

SUBJECT = ME & IB**UNIT I – MONEY (PART – V)****Importance of Money in Socialism**

Some socialist thinkers have pointed out that money has no role to play in a centrally – planned socialist economy. According to their opinion, the socialist economy can function quite smoothly without the use of money in any manner, because in such an economy the entire economic activity is planned, controlled and executed by the planning commission on behalf of the state. Socialist thinkers like Karl Marx and Lenin, have expressed serious opposition to money. In Marx's view, an ideal economy was an economy in which there was no medium of exchange like money, and goods were exchanged against goods. This was, according to Marx, quite feasible in a socialist, planned economy. Following Marx, money was thus abolished in the Soviet Union after the Communist Revolution 1917. But it soon realized by the new rulers that the abolition of money was a blunder on their part.

The Soviet Government felt that economic calculations were essential for the success of five year plans. But these calculations were simply not possible without the monetary unit in circulation. So the use of money has been given its due place in the Soviet economy since 1920. Money, thus, performs virtually all the functions in a socialist economy which are associated with it in a capitalist economy. The need for money in a Socialist economy arises from the considerations given below:

The question of the proper and economical utilization of economic resources in a socialist economy is as important as in the capitalist economy. Proper and economical utilization of scarce economic resources in the economy is not possible without rational economic calculations. These rational economic calculations are possible only in terms of prices expressed in money.

The socialist price mechanism, like the price mechanism of the capitalist economy, is also expressed in money. The Socialist price mechanism, in its turn, facilitates the task of allocation of resources among industries and individuals. The existence of money in a socialist economy confers a certain amount of

freedom of choice on the consumers who can buy goods liked by them. Without money the equitable distribution of goods produced among millions of consumers would indeed be rendered very difficult. The distribution of national income in the socialist economy also takes place through the medium of money. In this way as pointed out by Prof. Lerner, no economy, whether capitalist or socialist can function smoothly and efficiently without monetary price mechanism. In an economy without money, scarce resources are bound to be wasted. Taking into account all these considerations, Prof. Halm has also said that a socialist economy, in fact, a monetary economy. It cannot function efficiently sans money. Though money is important, it does not play as decisive and important a role in socialist economy as in capitalist economy. While in a capitalist economy, money is a master, it is at best only a servant in a socialist society.

Importance of money in a socialist economy is given below.

1. Measure of Value:

The value of all products and services is expressed in terms of money. Thus, money acts as the measure of socially necessary labour embodied in commodities.

2. Medium of Circulation:

In a socialist society, money performs the function of circulation. All buying and selling is done through money. As distinct from capitalism, under socialism, money in its function as a medium of circulation does not create crisis of over-production because of the planned nature of commodity and money circulation. The process of circulation, in a socialist economy, serves as an important form of checking how far planned production corresponds to the needs of society.

3. Means of Payments:

All payments, which do not involve buying and selling of commodities, are made through money. For example, money provides the means of payment when wages are paid to the workers, when enterprises receive or pay back loans, when cash income is distributed among collective farm workers.

4. Means of Accumulation:

Under socialism, money functions as the medium of saving and of the formation of cash reserves. Working people keep their saving in the form of deposits in the banks. These savings are used by the state to expand production, lay up reserves and provide credit for other enterprises and organisations.

5. Instrument of Distribution:

Money, under socialism, serves as the instrument of distribution. The working people receive a share of the national product in terms of money according to their quantity and quality of labour they expended.

6. Monetary Incentives:

In addition to basic wage rate, bonuses are paid to the workers in terms of money in order to induce them to work more. These bonuses help in motivating people to put in extra effort for extra gain.

7. Freedom of Choice:

The individuals have the freedom to spend their money earning on any consumption goods of their choice. The freedom of choice is, however, restricted to the range of goods produced under the plan.

8. Evaluating Economic Activity:

Money helps the state to evaluate the economic activity of an enterprise. Although the pricing system does not influence the basic economic decisions, it helps in the rational allocation of resources by determining opportunity cost. And all opportunity cost calculations are made in terms of money. "Control of the operation of socialist enterprises through money is the most flexible method of controlling the economy"

9. Influence on Output:

Pricing system and hence money can also to some extent influence output in a socialist economy. Prices, which are set by the central planners, cannot be changed by plant managers.

But they can adjust their output to the existing prices. In this way, prices may sometimes influence output in a socialist economy.

Conclusion:

In a socialistic economy, money serves as a standard of value, a medium of exchange, a store of value and standard of deferred payments. The role of money in a planned economy is not that of a master but of a servant. The state keeps a rigid control over the supply of money and thus minimizes its evil effects. Money in a socialistic economy is never allowed to guide production through the free play of market forces.

The scarce resources are distributed according to plan drawn up well in advance by the planning authority. The desire of what, where and for whom is to produce are all controlled by the state. There is no price mechanism operation for the direction of consumption pattern. In a socialist economy, the decisions of what, how and for whom to produce is not dependent on market forces or price mechanism, these decisions are taken by the Central Planning Authority.

So while price mechanism does play a role in a socialist economy, it is a very minimal role. It is used to ensure the disposal of stock that has accumulated in the economy. Since the allocation of resources is planned by the authorities, price mechanism will have no say here. And there is no profit motive in socialism, so again price mechanism has no role in the area.

In a centrally controlled economy, all the factors of production are also fully controlled by the state. The rewards of each factors of production are paid not by matching demand and supply but by the quantity and quality of work done. We can say that as money in a socialistic economy is effectively under the control of the state so there are no evil effects of changing price level, income and employment in the country.