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Material and Moral Incentives under Socialism

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Socialism and Labour Incentives

In conditions of socialism material incentive to achieve better labour results unites the common and individual interests. The greater the public wealth, the higher the standard of living of every individual member of society. On the other hand the worker's striving to improve his own wellbeing contributes to the growth of productivity and consequently to an increase of public wealth. The principle of material incentive is an important stimulus to achieve technological progress and develop the main productive force—man.

Material incentive is combined with moral incentives. The fact that the workers are masters of their country heightens their responsibility and makes them strive for a rapid increase in industrial production which in turn improves the wellbeing of the whole people. The forms of moral influence are manifold: public appreciation and approbation of labour results, encouragement of labour achievements, decoration with orders and medals, the manifested confidence of co-workers, contempt for parasites, engaging the workers in creative work, in innovations, the organization of rest and recreation, etc. One of the most important forms is socialist emulation.

It is impossible to draw a sharp line between
material and moral incentives. Moral incentives are always closely connected to material ones, morals themselves depending on economic relations.

The development of moral incentives does not mean self-denial. On the contrary, their purpose is the complete satisfaction of man's demands.

Moral incentives are not counterposed to material ones. The application of moral incentives promotes technological progress, it serves to raise labour productivity, reduce costs, step up the quality of production and enhance accumulation.

Material and moral incentives have one purpose—to improve the wellbeing of all workers in town and village, "each wants to improve his condition and all want to enjoy the benefits of life."

Lenin devoted great attention to the elaboration and implementation of the principle of personal material incentive of workers and peasants. In 1921 Lenin wrote in his work *The Fourth Anniversary of the October Revolution*:

"Our last, but most important and most difficult task, the one we have done least about, is economic development, the laying of economic foundations for the new, socialist edifice on the site of the demolished feudal edifice and the semi-demolished capitalist edifice. It is in this most important and most difficult task that we have sustained the greatest number of reverses and have made most mistakes. How could anyone expect that a task so new to the world could be begun without reverses and without mista-
kes! But we have begun it and shall continue it. We are learning how to continue erecting the socialist edifice in a small-peasant country without committing such mistakes.

"The difficulties are immense. But we are accustomed to grappling with immense difficulties... But we have also learned, at least to some extent, another art that is essential in revolution, namely, flexibility, the ability to effect swift and sudden changes of tactics if changes in objective conditions demand them, and to choose another path for the achievement of our goal if the former path proves to be inexpedient or impossible at the given moment.

"Borne along on the crest of the wave of enthusiasm, rousing first the political enthusiasm and then the military enthusiasm of the people, we expected to accomplish economic tasks just as great as the political and military tasks we had accomplished by relying directly on this enthusiasm. We expected—or perhaps it would be truer to say that we presumed without having given it adequate consideration—to be able to organize the state production and the state distribution of products on communist lines in a small-peasant country directly as ordered by the proletarian state. Experience has proved that we were wrong. It appears that a number of transitional stages are necessary: state capitalism and socialism, in order to prepare—to prepare by many years of effort—for the transition to communism. Not directly relying on enthusiasm, but aided by the enthusiasm engendered by the great revolution, and on the basis of personal
interest, personal incentive and business principles, we must first set to work in this small-peasant country to build solid gangways to socialism by way of state capitalism. Otherwise we shall never get to communism; we shall never bring scores of millions of people to communism. That is what experience, the objective course of the development of the revolution has taught us.

"The proletarian state must become a cautious, assiduous and shrewd 'businessman,' a punctilious wholesale merchant—otherwise it will never succeed in putting this small-peasant country economically on its feet... "A wholesale merchant is an economic type as remote from communism as heaven from earth. But this is one of the contradictions which, in the actual conditions of life, lead from a small-peasant economy via state capitalism to socialism.

"Personal incentive will develop production; and our primary task is to increase production at all costs. Wholesale trade economically unites millions of small peasants: it gives them a personal incentive, links them up and leads them to the next step, namely, to various forms of association and alliance in the process of production itself." (V. I. Lenin. Sel. Works, Vol. 3, p. 696-97.)

This statement substantiates the principle of material incentive to improve social production and points to the objective necessity of combining it with the revolutionary enthusiasm of the masses. Lenin repeatedly said that personal material incentive under socialism becomes a real force only in combination with enthusiasm of
the people. This combination ensures maximum utilization and development of man's abilities for the benefit of society and prevents the masses from losing lofty revolutionary perspectives. Lenin refuted the assertions of certain theoreticians that the advancement of the material incentive principle under socialism would be detrimental for moral principles and the cause of building socialism as a whole.

Personal material incentive in a society building socialism and communism is not an end in itself, as is the case under capitalism, but a motive force of production and an important means of raising the wellbeing of working people. The higher the workers' productivity, the more they contribute to their wellbeing and to the economic might of the entire society. Higher labour productivity makes society richer and enables it to pay more for the producers' labour. Work for society is also work for oneself—this is the basis of the active participation of people in production in the conditions of socialism.

Material incentive urges all workers to be conscientious about their work, to improve their knowledge, qualification and labour technique, help rectify shortcomings in the organization of production, plan their working day more efficiently, eliminate idling of machinery and make better use of machines and equipment. It helps to maintain a permanent skilled workforce in national economy and to eliminate fluctuation of labour.

Lenin's principle of material incentive is of great educational significance. It inculcates conscientious labour discipline, since a worker gets
more pay for honest and efficient work. Skilful application of the material incentive principle spurs the activity of workers, improves the equipment, production methods and organization of labour.

Wage Levelling or Material Incentive?

Lenin protested decisively against attempts at introducing equal distribution of products. He stressed that levelling, i.e. distribution irrespective of the quality and quantity of the work done, has nothing to do with the scientific concept of equality and can only hamper the growth of socialist production. In 1921 Lenin refuted the theoretical fallacy and political harm of Trotsky's proposal to adopt priority in production and equality in consumption as a principle of economic policy. Lenin called this "economically absurd" since it meant divorcing consumption from production.

The petty-bourgeois tendency of levelling found its most salient expression in the attempts of Trotskyite elements at organizing "production and living communes;" both skilled and unskilled workers, as well as office employees were to contribute their wages to a "common pot" to procure equal quantities of essential consumer goods for each member of the commune, which meant equalizing consumption.

But the overwhelming majority of working people associate labour with certain remunera-
tion, so it is essential to make the utmost use of the material incentive of workers and peasants to improve the results of their labour.

Explaining the part played by material incentive as an important factor stimulating productive activity and working people's initiative, Lenin said: "Priority in production implies preference, and the latter is nothing without preference in consumption. If I am given preference that will give me only an eighth of a pound of bread a day I will say: Thank you very much for nothing. Priority in production calls for priority in consumption. Otherwise priority is a dream, a nebulous cloud, and we are materialists after all. And the workers are materialists, too. If you are talking about priority, then give us bread, and clothes and meat." (V.I. Lenin. Coll. Works, Vol. 32, p. 10, Russ. Ed.)

Lenin resolutely opposed attempts to introduce levelling in distribution. In his speech at the 8th All-Russia Congress of Soviets he explained patiently that production propaganda should be augmented by another kind of incentive, by awarding bonuses in kind.

To begin with, a bread fund of 500,000 poods¹ was set up. The establishment of the fund, though very modest, showed that the state of working people sought and found new methods of work. Lenin wrote in those days that it was not enough to tell the peasants and workers they should strengthen labour discipline. They should also be helped and those who displayed heroism on the labour front after the immeasur-

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¹ 1 pood is equal to 16 kg.
able sufferings they had gone through should be rewarded. Although an incentive fund had been set up, it was not utilized sufficiently well. Along with conferences and directives from the centre, Lenin said, it was most important to work among the toiling masses. It was not difficult to understand that the state was not only persuading, but also rewarding good workers by creating better living conditions for them; to understand this one did not have to be a socialist. These measures would be readily supported by the non-Party masses of workers and peasants. The task, Lenin said, was to spread the idea as widely as possible and to start practical work.

Lenin believed that equality under socialism consisted not in equal distribution but in the fact that all working people were free from exploitation, had the same rights with regard to the means of production which were the property of the people and were all obliged to work with equal pay for the same quantity and quality of labour, irrespective of sex, age and nationality. Wage levelling is incompatible with scientific progress and the wellbeing of all members of society. Should an honest worker and an idler receive the same wages, this would frustrate personal interest in raising labour productivity, in expanding and improving social production.

Wage levelling would hamper the workers' initiative, encourage passive attitudes and adversely affect production.

Lenin's remark in connection with this problem is of greatest importance: "The food dis-
ttribution we arranged on levelling principles has led to a levelling that has hampered increased production,” he said in 1921. A little further he points out that “to think that food must only be distributed justly is wrong; you must think of distribution as a method, a tool and a means to improve production.” (V. I. Lenin. *Coll. Works*, Vol. 32, pp. 424-25, Russ. Ed.)

**Improving the Wage System**

Lenin’s analysis of the problem of material incentive profoundly influenced the solution of practical questions of economic development, organization of labour, allocating public funds, elaborating wage systems and various incentives, the rating of work and many other problems of socialist economy.

The realization of the principle of material incentive in the Soviet Union required a vast amount of work on readjusting the forms and systems of wages. Readjustment as a whole was dominated by the task of achieving quick growth of the productive forces at all cost.

Lenin took an active part in this work. He drafted and edited important Party documents and laws of the Soviet state and elaborated the main principles and directions of the wages and salaries policy.

We will here mention only the main measures to enhance material incentive carried out under Lenin’s guidance in the first years of the New Economic Policy.

Collective food supply for the workers was
introduced on Lenin's initiative. Under the difficult conditions of food scarcity caused by the imperialist and civil wars it offered the possibility to distribute food according to the labour productivity of each worker.

The decree *On the Regulation of Worker's Wages* signed by Lenin was adopted in April 1921. It introduced the direct piece-rate system in industry without setting any limit on the workers' earnings. The principle of payment according to quantity and quality of work on the piece-rate basis was laid down in the *Basic Regulations on the Wage-Rates Question* signed by Lenin in September 1921.

A change-over to the monetary form of wages was made simultaneously with the abolition of wage-levelling. As Soviet currency became more stable cash remuneration began to occupy a larger place in the total sum of wages. It reached 80 per cent of the industrial wages fund by the beginning of 1923.

Owing to the realization of the Leninist principle of material incentive and the general improvement of the economic situation in the country, real wages of the working people steadily increased and their living standards improved. Real wages which had dropped to 38.8 per cent of the prewar level in 1920 rose to 101.5 per cent of the prewar level in 1924-25. The absolute income of a worker's family increased by 62 per cent from the end of 1922 to the end of 1926 (it should be remembered that in 1926 about one-third of workers' earnings was made up of student allowances, benefits, pensions and free ser-
services received by the workers from the state, beside wages).

The new labour laws drafted under Lenin's guidance consolidated the new forms of organization and payment for labour, the forms founded on the principle of material incentive.

Let us consider some of Lenin's important theses on the methods and forms of implementing this principle which are of great historical and practical interest in present-day conditions.

**Differentiation of Wages**

Wage differentiation with an eye to the worker's skill and working conditions is a material incentive to improve skill and achieve better results.

This proposition was the basis of the organization of wages and the construction of a system of wage rates. The 1918 Labour Code, drafted with the participation of Lenin, declares: "State institutions that draft wage-rate scales divide all the workers of each trade into groups and categories and determine the rate of remuneration for each group and category. When determining this rate due consideration should be given to the difficulty of the work, the degree of danger of the conditions under which it is done, to its complexity and accuracy, as well as to the degree of independence, responsibility, skill, and experience needed to complete it." The main principles of wage differentiation set forth in the *Basic Regulations on the Wage-Rates Ques*
tion further developed Lenin's ideas on scientific substantiation of the wage-rate system in socialist production. Lenin held that pay should be graduated according to the skill the work required, according to its difficulty, and the responsibility it involved. This follows from his directions: “The determination of wage rates should follow the rule: minimal pay for minimal work.”

Only such a system of wage rates corresponds to the task of developing social production and can provide a material incentive for the workers and peasants to achieve better results.

The wage-rate policy of the first years of Soviet power resulted in unwarranted restrictions on the earnings of certain workers, thus creating artificial barriers to raising labour productivity.

Wage rates were brought so close that most workers had no desire to improve their skill or to do complicated or physically difficult work. On the contrary, workers sought to get a quiet job, such as factory watchman, or leave the factory altogether.

Only the correct classification of grades of work and differential payment for different jobs with due consideration of the worker's skill and the difficulty of his work can make him take an interest in achieving better results in production and consequently in increasing the rate of development of industrial production. That is why Lenin advanced the highly important thesis that “in determining wage rates for workers of various skills, employees, technicians and higher ad-
ministrative personnel all thoughts of wage levelling should be set aside.”

Lenin thought, however, that differentiation of wages should not lead to excessive gaps between the earnings of various categories of workers. Such gaps were abnormally large in prerevolutionary Russia, especially between the wages of workers and the salaries of office employees. The gap was the result of the bourgeois attitude to the distribution of income. The Soviet state put an end to this practice forever. Thus differentiation of wages essential for the realization of the principle of material incentive should be practised within certain limits, i.e., not transgressing the boundaries of differences in wages determined on scientific lines.

Higher wages for skilled workers urged them to improve their qualification, contributing to higher labour productivity. However, care should be taken to avoid excessive differences in payment to workers of various skills.

Two trends were thus apparent in wage-rate policy. The young workers' and peasants' state sought to overcome the wage levelling of "war communism" and to differentiate the wages of different categories of workers correlating them to productivity; on the other hand, measures were taken to narrow pre-revolutionary gaps between the wages of the higher and lower cate-

1 As early as January 20, 1918, the Soviet of People's Commissars under Lenin's chairmanship cancelled an order of the People's Commissar of Railways of January 15 on the wage rates of railway employees under which highly skilled workers and engineers were to be paid almost the same wages and salaries as unskilled workers.
gories. Both trends had a common aim—the establishment of a scientific system of wage rates taking into account the then existing level of economic and social progress in general and of the organization of socialist labour in particular. They reflected the profound processes at work in the developing socialist economy. "Capitalism," wrote Lenin, "inevitably leaves socialism the legacy... of old trade and craft distinctions among the workers, distinctions evolved in the course of centuries." (V. I. Lenin. Sel. Works, Vol. 3, p. 400.) The characteristic distinction is that between skilled and unskilled labour.

As socialist construction goes on, technological progress and the rise in cultural and technical standards of the workers will gradually create conditions for overcoming these distinctions. The principle of distribution according to work is a strong material incentive to the working people to raise their qualifications, improve their technical knowledge and cultural standards; it helps to lessen the differences in qualifications. A tendency towards smoothing differences in wages is thus active in socialist production. Lenin wrote that "a gradual levelling of all wages and salaries for all trades and all categories of workers" would obtain during the transition to communism. The gradual equalization of pay can be brought about on the basis of technological progress, general increase of production and the improvement of the cultural and technical level and real income of the workers, and not by wage levelling.

It should be remembered, moreover, that complete economic equality implying equal re-
lations to the means of production as well as fully equal distribution will be achieved in communist society where the great principle “from each according to his ability, to each according to his needs” will be realized.

Rate Fixing

The problem of differentiation of wages is closely linked to that of rating the work. The principle of paying wages depending on the quality and amount of work implies the necessity of fixing rates strictly and of keeping records of the work done by every worker. Technically justified output standards stimulate improvement of labour discipline and higher productivity and contribute to the better organization of production processes; it pulls the lagging workers up and puts them on a level with the foremost, besides helping to develop a new attitude to labour.

Rate fixing is a means of increasing labour productivity in socialist production; it aims primarily at using the most efficient methods of labour making it lighter. Technically justified output standards are within the powers of every worker.

Society engaged in building socialism, however, cannot renounce anything of value that has been worked out by bourgeois economic science in the sphere of rate setting. “The possibility of building socialism,” wrote Lenin, ”depends exactly upon our success in combining Soviet power and the Soviet organization of administration

Lenin wrote that it was necessary to study scientific achievements in analyzing mechanical motions during work, so as to eliminate superfluous and awkward movements, find the most efficient ways of doing the work and introduce the best system of control and recording of results.

The problem of fixing output rates was put forward by progressive trade unions in the first months of Soviet power. Lenin supported the initiative in every way. In 1919 he insisted on “fixing labour quotas and seeing that they are carried out at all costs.” (V. I. Lenin. *Coll. Works*, Vol. 30, p. 120, Russ. Ed.)

Lenin’s idea of rating the work on a scientific basis taking into account all the real circumstances of production, its organization and the best experience of foreign countries opened broad prospects for the people’s initiative, contributed to the increase of social production.

**Bonuses for the Best**

Lenin repeatedly explained that material incentive could not be produced merely by setting up a correct system of wage rates and establishing a scientific method of fixing output rates. He pointed out that bonuses for the workers played an important part in the development of the principle of material incentive. “In the period of transition... bonuses are indispensable.”
(V. I. Lenin, *RCP (B) Draft Programme, On Utopian and Scientific Socialism*, p. 147.) Lenin considered bonuses a major factor in normalizing the economic life of the country. On Lenin’s initiative the best industrial and office workers in vital sectors of economic construction were frequently rewarded with various bonuses. An enactment of the Soviet of Workers’ and Peasants’ Defence of February 1920, signed by Lenin, may be cited as an example. It contained directions “to pay all industrial and office workers as well as technical personnel who had participated directly in the construction of a bridge across the Kama and displayed particular energy and labour discipline the sum of two months’ wages or salaries fixed by the wage-rate scheme if they had been on the job not less than three months, and equal to one month’s wages if they had been on the job more than a month but less than three months.”

In December 1919, Lenin proposed to establish bonuses in the form of bread for higher labour productivity in the reconstruction of transport. Lenin wrote in a telegram to the Kharkov Regional Executive Committee: “The transport situation is so difficult that heroic efforts are necessary to bring coal here and even greater efforts to speed up the overhauling of locomotives. Put your best manpower to work, establish bread bonuses for every reconditioned locomotive, refit the best shops, and set up two or even three shifts.”

On February 20, 1920, the Defence Council established bread bonuses for railway workers overhauling locomotives. This boosted ma-
terial incentive, contributing to labour productivity.

Acting on Lenin’s initiative, on June 8, 1920, the Soviet of People’s Commissars passed a decree on bonuses which directed the setting up of an interdepartmental commission on bonuses under the Central Council of Trade Unions and the formation of an in-kind bonus fund. The commission began its work in September by instituting a bread fund of 500,000 poods. The commission ruled that bonuses in kind could be awarded when the output programmes have been fulfilled by 100 per cent.

The system of bonuses for the best workers played an important educational role at a time when the working people were toiling with unprecedented heroism despite famine and hardships. This system enhanced the revolutionary enthusiasm of the masses, and helped to popularize advanced methods and examples.

Lenin stressed that bonuses in kind were of great importance in the development of the shock-worker movement to increase output. “Distribution should be so organized,” Lenin said, “as to reward those who show heroism, industriousness or the talent and devotion of an industrial executive...” (V. I. Lenin. Coll. Works, Vol. 32, p. 13, Russ. Ed.)

The decisions promoting bonus systems adopted by trade unions and the managements of many enterprises coincided with Lenin’s ideas on this score.

Lenin at the same time expressly warned that bonuses should not be turned into a kind of disguised supplementary wages. He stressed
that bonuses should be paid only in connection with increased labour productivity. Lenin added his remarks and amendments to the draft resolution of the Soviet of People's Commissars of the Russian Federation on the work of the interdepartmental commission on bonuses. He pointed out many times that bonuses had to be connected not simply with productivity but "with an increase of productivity." It is only when the bonus is linked with achievement of higher productivity figures, above the fixed quotas that it can become a really effective stimulus, providing the material incentive for the workers to improve productivity both in quality and quantity.

Lenin repeatedly spoke on the need to improve the forms of bonuses and their importance for building socialism. He emphasized that "the bonus was among the most important institutions in socialist construction."

On April 22, 1922, Lenin drafted a directive on the work of deputy chairmen of the Soviet of People's Commissars and the Soviet of Labour and Defence where he made special mention of the importance of bonuses.

Of particular significance, he wrote, was the introduction of a bonus system, i.e. rewarding office workers depending on the goods turnover and profit in the People's Commissariat of Foreign Trade, in cooperatives and other trading establishments. It was necessary to systematically study and elaborate ways of applying the bonus system to all Soviet office employees, to find new methods of employing the bonus system.
From 1921 bonuses began to be awarded on a mass scale in all sectors of national economy. The workers and peasants, insisted Lenin, had to be personally interested in fulfilling and overfulfilling the adopted state plans for the development of the national economy. In December 1920 at the 8th All-Russia Congress of Soviets he said: “Economic plans must be carried out in accordance with a definite programme, and the increasing fulfillment of this programme must be noted and encouraged. The masses must not only know, but also feel, that the shortening of the period of hunger, cold and poverty depends entirely upon how quickly they fulfill our economic plans. The plans of the various branches of production must be soundly coordinated, combined and made to constitute that single economic plan of which we stand in such great need.” (V. I. Lenin. Sel. Works, Vol. 3, pp. 551-52.)

The Peasantry and Material Incentive

Lenin paid great attention to the problem of material incentive of peasantry. It is impossible to build socialism if the peasant is not interested in it. The peasant is a materialist, a man of practice and he wants real material wealth, said Lenin. We must “patiently, persistently and repeatedly point out to him that socialism is infinitely more beneficial to the middle peasant than a government of tsars,

Socialism abolished extortionate rates of exchange of industrial goods for bread between town and country. Their mutual relations are based in socialist society on improving the well-being of the peasants and not on profit-making.

“The peasant wants town products and town culture,” Lenin explained, “and we must give him all this. Only when the peasant receives this aid from the workers will he see that worker’s aid differs widely from exploiter’s aid.” (V. I. Lenin. Coll Works, Vol. 29, p. 241, Russ. Ed.)

Proof of the fundamentally new relations with the countryside was given by raising the price of cereals three times in 1918 because of the discrepancy between the earnings of the middle peasants and the then existing prices of industrial goods.

Lenin was especially concerned with the question of satisfying the material needs of the rural poor. On June 4, 1918, he said at a general meeting of the All-Russia Executive Council, the Moscow Council of Workers’, Peasants’ and Soldiers’ Deputies and trade unions: “We shall give all possible premiums to the poor peasants, for they are entitled to them.

The poor peasant has for the first time obtained access to the good things of life, and yet we see that he is living more meagrely than the workers.” (V. I. Lenin. Coll. Works, Vol. 27, p. 402, Russ. Ed.)

Lenin pointed out that the construction of socialism in an agrarian country makes it neces-
sary to satisfy the personal material wants of the farm workers, to make use of the individual practical interest of the peasant in the improvement of rural economy, in the reconstruction of the ruined industry, in the revival of the economic connections of the town and the village and in the adoption of the socialist way of development.

"The crux of the matter," said Lenin, "lies in providing the peasants with a stimulus, an economic incentive. The small proprietor must be told: It is your job as a proprietor to produce, and the state will take a minimum tax."


Make the peasants' private practical interest serve the common interest first by means of cooperation in trade, then by cooperating their productive work itself—that was how Lenin identified the task of building the socialist rural economy. Wholesale trade, for example, unites the economic interests of millions of small farms, inducing them to take the next step to various forms of cooperation in production itself.

The formation of peasants' cooperative societies, first to sell their produce and then to unite them in production, brought a blending of private and common interest that led to the victory of socialism in the rural districts.

Summarizing the experience of four years of the new life Lenin wrote: "We must not bank on a direct transition to communism. We must build on the basis of the peasant's personal incentive... The difficulty lies in creating perso-
nal incentive. We must give every specialist the incentive to grow personally interested in the development of production. Have we been able to do this? No, we have not. We thought that production and distribution in a country with a declassed proletariat would proceed at communist bidding. We must change this for otherwise we shall not be able to familiarize the proletariat with this transition.” (V. I. Lenin. *Coll. Works*, Vol. 33, pp. 46-47, Russ. Ed.) “This was a task unprecedented in history,” Lenin wrote. “Since it could not be accomplished by a frontal attack, we should resort to manoeuvring, we should lay siege to it,” he said.


Explaining the necessity of the measure to the opponents of bonuses for the peasants, Lenin wrote in 1920: “But if we conclude that we do not need any bonuses for individual farmers, let us examine the following fact: We give bonuses to individual workers at factories and mills where the collective work, its social character have reached an incommensurably higher level than in agriculture.

What about the peasant’s husbandry? In this predominantly peasant country where lone, individual labour prevails in nine-tenths of cases if not in 99 per cent, there are 20 million peasant farms we are endeavouring to and must raise them to a new level and at all costs. We know
that improvement of their productivity will become possible only after many years of fundamental technical reforms. Three years of practical work have taught us something. We know how to lay the foundations of communism in agriculture—it can be done at the price of a great technical revolution... But now we have 20 million individual farmers, working separately for they cannot work otherwise; and if we do not reward them in order to improve their productivity we shall be making a mistake; this would mean overdoing things, trying to ignore the obvious situation which must be taken into account and serve as a starting point. Of course, it is desirable that the farms rise to a new level collectively, by volosts, communities, etc. What we must consider is how far such a thing is possible now.

If you who are active in the rural regions support progress along this path and achieve the improvement of the economy of an entire community or volost—so much the better; then let them have the best there is in bonuses. But are you sure we will succeed? Are you sure this is no illusion that will lead to the greatest blunders in practice?

That is why we propose that rewards and bonuses for individual farmers be allowed...”


Lenin’s principles of stimulating labour consolidated the union between Soviet power and the peasant masses; the latter took their places side by side with the workers in socialist construction.
Labour Discipline

The readjustment of the economy and the creation of a perfect system of material incentives requires conscientious discipline from the working people.

"In economy," Lenin said at the 5th All-Russia Congress of Soviets, "where socialism is only just being constructed, and the new discipline must be instilled we have as yet no experience, but we are acquiring it through alterations and reconstructions. This is our main task. We say that every new social system requires new relations between men and a new kind of discipline. There was a time when it was impossible to manage an agricultural enterprise without enforcing the discipline of serfdom solely with a stick; there was a time when the capitalist was master and discipline was enforced by hunger. But now, from the day of the victory of Soviets, from the beginning of the socialist revolution, discipline must be built on entirely new principles, it must be based on faith in the self-discipline of workers and poor peasants, it must be a discipline born of comradeship, of mutual respect, of independence and initiative in the struggle." (V. I. Lenin. Coll. Works, Vol. 27, p. 475, Russ. Ed.)

Outlining the immediate tasks of Soviet power Lenin wrote: "...a condition for economic revival is the raising of the working people's discipline, their skill, their dexterity, increasing the intensity of labour and improving its organization... because the victory of socialism is

Lenin regarded this as one of the most important tasks in the construction of a new society: “This is the most difficult but the most gratifying task because only its fulfillment will give us socialist conditions,” he said. “We must learn to combine the ‘public meeting’ democracy of the working people—turbulent, surging, overflowing its banks like a spring flood—with iron discipline while at work, with unquestioning obedience to the will of a single person, the Soviet leader, while at work. (V. I. Lenin, *Sel. Works*, Vol. 2, p. 727.)

The problems of instilling conscientious labour discipline were always present in Lenin’s mind. In March 1918 he wrote: “The Congress most insistently, presents to all workers, soldiers and peasants, to all the working and oppressed masses, the main, immediate and most urgent tasks of the moment—the improvement of discipline and self-discipline of the working people, the creation throughout the country of strong, well-founded organizations that cover, as far as possible, all production and distribution; a ruthless struggle against chaos, disorganization and economic ruin.” (V. I. Lenin. *Sel. Works*, Vol. 2, p. 693.)
New Methods of Material Incentive

The Plenary Meeting of the Soviet Communist Party Central Committee held in September 1965 drafted a series of measures to improve economic planning, management and the effectiveness of material incentive. This marks the beginning of a major reform which will affect various aspects of economic relations.

Various problems of planning, price formation, finance and material incentive are closely related, and their coordinated solution will open new ways of increasing production and the national income, which would add to capital accumulation essential for economic progress and step up the rates of raising the living standards of the people.

Many people abroad realize that the remaking of industrial management and the improvement of economic incentive are made necessary by the present level of productive forces and the immense size of the managerial staffs. Compared to prewar times, Soviet industrial output has grown 7.3 times. The fixed production assets put into operation in the last seven years alone (1959-65) are equal to all fixed assets in 1958. It is only natural that the Soviet state is constantly improving the forms of economic management to ensure the fastest possible rates of economic development and raise in the efficiency of socialist production.

The opponents of communism promptly announced that the recent decisions of the CC CPSU
Plenary Meeting and the USSR Supreme Soviet mark "the failure of economic development plans," "a crisis in Soviet industry," and so on. They choose to ignore the well-known fact that Soviet industry has fulfilled the Seven-Year Plan, with the output rising by 84% instead of 80% as planned. The average annual increase in Soviet industry for the past seven years was 9.1% as against 3.9% in the United States. In other words, the rate of industrial growth in the Soviet Union is more than double that in the United States.

However, Soviet people are not satisfied even with this high rate, they think it can and should be higher. That is the main reason why steps are taken to improve economic management and efficiency.

These measures are essentially as follows.

a) Planning is raised to a higher scientific level.

b) Industrial enterprises will have more managerial freedom and initiative.

c) Cost accounting is being expanded with the help of such instruments as price, profit, bonus and credit, to make the enterprise more interested in stepping up production, securing higher profit and making the best use of the production assets.

d) More incentive is offered to factory and office workers. This will encourage greater initiative of the working people in economic activity and increase their participation in production management.

What are the new forms of material incentive?
The economic reform outlines the directions of enhancing the workers' material incentive to improve the results of their work at a time when higher economic efficiency has become a problem of vital importance. These directions were pointed out in the decision of the CPSU Central Committee and the USSR Council of Ministers of October 4, 1965, *On Improvement of Planning and Strengthening Economic Stimuli of Industrial Production*, resulting from the resolutions of the Plenary Meeting.

The main principles of the new system of planning and economic incentive were tested on a broad scale in 1964-65 at several clothing, footwear and textile factories and big garages in Moscow and Leningrad. The new system of bonuses for managers, engineers, mechanics and office employees was tested in other industries. The experiments showed that correct methods had been chosen to improve the policy of material incentive.

As before, wage rates and salaries of employees will be set by the state in a centralized manner. Their gradual increase following higher efficiency of all social production, within the available means remains one of the main directions of raising material incentive and the living standards of the people. The new feature is an increase in part of a worker's remuneration which directly depends on better results of the whole enterprise. This makes the workers more interested in raising production efficiency, and quality, greater sales of the products and higher profits.

Combination of the pay for individual work
with remuneration depending on the entire activity of an enterprise allows for better assessment of a worker's contribution and more consistent application of the socialist principle of distribution according to labour. This strengthens the stimuli for expanding production and promotes the improvement of the payment-according-to-labour system which remains the main source of satisfying the material and cultural requirements of the people.

An important feature of the new system of material incentive is that it is linked with the other measures elaborated by the September Plenary Meeting of the Communist Party Central Committee. Greater managerial freedom of industrial enterprises combined with better planning methods and forms, more skilful use of economic levers and the sectoral principle of economic management encourage the enterprises' initiative in mobilizing inner reserves and selecting more effective ways of fulfilling economic plans. Profound interest of each employee in the results of the work of his enterprise is an important condition of adequate utilization of these possibilities.

The new system of material incentive is based on the profit index. Profit is the difference between the value of marketed produce at wholesale price and its cost. It reflects all aspects of economic activity and is linked by many ties with each section, shop, service and department. Like a sensitive barometer, profit responds to all changes in the economic organism of an enterprise. It characterizes the utilization of material and labour resources and productive assets,
cost, labour productivity, quality of produce and the volume of marketing. Profit is thus the most general indicator of an enterprise's economic efficiency. It is also a major source of material incentive for improving an enterprise's productivity.

The CPSU Central Committee and the USSR Council of Ministers pointed out that a greater share of growing profits should be earmarked by the plan for encouraging the workers. It follows that additional incentive is to be derived from the efforts of the entire collective and the opportunities for remunerating work out of this source depend on the improvement of the performance of the enterprise.

To make material incentive dependent on the profit is in the interests of society, the enterprise and the individual worker. It is based on the strengthening of the cost-accounting principle in relations between the enterprise and the state, between individual enterprises and between an enterprise and its workers. This unity is only possible in the conditions of socialist economy where the means of production are public property, where the aim of production and distribution is to satisfy the requirements of the working people.

The fact that enterprises will have the right to dispose of a greater share of their profits for expanding and improving production, offering greater incentive to the workers and bettering their living and working conditions will encourage enterprises to make better use of their production assets for increasing production and incomes. Thus the employment of profit for eco-
nomic stimulation will urge enterprises to enhance the efficiency of production and accumulation, to make a greater contribution to the national income. This will benefit the society as a whole, each enterprise and each worker.

The purpose of the new measures is consistent implementation of the principle of socialist economy—what is beneficial for the state should be beneficial for an enterprise and every worker. It is a major factor in stepping up the growth of social production.

The economic stimuli used in the Soviet Union to enhance labour productivity follow from the nature of socialist relations of production. In a socialist economy profit is the income of the entire society which utilizes it in its own interests—to strengthen the country's economic might and raise the wellbeing of the working people.

The recent economic experiments have shown that the new methods of work sharply increase labour activity of the workers and the managerial staff and lead to greater labour productivity and higher profits and wages. For instance, labour productivity grew by 45.6 per cent in five months at the 9th automobile park in Moscow as a result of the new methods of planning and economic stimuli. Out of the 500 thousand roubles of profit 320 thousand was received over and above the plan. The enterprise's own fund which was 18 thousand roubles in 1964 jumped to 200 thousand roubles in 5 months of 1965. The general meeting of the park's workers set aside 65 per cent of the sum as public funds to be spent on housing and
modernizing the equipment, the remainder to be distributed as bonuses, partly in the form of buying accommodation in sanatoriums and holiday homes. The best drivers received 100-120 roubles as bonuses in five months. The workers are looking for ways of further improving the park's efficiency. Fluctuation of labour has been sharply reduced and labour discipline showed a marked improvement. There was only one violation of discipline in 5 months.

Here moral stimuli have certainly developed in combination with material ones.

How will the new material incentive system work?

Part of the profit of industrial enterprises will be used to set up a material incentive fund alongside other funds (social-cultural fund, housing construction fund, expansion of production fund.)

The amount of deduction from profit to the material incentive fund is fixed by rates in per cent of the wage fund.

The size of bonuses may depend on the growth of sales or profits. In branches of economy where greater output is the main purpose stress should be laid on encouraging bigger sales, while higher profits should be rewarded primarily in branches where low costs are the basic issue.

The method of formation of the material incentive fund encourages increased output of new products satisfying the society's demands as well as higher quality of goods. The fund will grow along with the growing share of new products turned out on the basis of the latest
scientific and technical achievements. It may also increase from deduction, at special rates, of part of the profit resulting from a price surcharge for higher quality or from the sales of new goods of improved quality.

It is also very important that industrial enterprises will now be able to spend the fund set aside for introducing new equipment not only on designing, experiments and other measures before mass production of new goods may be started, but also to spend more money to improve the quality of new goods and compensate the higher cost of the new products in the first year of mass production.

It now becomes possible to eliminate the shortcomings of the old system of incentives when the enterprises were not interested in planning the maximum utilization of their own resources. All the methods of appraising an enterprise’s activity and the incentive system were based primarily on encouraging the overfulfillment of the production plan. In such conditions an enterprise sought to overfulfill the plan at any cost and to be given smaller assignments for output, growth of labour productivity and reduction of costs.

Now the size of the material incentive fund will depend on the planned increase in sales (or profit) and the profitability level, with the bonus for overfulfilling the output plan being smaller than the sum paid for reaching the other targets of the plan. Enterprises will thus be urged to tap new reserves and set higher production targets.

Bonus rates will be set for a period of sev-
eral years. This will guarantee material encouragement for enterprises and workers. Different rates will be fixed for various sectors of economy and groups of enterprises within the sectors. The use of group rates at individual enterprises ensures public appraisal of their activity. No limit is set for deductions to the material encouragement fund.

The amount of deduction from profit to the material incentive fund is determined when each enterprise receives its annual production targets. In calculating the annual level of estimated and actual profitableness which determines the rates of deduction of the material incentive fund the production funds put into operation in the second half of the year are not taken into account, since the enterprise would not yet be able to make proper use of the new capacities. This condition provides for more objective appraisal of production efficiency and the amount of deduction to the incentive fund.

Thus the method of formation of the material incentive fund promotes in every way the economic efficiency of production. It makes the workers interested in the final results of production—increased sales, higher profitableness, new products of higher quality, the maximum use of an enterprise's reserves and setting higher production targets.

An important feature of the new system is the fact that all sections of workers become interested in the overall annual results of enterprises. Bonuses are the most flexible portion of a worker's earnings and the best form of rewarding the workers from deductions from profit.
depending on the final results of an enterprise’s activity. A major portion of the incentive fund (but not more than 90 per cent is spent on quarterly and monthly bonuses. The remainder is designed to stimulate the fulfillment of overall annual targets and is used at the end of the year on the condition that the enterprise fulfills the annual plan targets in sales (or net profit) and profitability ratio. This portion of bonus depends on a worker’s earnings and seniority. The management is given the right, in conjunction with the trade union organization, to increase or decrease this reward depending on the results of an employee’s work. This system makes the entire collective interested in fulfilling annual plans and encourages employees to work permanently at one enterprise.

Under the new system standard regulations on material incentive will be used to elaborate differentiated rates of bonuses and conditions of awarding them for various industries to ensure an accurate and comprehensive appraisal of the efforts of each group of workers.

Greater material incentive for higher quality of goods is an important means of improving the system of material encouragement. The amount of individual and collective remuneration will directly depend on the quality of goods. An essential aspect of the principle of greater concern for higher quality is the combination of material incentive with material responsibility for the results of work. Higher payments for better quality of goods will be combined with lower payment for poor quality or defective goods through the fault of individual
workers. Low quality of products and spoilage cause great harm to the national economy; they slow down the growth of labour productivity, one of the sources of raising the wellbeing of the people. Material responsibility for the results of work is a timely and just measure which meets the vital interests of the entire society.

It is proposed to pay out to workers within 3-6 months a part of the savings resulting from the organizational and technical measures to make them interested in reducing labour expenditure, and introducing new production and servicing quotas. The management will have the right to award bonuses from the economized sums, to foremen, engineers and technicians at production sectors who are directly participating in the organizational and technical innovations. Under the existing statute of a socialist enterprise the manager may give additional payment of up to 30 per cent of the basic salary to skilled foremen and other engineering staff; up to 0.3 per cent of the planned wages fund may be spent for this purpose, subject to the approval of the superior economic agency.

The new fund for social and cultural measures and housing will be an important method of collective incentive. It is formed out of profit on the same principles as the material incentive fund and is also spent to meet the requirements of the workers of a given enterprise. The fund is used to build and repair apartment houses and cultural and utility establishments and to improve the cultural and utility services. If required by circumstances, the management may, in conjunction with the trade union, use as
much as 20 per cent of each fund for the purposes of the other.

The new system of material incentive in industry is such that the income of the enterprise as a whole and of each individual worker depends to a greater extent on the results of the work of the enterprise. This means that bonuses and other additional payments will not come of themselves. Everything depends on the work of the entire collective and of each particular worker. Everyone should seek to raise labour productivity, to improve the quality and reduce costs, avoid wastage and economize materials, help his enterprise develop and make use of new reserves. This will improve the final results of the enterprise's activity, while production will become more profitable and each will get his share of reward depending on the size of the profit. The better an enterprise works, the higher the earnings of its workers, the more opportunities it has to improve their living and cultural conditions.

The formation of an enterprise's own sources to reward its workers depending on the final results of its work goes hand in hand with granting more economic freedom to enterprises in organizing an incentive system on the basis of a single national policy in matters of wages and salaries.

The September Plenary Meeting of the CPSU Central Committee adopted such forms of combining economic freedom of industrial enterprises with centralized planned leadership which will ensure maximum initiative of enterprises and more consistent implementation of the
unified wages and salaries policy. Take, for example, labour planning.

Under the new system labour productivity, the size of work force and average wages will not be decreed from above. This method of planning will promote greater initiative of enterprises in selecting the ways of raising labour productivity.

It would be premature, however, to go a step further and give enterprises the right to determine their own wage funds. State planning of wage funds is an important means of maintaining a correct proportion between the amount of consumer goods and the purchasing power of the population and is of vital importance for the entire society.

An important instrument of pursuing the unified wages and salaries policy is the state’s control of earnings by centralized setting of wage rates and salaries.

This principle will be preserved to ensure uniformity in payment for the same amount of labour of a given qualification. Periodic and centralized reviewal of wage rates and basic salaries is a means of raising the wages minimum, bridging the gaps in the earnings of lawly and highly paid workers and providing the best conditions for introducing technically substantiated rates.

The transfer to a new system of economic incentive and industrial management relieves enterprises from unnecessary parentalism and at the same time broadens state control over wages and salaries in certain sections. For instance, it has now become necessary to work
out rates for making deductions from profit to the material incentive fund. Drawing up general principles of such rates that would correctly combine the interests of society, enterprise and each worker and the setting of actual rates for sectors of economy and groups of enterprises—all these are forms of state control over wages and salaries.

Greater economic freedom of enterprises in rewarding the workers linked with consistent implementation of a single policy in matters of wages and salaries will strengthen the impact of material stimuli on economic efficiency of production. However, this does not diminish the role of moral incentive. Socialism inculcates in each worker a conscientious and creative approach to his work and a thrifty attitude to public property.

The new system of planning and stimulation is being introduced by ministries at several enterprises in the first quarter of 1966. Their number will be gradually increased when necessary experience has been accumulated, various concrete questions settled and substantiated rates and directions worked out for various industries.

All aspects of the experience of the first enterprises will be taken into account when whole industries are switched over to the new system.

The economic reform in the USSR is called to solve the cardinal issue—the maximum increase in production efficiency—an economic course proclaimed by Lenin.

The correctness of Lenin’s scientific principles of material and moral stimulation of work
has been borne out by the experience of socialist construction in the USSR and the other socialist countries.

In keeping with Lenin's teachings the Conference of Representatives of Communist and Workers' Parties (1960) wrote in its resolutions that one of the basic economic rules for all socialist countries is the undeviating implementation of Lenin's principles of material incentive and all-round development of moral stimuli to work for the good of society by raising the political awareness of the masses and controlling the measure of labour and consumption.

History has endorsed this economic course the aim of which is the wellbeing of the working people and a prosperous socialist economy.

The new methods of economic management and material incentive have been given broad publicity outside the Soviet Union.

The bourgeois press seeks to convince the mass reader that "communism has not solved the problems of industrial development and Russia again follows the capitalist system," that "the Marxist doctrine has been rejected in the USSR."

Other economists and socialists abroad base their concepts on the so-called "rapprochement theory" according to which tendencies are now at work in the world which gradually result in the setting up of a universal "industrial society of general prosperity." The advocates of this theory say that a process of gradual "rapprochement with capitalism" is underway in the USSR and other socialist countries, where "capitalism without capitalists" is being introduced. They
also assert that transition to the so-called "people’s capitalism," planned economy, etc. is taking place on an increasing scale in the advanced capitalist countries.

One of the obvious delusions of the bourgeois economists is their belief that profit is a category of capitalist economy exclusively.

Above we have explained Lenin’s thesis that socialism cannot be built without the use of cost accounting, profit and personal material incentive.

Lenin repeatedly stressed the need to develop the principles of cost accounting of socialist enterprises. He wrote in 1922 that the purpose of setting up trusts and cost-accounting enterprises was to make them completely responsible for their own profitability.

A decision passed by the RCP(B) Central Committee in the same year on the role and tasks of trade unions, and drafted by Lenin, pointed to the need to raise labour productivity, to make sure that each enterprise worked at a profit.

In the years that followed profit of industrial enterprises was considered a major condition of raising socialist economy.

Socialist property of means of production imparts a new social content to such economic categories as market, price, interest on credits, profit, etc.

Public ownership of the means of production has created a historically new, higher system of social production characterized by planned development.

Pursuit of maximum profit has been repla-
ced by economic management for the sake of satisfying the growing demands of the society and enabling people to develop all their abilities.

The cost categories of the socialist market have become a tool of economic management employed by society to link various stages of socialist production, exchange, distribution and consumption, to achieve maximum results at minimum costs.

It is either lack of understanding or deliberate misinterpretation of the new economic measures that allow foreign commentators to draw the conclusion that the USSR is beginning “to reject” centralized planning.

No one in the Soviet Union wants to give up centralized planning of economic development. The principle of planning is not being undermined either. This is proved by the fact that enterprises will receive from above not only profit and profitability ratio assignments but also the output targets for the main products, volume of sales, wage funds, the amount of centralized capital investment and other assignments.

The September Plenary Meeting of the Soviet Communist Party Central Committee laid emphasis on stepping up economic stimulation of production in addition to the plan targets which industrial enterprises have to fulfill as a matter of state discipline. As a result of stronger economic stimulation some plan and directive indicators will be replaced by economic factors; the working collectives will be placed in such conditions when their economic interests will urge them to develop production in the most
efficient manner and increase the output of quality goods.

While the principle of personal material interest of the working people in the results of their labour remains the main method of socialist economy, its forms are constantly improving and developing. Whereas the growing social production, the rising cultural and technical level of the working people, technological progress, etc., will bring certain changes in wage rates, in the wage and salary system and in the rate setting system, Lenin’s principle of material incentive will retain its importance.