "limitation," showed that the articles of home consumption play a lesser rôle in the formation of the home market than the means of production. Furthermore, there is nothing more absurd than to deduce the impossibility, unprogressive character, etc., of capitalism from its contradictions. This is merely to hide oneself high in the clouds of romantic fantasies from unpleasant but indubitable reality. The contradiction between the striving for limitless expansion of production and limited consumption is not the only contradiction of capitalism, which, in general, cannot exist and develop without contradictions. The contradictions of capitalism bear witness to its historically transitory character; they explain the conditions and causes of its disintegration and its transformation into a higher form, but they exclude neither the possibility of capitalism nor its progressive character as compared to earlier systems of social economy.

V. I. LENIN.

(Concluded in next issue)

\*The view of Mr. Tugan-Baranovsky, who states that Marx, in formulating these postulates, fell into contradiction with his own analysis of realization, is erroneous. (*Mr. Boshy*, 1908, No. 6, page 122. In the article, "Capitalism and the Market.") There is no contradiction in Marx whatsoever because, in the analysis of realization, he shows the connection between productive and personal consumption.

Statement of the ownership, management, circulation, etc., required by the Acts of Congress of August 24, 1912, and March 3, 1933, of

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Before me, a notary public in and for the state and county aforesaid, personally appeared Marjorie Wilson, who, having been duly sworn according to law, deposes and says that she is the business manager of The New International, and that the following is, to the best of her knowledge and belief, a true statement of the ownership, management, etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, as amended by the Act of March 3, 1933, embodied in Section 537, Postal Laws and Regulations, printed on the reverse of this form, to wit:

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Sworn to and subscribed before this second day of October, 1943.

NATHAN KIRSCHSTEIN.

(My commission expires March 30, 1945.)



# Origin of Capitalism in Russia—III

An Old Essay by Lenin

(Continued from last issue)

## VII. Theories of National Income

Having stated the fundamental postulates of the Marxist theory of realization, we must yet point briefly to its tremendous significance in the theory of "consumption," "distribution," and "income" of a nation. All these questions, especially the last, were until now the real stumbling block for economists. The more they wrote and spoke of it, the greater was the confusion emanating from the fundamental mistake of A. Smith. We will indicate several examples of this confusion here.

It is interesting to note, for example, that Proudhon essentially repeated this mistake, simply giving the old theory a somewhat different formulation. He stated:

A (under this are presumed all owners, employers and capitalists) begins an enterprise with 10,000 francs, paying the workers in advance, for which they must produce products. After A has thus transformed his money into commodities, he must, when he has completed production, for example, at the end of a year, again convert the commodities into money. To whom will he sell his commodities? Naturally, to the workers, since there are only two classes in society—on the one hand, the employers, on the other, the workers. These workers, having received 10,000 francs for their labor in the form of wages, which are sufficient to cover the necessities of their life, must now, however, pay more than 10,000 francs, that is, they must pay the percentage of return on capital investment and other profits which he anticipated making at the beginning of the year. This excess above 10,000 francs the worker can cover only by a loan and, as a consequence of this, he falls into greater debt and poverty. One of two things must happen: either the worker can subsist on nine units out of ten he has produced, or he must pay the employer only his wages and no more. In that case, however, the employer himself becomes bankrupt since he borrowed his capital at a rate of interest which he must pay back. (Diehl "Proudhon," II, 200, quoted in the Sbornik "Industry." Articles from *Handwörterbuch der Staatswissenschaften*, M. 1896, page 101.)

As the reader sees, this is the same difficulty—how to realize surplus value—which bothers Messrs V. V. and N—on. Proudhon merely expressed this in a somewhat peculiar form. And the peculiarity of his formulation brings him even closer to our Narodniki. They, exactly like Proudhon, discern the "difficulty" in the realization of surplus value (interest or profit in the terminology of Proudhon), but fail to recognize that the confusing theory, borrowed by them from the old economists, hinders the explanation of realization not only of surplus value but also of constant capital. That is, their "difficulty" results in a failure to understand the whole process of realization of products in capitalist society. Concerning this "theory" of Proudhon, Marx remarked sarcastically:

Proudhon, incapable of grasping this, exposes his incapableness in the ridiculous formula: The laborer cannot buy back his own product, be-

cause the interest is contained in it, which is added to the purchase price. (*Das Kapital*, III, 2, 579. Russ. tr., page 698, with errors.)

Marx quotes a remark against Proudhon by a vulgar economist, a certain Forcade, who "quite correctly generalizes the difficulty, which Proudhon expressed only under a more narrow point of view,"<sup>1</sup> that is, Forcade stated that the price of commodities includes not only a surplus over wages and profit, but also a part which replaces constant capital. That means, concludes Forcade—in opposition to Proudhon—that the capitalist too cannot, with his profit, buy back his commodities. (Forcade himself not only failed to solve this problem but did not even understand it.)

In exactly the same manner, Rodbertus failed to contribute anything to the solution of this question. Asserting with particular emphasis that "ground rent, profit on capital, and wages comprise income,"<sup>2</sup> Rodbertus, however, did not in any way clarify for himself the concept of "income." Describing what would be the problem of political economy if it followed the "correct method" (i.e., page 26), he thus deals with the distribution of the national product: "It (i.e., the genuine "science of national income"—emphasis by Rodbertus) "should have shown how, out of the whole national production, one part is always designated in advance as replacement for what was used in production or by capital, and the other part as national income—for the satisfaction of the direct needs of society and its members" (*Ibid.*, page 27). But although a genuine science should have demonstrated this—nevertheless the "science" of Rodbertus did not make this demonstration at all.

The reader will see that Rodbertus merely repeats Adam Smith word for word, not even noticing, evidently, that the problem first arises here. Which workers "replace" the national capital? Which realize their product? Of this he had not a word to say. Summing up his theory (diese neue Theorie, die ich der bisherigen gegenüberstelle, S. 32) in the form of separate postulates, Rodbertus speaks from the very outset about the distribution of national income, thus: "Rent" (it is clear that under this term Rodbertus meant that which is called surplus value) and wages are therefore in essence shares which pertain to the product to the extent that it is income" (page 33). This very important slip of the tongue should have led him to the most essential question. Since he had previously stated that under income are understood ob-

<sup>1</sup>*Capital*, III, page 92, footnote; the word "ridiculous" is left out of the translation, though it appears in the original German.—Tr.

<sup>2</sup>*Ibid.*, page 92, footnote.

<sup>3</sup>Zur Beleuchtung der sozialen Frage, Dr. Rodbertus-Jagetzow, Berlin, 1875, page 71 u.f.

jects serving "the satisfaction of direct needs," it follows that there are products that are not used for personal consumption. How are they realized? But Rodbertus does not notice this lack of clarity; he quickly ignores this slip and passes on to a discussion of the "division of the product into three shares" (wages, profit and rent, pages 49-50ff). Thus Rodbertus essentially repeated the dogma of A. Smith and together with it his basic error and hence explained nothing at all regarding income.

The promise of a new and better theory as to the division of the national product turned out to be an empty promise. In actuality, Rodbertus did not advance the theory on this question by a single degree. To what degree his concepts of "income" were confused are revealed in his further discussion in the fourth Social Letter to F. Kirchnan (*Das Kapital*, Berlin, 1884) on the following: It is necessary to consider money as national revenue; are wages derived from capital or from income?—speculations which Engels said belong "to the domain of scholasticism" (Vorwort to Vol. II of *Capital*, S. XXI).<sup>10</sup>

The reign of complete confusion regarding concepts of national income is absolute with economists even today. For example, Herkner, in his article on "Crises" in *Handwörterbuch der Staatswissenschaften* (the Sbornik mentioned previously, page 81), discussing realization of the product in capitalist society (in paragraph 5—"Distribution") finds the statement of K. G. Rau, who merely repeats the mistake of A. Smith by dividing the whole product of society into shares of income, a "felicitous" one. R. Meyer, in his article on "Income" (same pl., pages 289ff), quotes the confused definitions of A. Wagner (who likewise repeats the mistake of A. Smith) and frankly admits that "it is difficult to distinguish income from capital" and "the most difficult thing is the distinction between profit (Ertrag) and income (Einkommen)."

We thus see that the economists, having criticized and being still in the process of criticizing the insufficient attention that the classicists (and Marx) paid to "distribution" and "consumption," could not elucidate even an iota of the fundamental questions of "distribution" and "consumption," as if they were independent branches of science corresponding to some independent process and phenomena of economic life. Political economy does not concern itself with "production" at all, but with social relations of people in production, with the social organization of production. Once these social relations are explained and analyzed in full, by that token there are defined the place of each class in production and, consequently, their share in national consumption. And the solution to this problem—before which classical political economy stopped and which has not by a hair been advanced by all sorts of specialists in the field of "distribution" and "consumption"—is given by a theory directly related to that of the classicists, which consummates the analysis of production of capital, individual and social.

The questions about "national income" and about "national consumption" are absolutely insoluble if posed as independent questions. But, although they are thus fruitful only of scholastic discussions, definitions and classification, they prove to be completely soluble when the process of production of the whole social capital is analyzed. More than that: it ceases to exist as a separate question when the relation of national consumption to the social product and the realization of each individual part of the product are explained.

<sup>10</sup>Preface to Vol. II of *Capital*, page 29.—Tr.

There remains only the need to name these individual parts:

In order to avoid useless difficulties, it is necessary to distinguish the gross output and the net output from the gross income and the net income.

The gross output, or the gross product, is the total reproduced product....

The gross income is that portion of value and that portion of the gross product measured by it which remains after deducting that portion of value and that portion of the total product measured by it, which replaces the constant capital advanced and consumed in production. The gross income, then, is equal to the wages (or to that portion of the product which is to become once more the income of the laborer) plus the profit, plus the rent. On the other hand, the net income is the surplus value, and thus the surplus product, which remains after the deduction of the wages, and which, in fact, represents the surplus value realized by capital and to be divided with the landlords, and the surplus product measured by it.

... Viewing the income of the whole society, the national income consists of wages plus profit plus rent, that is, of the gross income. But even this is an abstraction to the extent that the entire society, on the basis of capitalist production, places itself upon the capitalist standpoint and considers only the income divided into profit and rent as the net income. (III, 2, 375-6. Russ. tr., pages 695-6.)<sup>11</sup>

Thus the explanation of the process of realization brought clarity also to the question of income, solving the basic difficulty which hindered an understanding of this question: How "income for one is capital for another"? How does production which consists of objects of personal consumption and falls entirely into wages, profit and rent include also the constant part of capital which can never be income? The analysis of realization in Part III of Volume II of *Capital* fully solves these problems, making it necessary only that these parts of the social product be designated, which Marx does in the concluding part of Vol. III of *Capital* devoted to the question of "income," and to refer to the analysis in Vol. II.<sup>12</sup>

#### VIII. Why a Foreign Market Is Necessary to a Capitalist Nation

In regard to the analyzed theory of realization of the product in capitalist society, the question may arise: Does not this contradict the fact that a capitalist nation cannot dispense with foreign markets?

It is necessary to remember that the analysis of realization of the product in capitalist society proceeded upon the assumption of an absence of foreign trade: this postulate has been stated and its necessity in such an analysis was demonstrated. Obviously, the importation and exportation of products would only confuse the question, and in no way aid in solving the problem. The mistake of Messrs. V. V. and N—on consists in this: that they bring in the foreign market in order to explain the realization of surplus value. Since it explains exactly nothing, this introduction of the foreign market only hides their theoretic mistakes, on the one hand, and, on the other hand, it permits them to avoid, by means of these erroneous "theories," the necessity of explaining the fact of the development of the home market for Russian capitalism.<sup>13</sup> The "foreign market" for them is merely a subterfuge which glosses over the development of capitalism (and consequently

<sup>11</sup>*Capital*, III, pages 978-9.—Tr.

<sup>12</sup>Cf. *Das Kapital*, III, 2, VII, Abschnitt, "Die Revenue," ch. 48: "Zur Analyse des Produktionsprozesses" (Russ. tr., pages 888-708). Here Marx also lists the circumstances which hindered the former economists from understanding this process (pages 370-382, Russ. tr., pages 698-705), (*Capital*, III, Part VII, *The Revenue and Their Sources*, Ch. 48, *A Contribution to the Analysis of the Process of Production*, pages 988-993.—Tr.)

<sup>13</sup>G. S. Bulganov very correctly mentions, in the above quoted book: "Until now the cotton industry destined for the peasant market has grown continuously. Consequently, this absolute narrowing of national consumption" (about which Mr. N—on speaks) "...is conceivable only theoretically." (pages 214-215.)

of the market) within the country by a subterfuge all the more convenient because it frees them also from the necessity of analyzing the facts which testify to the conquest of foreign markets by Russian capitalism.\*\*\*

The necessity of a foreign market for a capitalist country is not at all determined by the laws of realization of the social product (and of surplus value in particular), but primarily by the fact that capitalism is only the result of a widespread system of commodity exchange which transcends the limits of state boundaries. Therefore it is not possible to conceive of a capitalist nation without foreign trade, and indeed there is no such nation.

As the reader knows, this result is a historic phenomenon from which the Narodniki cannot take cover in the vapor of hackneyed phrases about the "impossibility for capitalists to consume surplus value." Here it would be necessary to examine—if they actually wished to pose the question of the foreign market—the history of the development of foreign trade and the history of the development of commodity exchange. Had they analyzed this history, they would, of course, find it impossible to explain capitalism as an accidental deviation from the path.

Secondly, the proportions between the component parts of social production (both in value and in natural form), which it is necessary to presume in demonstrating the theory of reproduction of social capital but which is merely an average derived from a series of constant vacillations—these proportions are constantly upset in capitalist society because of the fact that the individual producers work for an unknown market. The separate parts of industry which serve as a "market" for each other develop unevenly; some outdistance others, and the more developed industry seeks a foreign market. This does not at all signify "the impossibility for a capitalist nation to realize surplus value," as the Narodnik is ready wistfully to conclude. It shows merely the disproportionality in the development of separate industries. Under a different distribution of the national capital the same quantity of products could be realized within the country. However, in order that capital may leave one sphere of industry and emigrate to another, a crisis is necessary in the former sphere. What reasons then can restrain capitalists who are threatened with this crisis from a search for foreign markets and, in order to facilitate exports, from a demand for subsidies and relief from export restrictions?

Thirdly, the law of pre-capitalist methods of production is the repetition of the process of production in the pre-existing quantity, on the former basis. Such is the corvée economy of the landlords, the natural economy of the peasants, the handicraft production of the industrialists. Contrariwise, the law of capitalist production is that of constant revolution in the methods of production. Under old methods of production, the economic units could exist for centuries, changing neither in character, nor in magnitude, never departing from the limits of the landlord's domain, the peasant village or the small surrounding market for village artisans and petty industrialists (so-called home workers). Contrariwise, the capitalist enterprise inevitably outgrows the limits of the community, local market, the district and, subsequently, the state. Since the isolation and insulation of the state are already destroyed by commodity exchange, then the natural striving of each

capitalist branch of industry leads necessarily to the search for a foreign market.

Thus the necessity to search for a foreign market does not at all prove the insolvency of capitalism, as the Narodnik economists like to present the matter. Completely the opposite—this necessity graphically shows the progressive historical work of capitalism which destroys the ancient isolation and confinement of the earlier systems of economy (and consequently the narrowness of their intellectual and political life) and which links all countries of the world in a single economic unit.

We see from this that the last two reasons for the necessity of a foreign market are, again, reasons of a historical nature. In order to analyze them, it is necessary to examine each separate branch of industry, its development within the country, its transformation into capitalist industry, in a word, it is necessary to study the facts about the development of capitalism in a country. There is nothing surprising in the fact that the Narodniki utilize an incident to evade these facts under cover of hollow and worthless phrases about the "impossibility" of both home and foreign markets.

#### IX. Conclusions from Chapter I

Let us summarize now the theoretic postulates, analyzed above, which are directly related to the question of the home market.

1. The basic process of the creation of a home market (i.e., the development of commodity production and capitalism) is the social division of labor. It consists in this, that the various aspects of processing raw materials (and various operations in this process) are separated, one after another, from agriculture and became independent branches of industry, exchanging their products (now already commodities) for products of agriculture. Thus agriculture itself becomes an industry (i.e., producing commodities and the same process of specialization takes place in it.

2. The direct deduction from the preceding postulate is the law of every developing commodity economy and, particularly, of capitalist economy, that the industrial (i.e., non-agricultural) population grows faster than the agricultural population; an increasing part of the population is withdrawn from agriculture into manufacturing industry.

3. The separation of the direct producer from the means of production, i.e., his expropriation, which marks the transition from simple commodity production to capitalist production and which is the necessary condition of this transition) creates the home market. This process of the creation of the home market proceeds in two directions. On the one hand, the means of production, from which the small producer is "freed," are converted into capital in the hands of the new owner, serve in the production of commodities and, consequently, are themselves transformed into commodities. Thus even the simple reproduction of these means of production requires that they be purchased (formerly these means of production were reproduced, in the majority of cases, in the natural form and sometimes they were made at home), i.e., create a market for means of production and later also for the products now produced with the help of these means of production which are likewise converted into commodities. On the other hand, the means of existence of this small producer become a material element of variable capital, i.e., of the sum of money spent by the employer in hiring workers (it does not matter whether he is a landlord, a contractor, a lumber merchant, a factory owner, etc.). In this manner these means of existence

\*\*\*Polzin, "The Basis of Narodism," in the works of Mr. Vorontsov, St. Pt., 1890, pages 71-76.

have now also been converted into commodities, i.e., create a home market for articles of consumption.

4. The realization of the product in capitalist society (and consequently the realization of surplus value) cannot be explained unless we understand that: (1) the value of the social product, like that of the individual product, is divided into three parts, and not into two (into constant capital plus variable capital plus surplus value, and not only into variable capital plus surplus value, as Adam Smith and all subsequent political economists up to Marx had taught); and (2) that in its natural form it must be divided into two main departments: means of production (consumed productively) and means of consumption (consumed personally). Having established these basic theoretic postulates, Marx fully explained the process of realization of production in general, and of surplus value in particular, in capitalist production and revealed that it was entirely incorrect to drag the foreign market into the question of realization.

5. Marx's theory of realization also shed light on the question of national consumption and income.

From the above, it becomes obvious that the question of the home market as a separate, independent question, independent of the question of the degree of development of capitalism, does not exist at all. Therefore, Marxist theory nowhere and at no time raises this question independently. The home market appears when commodity production appears; it is created by this commodity production, and the degree to which the social division of labor has taken place determines the degree of its development. It spreads with the transformation of commodity production from the product to labor power, and only to the extent of the transformation of the latter into a commodity does capitalism cover the entire production of the country, developing chiefly in regard to the means of production which, in capitalist society, occupy an increasingly important place. The "home market" for capitalism is created by developing capitalism itself, which increases the social division of labor and which divides those concerned directly with production into capitalists and workers. The degree of development of the home market is the degree of development of capitalism in the country. To pose the question about the limits of the home market separately from the degree of the development of capitalism (as the Narodnik economists do) is incorrect.

That is why the question as to how the home market for Russian capitalism is being formed is reduced to the following question: in what manner and in what direction do the separate aspects of Russian national economy develop? What are the connection and interdependence between these various aspects?

The succeeding chapters will be devoted to an examination of the data which contain the answers to these questions.

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