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Economics and Economic Policy in the Third Quarter of 1925.

(Concluded up to 24. October 1925.)

By Eugen Varga.

III. Special Section.

Germany.

There can be no doubt that Germany's economic position has become worse during the period covered by this report. Yet the situation is by no means so alarming as it is frequently represented to be by the official announcements made by the capitalist organisations, especially by those of heavy industry. The situation may perhaps be best characterised by the fact that, for the industrial capitalists, the situation really is extremely bad from the point of view of profits. Fewer orders are being received, the number of orders on hand are diminishing, and — worst of all — payments are hard to obtain. Loan capital is still exceedingly difficult to raise. Under these circumstances the collapse of great concerns, difficulties in payment, and bankruptcies, are the order of the day. A feeling of depression and pessimism pervades almost all the industrial undertakings.

A general survey of the data relating to German economic life shows that though conditions are worsening, the process is taking place at a very slow rate at the present time. This will be seen from the following figures:

	Revenue from wage tax Mill.	Turnover tax Mill.	Percentage of unemployed in the trade unions	Unemployed in receipt of dole on first of month	Goods waggons in use in thousands
March . . .	127	122,5	5,8	466	3042
April . . .	126,1	146,5	4,3	320	2853
May . . .	136,9	125,1	3,6	234	3007
June . . .	132	126,6	3,5	214	2938
July . . .	119,2	154,2	3,7	193	3278
August . . .	115	124,7	4,3	209	3132
September . . .	120	122	—	230	—
October . . .	—	—	—	266	—

This table shows that although the worsening of conditions is evident, it cannot be by any means described as catastrophic.

On the other hand, there are a number of facts opposed to the pessimistic view. These are as follows.

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1. The excellent crops harvested in Germany this year.
2. The great increase in the sale of potash, especially to German agriculturalists. The total sales made by the Potash Syndicate in the first nine months of this year amounted to 10,4 million double hundredweights, as compared with 6 million during the same period last year.
3. The great revival in building activity. Building projects have been as follows:

	1924	1925
April	1664	5608
May	2774	4570
June	2147	4432
July	1776	5786

The building activity is greatest in the country, in the villages, but the July total includes 1516 factory building and other buildings not serving as dwellings.

4. Increased savings. The savings deposited in the savings banks in Prussia have increased from 440 millions at the beginning of the year to 845 millions by the end of July, that is, by 108%. Although it is frequently asserted that a considerable part of this represents not really savings, but cash deposits, still the importance of the increase is not to be underestimated.

5. The alleged shortage of skilled labour. The laments of the capitalists as to the unfavourable economic conditions are directly contradicted by the assertions of the same capitalist newspapers that there is a shortage of skilled workers.

If we take a general survey of the reports issued by the chambers of commerce on the economic conditions in July,

August, and September, we obtain the following conception of the situation:

Mining: a very slow improvement in the conditions obtaining in the Ruhr mines, but a great improvement in Upper Silesia, owing to the prohibition of the import of Polish coal. Whilst the pithead accumulations of coal and coke were still stated to be over 9 million tons in the Ruhr area in August, the accumulations in Upper Silesia are almost cleared away.

Iron industry: Conditions are becoming worse; the crude steel combine fixed the output for September-October at 65% of the participation figure. Many works were stated to be working at the beginning of October with an even greater restriction of production.

Iron working industry: Pretty bad in general, especially in the ship and carriage building trades, and growing worse of late in the motor car industry; somewhat better in the electric and radio industry.

Textile industry: The percentage of workers employed in the wool industry is decreasing. In the cotton industry the degree of occupation is better, many branches being still very busy, and provided with orders up to the end of the year and beyond; this is partially the result of the cessation of duty-free imports from Alsace-Lorraine.

The pessimism prevailing in capitalist circles is based not only upon the fact of the slackness of business, but upon the smallness of the profits, the many bankruptcies, and above all upon the great financial difficulties which have led to the collapse of many concerns. The number of bankruptcies and undertakings placed under government control has been as follows:

	Bankruptcies	Government control
June	709	308
July	797	359
August	718	372
September	887	431

The "Frankfurter Zeitung" of 13. August gives the following compilation showing the degree of profitability of 186 joint stock companies whose shares are quoted at the Frankfurt exchange, and which were established before 1913:

Primary share dividends in gold %	No. of companies		No. of post-war undertakings
	1913	1924	
0	17	72	18
2-4 1/2	10	10	1
5-7 1/2	49	45	7
8-10	53	55	2
over 10	57	4	0
	186	186	28

One should however not draw too extreme conclusions from these figures, as many undertakings have over-valued their capital when reducing their balances to the gold mark, so that the interest appears lower. Under these circumstances it is easily understood that the shares have a great tendency to fall in value on the Exchange, and that this again greatly contributes to the spread of pessimism in bourgeois circles. But it is none the less an actual fact that, with the exception of some branches of industry, German industry is not working at any great profit at the present time, despite the low wages. The causes of this are: a producing apparatus too large in proportion to the market, high interest for loan capital, relatively very high taxation.

Business Collapses and formation of new Trusts.

It is most characteristic for the economic life of Germany today that, while on the one hand numbers of concerns are collapsing, on the other we see huge trusts being formed. The most notorious case is the breakdown of the **Stinnes concern**.

In the course of the settlement of the affairs of this concern its liabilities proved to be much greater than had originally been anticipated, so that after the settlement nothing will remain of the capital estimated at one hundred million gold marks.

After the **Stinnes concern**, the **Stumm concern** had to seek the aid of the great banks, whilst other small combines, the **Sichel concern**, etc., have finally gone to pieces.

As against process of dissolution there is a huge process of fresh formations. In the general section of this report there has already been mentioned the formation of the Upper

Silesian mining trust, and the negotiations towards the formation of a gigantic West German iron trust. The following gives an idea of the strength of this contemplated trust:

	Participation figures in 1000 tons	
	Crude steel combine	Coal syndicate
Thyssen	1,660	6,593
Phönix	1,660	8,256
Krupp	1,660	5,225
D.-Luxemburg	1,057	5,874
Bochumer Verein	493	2,235
Gelsenkirchen	109	12,139
Rhein Stahl	988	6,640
Total	7,627	46,962
Total participation figure	15,000	157,300

("Frankfurter Zeitung", 12. September 1925.)

Another combine of equal importance to the West German iron trust is that already formed by the whole of the large chemical factories under the name of "**Interessengemeinschaft Farbenindustrie A. G.**" This embraces every chemical undertaking of any importance in Germany. The chemical industry is perhaps the sole industry in Germany which is really prosperous, is really making high profits, and is not suffering from a lack of available means.

A further combine has recently been formed in the potash industry, so that at the present time the whole of the potash mines in Germany are dominated by three concerns:

1. The Wintershall concern with a participation of 379 thousandths
2. Salzdettfurth-Westeregln-Aschersleben concern 244 "
3. The newly formed Burbach Gumpel concern with about 175 "

Among the smaller combines, that formed between the Deutschen Erdöl A. G. and the Deutschen Petroleum A. G., that is the combination of the former petroleum interests of the Deutschen Bank and the Diskontogesellschaft, is worthy of note from a political point of view; its economic significance is much less than that of the combines already mentioned.

The economic purport of these events appears to us to be as follows: During the inflation period, those capitalists who were able to obtain mark credits, bought up every kind of undertaking, without consideration of the requirements of production. The lack of coal and iron in particular compelled the iron working industry to link up with heavy industry. When the currency was stabilised, and the resultant and still continuing shortage of circulating capital began to be felt, accompanied by sharp competition for the markets both at home and abroad, the technics of production took their place in the foreground once more. The essential factor of the regrouping is: The dissolution of the accidental associations and the fresh formation of combines on the basis of production, to the end that undertakings of a similar character combine with one another, for the purpose of enabling the costs of production to be lowered by means of the specialisation of production in the separate works. Another important point is the possibility of reducing the unproductive expenditure: managers and employees, distributing centres, advertising, etc.

Bank Capital and Industrial Capital.

The shortage of circulating capital and available cash in German industry and in German agriculture, has fundamentally altered the relations between industrial capital and bank capital. During the inflation period bank capital was ruled by industrial capital. In the present situation the process is reversed. Industry and agriculture alike are utterly dependent on the aid of the banks. The fresh tide of savings is bringing an inflow of capital into the banks, and these place the money at the disposal of industry, but at usurious rates of interest. Thus the banks now dominate industry. Whilst **Stinnes** was able to appropriate great banks during the inflation period, it is now the banks which have the receivership of the bankrupt **Stinnes concern**, and it is the banks which dictate their conditions to all other German undertakings, with the exception of the chemical industry.

There is however a fundamental difference between present conditions and those obtaining before the war. Before the war it was German bank capital which ruled in the German industries, and which furnished the capital for the imperialistic expansion of the German industries beyond the frontiers of Germany. We only need to call to mind the Bagdad Railway undertaking supported by the Deutsche Bank, or the petroleum interests represented by the Deutsche Bank and the Diskontogesellschaft in Roumania, etc. At the present time the banks dictating terms to German industries are not German for the most part. To a great extent it is American and English capital which rules German industry today, either in the direct form of loans and shares, or indirectly through the German banks.

The dependence on the capital of foreign competitors which thus naturally results from the financing of German undertakings by capital from abroad, has aroused of late a certain spirit of opposition against foreign credits. Fears are entertained that the trade secrets of German industry will fall into the hands of foreigners. But despite these fears, German industry is being financed from abroad to an ever-increasing extent. The Phönix A. G., for instance, has a number of Dutch capitalists on its board of control, and a large number of other industrial undertakings have taken up foreign loans, or are carrying on negotiations with this object.

The American loan to the Rentenbank credit institute, finally arranged at the beginning of September, is of special importance, since it is intended to form the commencement of further great loans to Germany. It is true that the conditions accompanying the loan are exceedingly hard. The 7% loan was put up for subscription at 93%. The interest is free of any German tax deduction.

Opinions differ greatly as to the effect of the foreign loans. For instance, the president of the Reichsbank, Schacht, is extremely optimistic. He estimates the credits raised abroad up to the present at about 3/3½ milliard, including the Dawes loan. He states this sum to be, however, a mere trifle in comparison with the means in the hands of the money institutions, the banks, and savings banks, which increased from 6 milliard in April 1924 to 13 milliard in August 1925. He differs from many other financiers in being opposed to short-term foreign loans, and in being in favour of a participation of foreign capital in German industrial undertakings.

A general agreement of opinion prevails on the other hand regarding question of loans from abroad to German cities. At the present time the finances of the majority of German towns are in a flourishing condition, since for the most part the cities have obstinately retained the high prices fixed at the beginning of the stabilisation period for municipal electricity, gas, water, and transit service, and are able to set aside fairly large surpluses. On the other hand the collapse of the Stinnes and other concerns has aroused a certain degree of mistrust in German industrial undertakings abroad. Foreign capital is thus coming into Germany largely in the form of loans to German cities. Dozens of such loans have been advanced by America. The money is mostly employed for building purposes, and — as is objected by the capitalists — for unproductive objects, such as town halls, buildings for exhibitions, schools, parks, etc.

Currency and Money.

During the period of this report the German currency has maintained its stability in relation to the Foreign Exchanges, although it has always been hovering on the verge of depreciation. It is characteristic of the situation that dollar notes have in general been bought with an agio of 1—2%. The position has been most tense during the whole time, and it is only during the last few weeks that it appears to have improved somewhat. The reserve of foreign bills in the Reichsbank has diminished still further, and it has only been by means of the most drastic restrictive measures, that it has been possible to maintain the stability of the Mark.

The steady rise in prices has, however, given rise to the persistent belief that an inner "inflation" is nevertheless going on all the time. The Reichsbank is combatting this possibility to the utmost of its power. As a matter of fact, the amount represented by the notes in circulation has not increased to any great extent, as will be seen from the following:

	In mill. marks
31. July	2530
31. August	2595
30. September	2649

In order to form a proper judgment of the relations between money and goods circulation, it must however be noted that in Germany, circulating media other than Reichsbank notes are in circulation. In 1913 the total value of the money in circulation amounted to 6 milliard marks; at the present time it is something over 5 milliard. Since the passing of the new Reichsbank law the total sum of the circulating media in circulation has thus increased by 1½ milliard. This can, however, by no means be regarded as an actual inflation, as at the present time the state financial balance is not adverse, and no new paper money is being put in circulation to cover a deficit.

The Demagogic Sham-Fight against the Rising Prices.

Just now the German government is carrying on a demagogic sham-fight against high prices. It is obviously calculating on the stupidity of the newspaper readers. Whilst on the one hand the government has not only caused Parliament to place higher duties on the most important imports, but has secured a rise in grain prices to the full amount of the duty by means of the reintroduction of the import permits on 1. October, on the other hand Luther is preaching a campaign against high prices, and promised price reductions on 1. October. Truly this is playing on the credulity of the masses to an unheard of extent; for how could this government seriously dream of undertaking anything against the cartels!

The wholesale trade index figures are as follows³⁰⁾:

	Reichs Statist'c Office	Frankfurter Zeitung
28. January (maximum)	140,4	147
1. April	132	144
6. May	132	142
3. June	133	141
1. July	135	143
5. August	134	143
2. September	128	144
7. October	125	—

The figures given by the "Frankfurter Zeitung" differ from the official returns in showing a tendency to rise since June.

The New Duties.

At the beginning of the period covered by this report — as anticipated by us in our last report — the reintroduction of the agrarian duties was passed by means of a compromise among the government parties. To all appearances the large farming interests scored a victory, obligatory duties being fixed for livestock, that is, duties which must invariably be imposed to their full amount, even when negotiations are being made for trade agreements. The grain duties were, however, not rendered obligatory. Nevertheless there is a tacit understanding among the government parties that they will not accept any trade agreement containing grain duties lower than those provided by the tariff. In order that the duties may be rendered thoroughly effective, the import certificates have been reintroduced since 1. October. The use of these is, however, subjected to greater restrictions than before the war. Before the war the import permits issued for the import of grain and flour could be used, to the amount of the duty involved, for paying duties not only on corn, but on flour, coffee, petroleum, and various other goods. At the present time the permits can only be employed for paying the duties on the import of grain, and not on flour or other goods.

The reintroduction of the grain duties has not yet had its full effect on the prices. The great shortage of money has obliged the farmers to throw large quantities of grain on the market: more than sufficient to cover current demands. The same shortage of money prevents the mill owners and corn dealers from buying up the surplus on speculation.

The fall in prices recorded by the Reichs Statistics Office is to be ascribed to the circumstance that grain prices have

³⁰⁾ Close of previous month.

everywhere fallen in the world's markets, and especially in the German home market. It must, however, be recollected that the fall in wholesale trade prices here recorded does not by any means correspond to the price movement in retail trade. The Reichs index figures on the cost of living are as follows:

May	136
June	138
July	143
August	145

The figures for September have not yet been published. It will be seen that there is absolutely no sign of a reduction in prices; on the contrary, real wages are steadily decreasing.

Foreign Trade.

The official returns show Germany's foreign trade balance to be still extremely adverse. The most important foreign trade data for the last few months are as follows:

	June	July	Aug.	Sept.
Imports:			Mill. Marks	
Livestock	15,0	14,1	12,9	12,2
Foodstuffs and beverages . .	344,5	449,6	453,6	418,3
Raw materials and semi-manu- factured goods	484,9	533,4	552,4	458,0
Finished goods	164,8	157,0	159,7	185,5
	1,009,2	1,154,1	1,178,6	1,074,0
Exports:				
Livestock	0,7	0,5	0,4	0,5
Foodstuffs and beverages . .	34,4	33,8	28,5	19,9
Raw materials and semi-manu- factured goods	120,2	140,4	143,4	149,5
Finished goods	530,4	568,2	552,7	602,5
	685,7	742,9	725,0	772,4

The trade balance deficit was therefore as follows:

June	324
July	411
August	454
September	289

The foreign trade balance has been adverse to the amount of over 3.5 milliard gold marks since the beginning of the year, this being approximately the sum total of the foreign loans taken up during this time.

State Finance.

German state finances are, on the whole, in an extremely unsatisfactory state. The recent worsening of economic conditions is beginning to affect the state revenues. The new duties will probably increase these revenues again. As a rule the revenues have hitherto exceeded the estimates. The draft budget for 1925 estimated the total revenue at 6344 million marks; 3062 millions, or almost one half of this sum, were received between the months of April and August, 5 months only. 803 millions were received from duties and taxes on articles of consumption during the first 5 months, whilst the preliminary estimate calculated only 1514 millions for the whole year. The income tax has yielded over 1000 millions as compared with the estimate of 1700 millions for the whole year. But on the other hand the taxes borne by the capitalists have failed to come up to the estimate. The corporation tax, for instance, estimated at 300 millions, had only brought in 90 millions by the end of August. The capital tax, estimated at 500 millions, brought in up to end of August 80 millions, and so forth. Revenue and expenditure have been as follows during the last few months:

	Total revenue	Total expenditure	Deficit or surplus
May	629,7	647	- 17,3
June	556,9	586,3	- 29,4
July	692,7	629,8	+ 62,9
August	557,8	603,8	- 46

In spite of the fact that the revenue has been higher than estimated in the budget, the deficit is still considerable.

The Reichs railway company is able to record a net profit of 321 million gold marks for the past economic year, and is thus able without difficulty to pay the Dawes obligations falling to its share.

* * *

To sum up: Germany's economic situation is gradually becoming worse, and will continue to worsen during the next few months, possibly reaching a crisis. Although business is slack, prices are rising as a result of the monopoly prevailing in the most important branches of industry and of the new duties. The labour market is getting worse, the standard of living of the working class is sinking. The carrying out of the Dawes plan is entailing increasing burdens, and it is becoming more and more difficult to maintain the stability of the mark.

Poland.

The long-continued economic crisis in Poland led to a depreciation of the Polish currency in July. This is the first case in which a currency restabilised on a gold basis has again fallen a victim of depreciation. It is for this reason extremely necessary to inquire more closely into the causes of this depreciation.

The Polish government recognised the danger beforehand, and exerted every endeavour to avert the decline of the currency. Among the measures taken was the drastic restriction of the credits granted by the bank of issue since March, and the reduction of the value of the banknotes in circulation as a means towards securing better cover for the notes. Only small State notes and silver have been placed in circulation, while the total value of the circulating media has been reduced. This may be seen from the following figures³¹⁾:

	Banknotes in circulation	Coins	State notes	Old Polish marks	Total
	Millions zloty				
31. December 1924	551	34	89	2	676
31. March 1925	563	86	104	2	755
30. June 1925	503	136	108	—	747
30. July 1925	441	134	112	—	686

We see that the depreciation in the currency has by no means been caused by an "inflation" in the ordinary sense of the word, that is, by the issue of a superfluity of paper money exceeding the needs of circulation. There has been no necessity for this, since the State finances have been fairly well balanced. According to the "Economist" the revenues amounted to 990 million zloty in the first half of 1925, the expenditure to 952 million zloty. A German source states that there is a deficit. However this may be, it is at least certain that the immediate causes of the depreciation are not to be found in a deficit in State finances, nor in the increased issue of circulating media, but in the unfavourable foreign payment balance.

The Polish government has done everything in order to arrest the depreciation. The bank rate has been increased to 12%, the credits have been ruthlessly restricted. Travel abroad has been prevented as far as possible. The not inconsiderable surpluses of this year's grain crops were at once thrown on the world's markets, and sold at any price. The import of articles of luxury has been prohibited. Foreign loans have been secured even on the most onerous terms (leasing of the match monopoly to the Swedish trust).

These drastic measures have checked the further fall of the currency, but have enormously aggravated the economic crisis. The shortage of cash has caused deposits to be withdrawn from the banks, and a large number of big banks were involved in payment difficulties by September. The government was obliged to advance 20 million zloty in support of these banks, in order to prevent a general catastrophe³²⁾.

The industrial crisis, already existing for some time, has been rendered more acute by the shortage of credit. It may be that the reports published by many German newspapers are exaggerated but the crisis is undoubtedly very acute.

³¹⁾ "Economist", 29. August.

³²⁾ "Times", 25. September.

It is difficult to ascertain the number of unemployed. The number of those officially registered amounts to somewhat over 200,000. The actual number is probably far in excess of this. The situation is characterised by the fact that skilled Polish industrial workers are hiring themselves out in Germany as agricultural labourers at an hourly wage of 12 pfennigs (and keep). The shortage of money is forcing the factories to restrict output. Payments are kept back. Everyone is speculating on the further fall of the zloty, and avoids paying debts, even when able to do so.

The peasantry is also in a very difficult position. Payment of taxes is ruthlessly enforced. The poorer farmers sold their grain in advance before they harvested it. The property of thousands of peasants is sold by auction to pay their taxes. The agrarian reform, rejected by the Senate, provides for a voluntary annual sale of 200,000 hectares of the large landowners' land to the peasants; the State can only expropriate if and when sufficient land is not offered voluntarily. It is however extremely doubtful whether the Sejm will accept this reform, and if it does, it will only benefit the large farmers.

The excellent crops in Poland this year have somewhat alleviated the crisis. But if Poland does not succeed in obtaining extensive loans from abroad, the position will rapidly worsen. And if Poland is to receive such loans, she will have to cease relying solely on France for support, and seek to attach herself to the Anglo-Saxon financial powers, a step which perhaps will compel her to submit to a similar control as that exercised over Germany under the Dawes plan. Poland will before very long have to abandon her efforts to become a great power.

Italy.

Our last report dealt with the causes of the sudden depreciation of the Italian currency at the end of June. One of these causes, as Professor Bachi has pointed out³³), was the panic which seized the population, leading to exaggerated offers of lire and to the hoarding of foreign bills and notes. It is scarcely correct to speak of an inflation in Italy in the usual sense of the term. The official returns show the State finances for the economic year 1924/25 to be adequately balanced, and even indicate a small surplus.

The value of the currency in circulation is maintained fairly steadily at about 20 milliard lire. During the course of the last month the amount rose to 21,5 milliards!

Here, as in Poland, the really decisive factor causing the depreciation is the extremely adverse foreign trade balance. This was as follows during the first seven months of last year and of the current year:

	In milliard lire					
	Import		Export		Difference	
	1924	1925	1924	1925	1924	1925
January	1,2	1,8	0,8	1,1	-0,4	-0,7
February	1,6	2,1	1,1	1,4	-0,5	-0,7
March	1,5	2,6	1,2	1,5	-0,3	-1,1
April	1,6	2,6	1,2	1,3	-0,4	-1,3
May	1,5	2,4	1,1	1,4	-0,4	-1,0
June	2,1	2,9	1,2	1,8	-0,9	-1,1
July	1,5	1,8	0,8	1,4	-0,7	-0,4
January—July	11,0	16,2	7,4	9,9	-3,6	-6,3

There is an adverse trade balance of somewhat over six milliard lire. Exports are only about 60% of the imports. The chief cause of this extremely adverse trade balance is the failure of the crops last year, which compelled Italy to import large quantities of grain.

The process of capitalisation and industrialisation is, however, obviously proceeding fairly rapidly in Italy. Despite many local disadvantages — lack of coal, iron ores, and other mineral and textile raw materials — Italy appears to be developing into an industrial export country. This development is mainly due to the superfluity of cheap labour caused by the natural increase of population, and by the anti-labour policy pursued by Mussolini, which tends more and more to represent the interests of big capital only.

The industrial consumption of coal, fuel oil, and electric energy, calculated into coal, has been as follows:

1910	12 millions tons
1923	19 " "

Between 1909 and 1913, twenty per cent of the total imports were industrial products; in 1923 only 14,4% of the total imports were industrial products. As compared with this, the proportion of purely industrial articles exported (apart from agricultural products subjected to further manufacture) increased by 8% from 1913 and 1923.

Various details go to show that this line of development is continuing. This is to be seen, for instance from the following imports:

	Double cwts.		
	1913	1922	1. half of 1924
Weaving machines	33,375	53,550	25,800
Spinning machines	33,500	40,350	44,150

This signifies an enormous development of the textile industry — a fact which is confirmed by other data at our disposal. Italy is beginning to export cheap textile materials to the East in increasing quantities.

Besides this, various articles produced by the metal industry — motor cars for instance — form an ever growing constituent of Italian exports, whilst on the other hand the imports of agricultural machinery, electrical accessories, and machines in general, with the exception of special industrial machines, have fallen off considerably since 1913.

The Mussolini government is promoting this development with the utmost energy. One outward sign of this is the fact that, after the currency crisis in July, the then Minister of Finance, Stefani, was forced to resign, his place being taken by Count Volpi, a man of the Banca Commerciale and a typical representative of Italian banking and industrial capital. Under his leadership stringent measures were adopted to check the currency speculation and to improve the rate of exchange of the lira. These efforts have been successful so far. The measures adopted in support of the Italian lira resemble those taken in other countries. The bank of issue credits have been restricted at the same time. The government intends amalgamating the three Italian banks of issue, the Bank of Italy (the actual central bank of issue), the Bank of Naples and the Bank of Sicily (both of which last possess a limited right of issue), in order to gain a stricter control over the issue of notes.

A matter which appears to us of greater importance than these usual measures in support of the currency is the unexpected reintroduction of the grain duties at the pre-war level. This came into force on 24. July. A duty of 7,5 gold lire per double cwt. was imposed for wheat, 4,5 for rye, 3,4 for oats, whilst flour, macaroni, etc., are subject to correspondingly higher duties. At the same time Mussolini issued the slogan of intensification of Italian agriculture, to the end that the country may supply its own food. The class political purport of this measure is to create a broad basis for the Mussolini government by winning over the large farmers. The reintroduction of the high corn duties is a blow dealt at the working class and at the small farmers not producing enough grain for their own requirements. (Vineyard owners, silk worm breeders, etc.)

The reintroduction of the grain duties has been rendered easier politically by this year's good crops in Italy. The yield has been as follows for the most important sorts of grain:

	1925	1924	Average 1919—23
	Million Double cwts.		
Wheat	63	46,3	48,5
Rye	1,6	1,6	1,4
Barley	2,6	1,9	1,9
Oats	6,5	4,8	4,8
	73,7	54,6	56,6

The yield has thus been, in round figures, 32% greater than the average for the last six years. Although the consumption of wheat has greatly increased in Italy of late years, it is not at all impossible, from the agricultural point of view, for Italy to produce her own bread corn, provided the primitive methods of cultivation employed in Central and Southern Italy are replaced by up-to-date intensified cultivation, drainage of the swampy districts, irrigation of dry districts, etc.

But if Italy is to intensify her agriculture and to continue her present speed of industrialisation, she will have to depend on foreign capital. There appears to be a certain influx of such capital into some branches of Italian industry: electric works, artificial silk industry, motor car industry. But the amount of

³³) "Wirtschaftsdienst", 7. August 1925.

capital required to equilibrate the fluctuations of the currency is much greater than is coming in at present. It now appears certain that the visit to be made by the debt consolidation commission to America, headed by the Minister of Finance Volpi, and intended to arrive in America on 2. November, includes among its aims the conducting of negotiations for obtaining a large American loan.

The position of the working class has become worse of late. In August the cost of living reached a record height, having risen from 518 in December 1924 to 541 in June and 562 in August. According to the official Italian statements, unemployment has declined, only 85,000 unemployed were registered on 30. June.

The emigration problem is causing the Italian government much trouble. The possibility of finding room for immigrants in the United States is greatly lessened, and the intensified industrialisation of the country is a reason for the Fascist government aiming at colonising fresh regions with the aid of Italian emigrants, thus gaining further fields of political influence. This programme was openly proclaimed by the representative of the Italian government during the political week at Williamstown in America, where he pointed out that Italy possesses the largest and most industrious emigrant population, but at the same time the smallest colonial territory³⁴). The Italian colonies in North Africa are extremely unfruitful, and cannot, without enormous expense, be made to support a denser population. Here there is a violent clash of interests between French and Italian imperialism in North Africa.

France.

To all outward appearances, France is in a flourishing economic condition. There is no unemployment to speak of. The industrial undertakings are, for the most part fully-occupied. Business has revived considerably since the close of the last period here reported on. This apparent economic prosperity has, however, very little behind it. The only real economic improvement which has taken place is the fact of the good harvest. The following are the comparative figures for the production of bread corn:

	Million Double cwts.		
	1925	1924	Average 1923/24
Wheat	89,56	76,53	68,93
Rye	11,37	10,22	9,37

This means that this year France will only need to import a very small quantity of grain, a fact which will have a favourable effect on the foreign trade balance.

France's industrial prosperity is to a great extent a "sham-prosperity". The depreciation of the currency is gradually expropriating the peasants, retail dealers, and officials. At every turnover the real capital of the retail dealer, the tradesman, and the farmer diminishes, since the quantity of fresh goods which he can purchase with the proceeds of the sale of the last decreases steadily. The real income of the officials and workers shrinks proportionately, for salaries and wages are not raised at the same rate as the franc depreciates. The prosperity of French industries is thus purchased at the cost of a progressive impoverishment of the other classes.

This ingenious mechanism for the expropriation of the other classes has, however, been handed up to now with considerably more skill by the French bourgeoisie than it was by the German bourgeoisie under similar circumstances. The franc is depreciating much more slowly and steadily, so that the French bourgeoisie has hitherto been successful in postponing that reaction which renders the inflationist policy suddenly impossible to the bourgeoisie, by means of intervals during which the franc remains stable for a time.

Meanwhile, the scanty data of production published regarding French economics continue to show increased output, especially in heavy industry. Output in 1000 tons:

	Coal	Iron	Steel
May	4915	706	596
June	4908	703	600
July	4928	724	625
August	4865	713	617

³⁴) "Financial Chronicle." 5. August 1925.

The figures for iron and steel surpass all records hitherto. The other leading branches of industry, for which no statistical data are available: the textile industry, motor car manufacture, and the chemical industry, appear to participate in this revival, to judge by the general reports. This is to be mainly ascribed to France's increased export of industrial articles. We take the following figures from a compilation showing the export of the chief industrial goods in the first seven months of 1913, 1924, and 1923:

	First seven months in million francs:		
	1925	1924	1913
Soaps and perfumes	331,7	287,3	27,4
Glass and china	297	200	54
Cotton materials	1306	1547	213
Woolen materials	1115	1492	130
Silk materials	2257	1788	213
Linen and clothing	1735	1921	142
Machines	661	657	71
Tools and metal goods	877	677	82
Motor cars	1182	755	135

The following gives an idea of imports and exports during the last few months:

	Imports	Exports	Exports surplus
	Million francs		
May	2969	3640	671
June	2991	3507	516
July	3034	3848	814
August	3297	3258	— 39
Sept.	4317	3850	— 467

An excess of imports may thus be observed in August for the first time, and this increased by September — according to the data published up to now — to 467 millions. This is probably a result of the stability of the French currency at that time.

Financial Conditions.

We pointed out in our last report that the measures adopted by the Minister of Finance, Caillaux, although announcing a stabilisation of the French currency, were bound in actual practice to result in inflation. Subsequent events have, in fact, confirmed this judgment. The value of the banknotes in circulation has considerably increased in the meanwhile, as follows:

	In millions francs
End of May	42,703
End of June	43,800
End of July	44,496
End of August	45,445
End of September	46,354

The advances made to the State, amounting to 27 milliards in July, had increased to over 30 milliards by the end of September.

The franc has been quoted in New York as follows:

Monthly average, January	5,39
Monthly average, April	5,16
Monthly average, July	4,62
6. August	4,72
3. September	4,68
1. October	4,77
13. October	4,52
24. October	4,03

The Failure of Caillaux' Financial Policy.

Caillaux' financial policy was built up on the assumption that the new gold loan would be a success. Although up to the present no official statement has been issued as to the amount subscribed, there can be no doubt that the loan is a decided failure. The term for subscription was prolonged several times, and finally closed on 20. October. Non-official reports state that only 6 milliards have been subscribed, instead of the 15 to 20 milliards hoped for. These receipts appear to have sufficed to cover the 8 milliards in treasury bonds due on 25. September, or at least those not recently prolonged; but beyond this there does not seem to be much left. And on 8. December another

10 milliards are due. The budget problem consists of the fact that the State revenues do not cover the expenditure, and the French State is no longer succeeding in raising foreign loans for covering the deficit, and for the postponement of the payments becoming due.

Caillaux' Budget Demagogy.

Caillaux has already balanced the budget for 1925 — on paper. But the further depreciation of the franc, and the unforeseen expenditure entailed by the prolonged war in Morocco and Syria, render it perfectly certain that the budget year 1925 will close with a larger deficit than ever. The French system of budget calculation, however, is so peculiar that it will be some years before the actual deficit becomes officially apparent.

Meanwhile, Caillaux has prepared the budget for 1926 and has submitted it to the Finance Commission of the Chamber. This budget he terms "the budget of truth". Its figures are as follows:

Expenditure	36,039 million francs
Revenue	36,172 " " "
Surplus	133 million francs

This budget distinguished itself from former ones by not including any receipts from the Dawes plan among its estimated revenues. The budget claims to be balanced without these receipts. This has been accomplished (on paper) by further increases in taxation, especially by taxes on the proceeds of trade and industry, and a tax on idle property (jewelry, art treasures, building sites, etc.).

The receipts from the Dawes agreement are to flow into a special treasury, the so-called amortisation fund, destined to pay off the principal of France's debts. In substance, this is nothing more nor less than a demagogic trick for throwing sand into the eyes of the public, both at home and abroad. At home, the impression is to be created that France will really be able to begin to pay off her debts in 1926. And abroad the special amortisation fund for the receipts from the Dawes plan is to induce France's creditors: England and America, to limit their claims on France to the probable receipts under the Dawes plan, that is, the payments made by France to her creditors are to be made dependent on the receipt of the reparation payments.

All signs go to show that French economics are no longer in a position to cover the expenditure of the State and the costs of restoration without outside aid. The catastrophic decline of capital emission in France is one of the most obvious of these signs. The following figures give an idea of the decline in the emission of capital:

	Shares	Debentures	Total
Monthly average 1922 . .	105	215	320
Monthly average 1923 . .	178	223	401
Monthly average 1924 . .	301	103	404
Average of the first eight months of 1925	251	80	331
August 1925	102	20	122

When, in addition, we take the depreciation of the franc into account, these last sums will be seen to be ridiculously small. All available cash has evidently been applied to the subscription of the gold loan, which, in spite of all efforts, has been a failure.

It is obvious that the problems of the budget and the exchequer can only be solved, or postponed for a certain period, by a very large foreign loan. But the prerequisites for this are: Consolidation of the debts to America, success of the Locarno plans, and restriction of French armaments. Reports are in circulation that the French industries, not the French State, are already negotiating in America for a loan of 150 million dollars.

Taken on the whole, it may safely be assumed that the development of economic and financial conditions in France is tending in the same direction as in Germany: an international commission to judge the paying capacity of France, a foreign loan for the stabilisation of the currency — accompanied, as in Germany, by a permanent control over the financial action of the State. This means, in substance, the economic subordination of France to the control of the Anglo-American creditors, and a simultaneous reduction of her political and military superstructure to a degree in keeping with her weak economic foundation. In other words: The removal of France from the ranks of the great imperialist powers.

England.

England's economic position has neither improved nor deteriorated during the last few months, but the longer this economic crisis lasts, the acuter are its social effects, and the more difficult does it become for the bourgeoisie to maintain the traditional spirit of class peace of the English Labour Movement. The long duration of the crisis, that is its quantity as measured by time, is becoming the cause of a qualitative change in the whole spirit of the English labour movement, as evidenced by the congress at Scarborough, and by the ever-growing fear of the Communists shown by the English bourgeoisie. The opinions expressed by the English bourgeoisie on the economic situation continue to be pessimistic, on some points exaggeratedly so. According to the calculations published by the "Economist", for instance (18. July), 492 industrial undertakings, whose balance for the previous quarter is analysed in the "Economist", have earned a net profit of 57 million pounds sterling in the current business year, after deduction of mortgage interest, etc., as compared with 51 million pounds last year. The "Economist" comments that the industrial problems are serious enough, but there is no use in spreading abroad pessimistic generalisations which grossly exaggerate the actual facts.

This tendency to exaggerated pessimism with regard to the situation is naturally being exploited by the bourgeoisie for influencing public opinion in the wages struggles. Every effort is being made to prove that English industry can only be saved by lowering the wages and worsening the working conditions of the English workers. The same object is served by the innumerable comparisons drawn by the English press between the wages of English and Continental workers. This, however, is a two-edged sword, for it demonstrates to the workers that, within the capitalist state of society, there is no hope for the English workers to improve their standard of living; on the contrary, the sole prospect facing them is a lowered standard of living.

Investigations and Opinions on the Causes of the Economic Crisis in England.

A large number of results of inquiries into the causes of the economic crisis in England have been published of late. The most important of these is the report of the committee of inquiry on industry and trade, appointed by the Labour government, under the presidency of A. Balfour³⁵⁾.

The first volume of this report contains 700 pages, and deals with England's exports. Three possible causes are adduced for the falling off of exports.

1. Diminished purchasing powers outside of England.
2. Growth of native industries.
3. Substitution of English imports by imports from other countries (p. 5).

As regards the first question, the report comes to the conclusion that this cause of the falling off in English exports is already disappearing, except in a few countries. With regard to the second question, the growth of native industries is an indubitable fact, though no comprehensive data on the subject are available. A few interesting examples are cited:

The number of cotton spindles in Japan, China, India, and Brazil, was about ten million in 1913, by 1924 the number had increased to almost 18 millions.

The number of up to date weaving looms in India and Japan increased between 1913 and 1922 from 120,000 to 200,000.

Immediately before the war, the yearly output of steel in Japan, China, India and Australia, was about 360,000 tons; by 1922 the output was 858,000 tons (p. 10).

The report, however, expresses the view that these causes must not be over-estimated, for this industrialisation extends chiefly to staple goods, and not to the finer qualities, and on the other hand the development of these industries implies the import of machinery on a large scale, etc.

A question of particular interest is that raised by the alleged shutting out of British exports through the increased customs duties imposed during the last ten years. Inquiry has been made into two groups of duties: duties imposed within the British empire, and duties imposed by foreign countries. The tariffs of India, Australia, Canada, South Africa and New

³⁵⁾ "Committee on Industry and Trade, Survey of Oversea Markets", London 1925.

Zealand, countries absorbing together 78% of England's exports within the empire, come under the first category. The second group comprises a number of countries absorbing 71% of the exports outside of the empire. The calculation has been made in such manner that the duties are reduced to the percentage of the value of the goods. The following interesting figures result³⁶).

The following duties were imposed on English goods, expressed in percentage of value:

Countries of the British empire:		1914	1924
India		2 ³ / ₄	10 ¹ / ₂
Australia		6 ³ / ₄	9 ³ / ₄
Canada		15 ¹ / ₄	13 ¹ / ₄
South Africa		7 ¹ / ₂	9
New Zealand		8 ¹ / ₄	3 ¹ / ₂
Foreign countries:		1914	1924
United States		19 ¹ / ₂	32
Germany		17 ¹ / ₄	10
Argentina		24	20 ¹ / ₂
France (with Algiers)		21 ³ / ₄	12 ¹ / ₂
Japan		19 ¹ / ₄	10 ¹ / ₄
China		5	5
Holland		2 ³ / ₄	2 ³ / ₄
Brazil		88	41
Belgium		10	8 ¹ / ₂
Egypt		8	8
Italy		18 ¹ / ₄	15 ³ / ₄
Spain		42	37 ¹ / ₄
Sweden		23	12 ¹ / ₄

This table reveals the interesting fact that, with the exception of the United States, India, Australia and South Africa, the protective tariffs against English imports in all the other states were lower in December 1924 than in 1914. It is true that 50% of the goods exported by England to all the countries here named go to the four countries just mentioned. The above facts are none the less surprising, since a general idea prevails that the present tariffs are much higher than the pre-war ones. (Meanwhile various tariffs have been considerably raised, for instance in Germany and France, again slightly altering the conditions.)

Another interesting fact is that the preferential tariffs for goods of English origin, as compared with the goods of other countries, are much more generous now than before the war, as is to be seen from the following:

	1914	1924 ³⁷
Australia	3 ¹ / ₂ %	11 ³ / ₄ %
Canada	5 ³ / ₄ —6%	5—8 ¹ / ₄ %
South Africa	2 ³ / ₄ %	2 ³ / ₄ %
New Zealand	3 ¹ / ₂ %	12%

It is therefore quite out of the question that the high protective tariffs are the cause of the falling off of English exports in recent years.

The work of the commission further proves that it is quite wrong to see the cause of the decline of English exports in the reduction of England's share in world trade.

The contrary is the case. If we take the figure 100 as representing the total foreign trade of 157 countries, we arrive at the following percentages³⁸):

	Imports		Exports	
	1913	1923	1913	1923
Great Britain	15,10	16,81	13,02	14,03
Other British States	11,87	13,85	12,26	16,11
British Empire	26,97	30,66	25,58	30,14
United States	8,27	14,54	12,47	16,88
France	7,65	7,55	6,76	7,58
All other states	57,11	47,25	55,49	45,40

From this it will be seen that England's share of the world's trade has grown, though not by any means to the extent of America's. The countries bearing the loss — as shown by another table — are chiefly Germany and the Central and East European states.

³⁶) "Committee on Industry and Trade, Survey of Oversea Markets", page 545.

³⁷) p. 545.

³⁸) Compiled from the data given on p. 667.

A very clear idea of the situation may be gained from the report, but it offers no suggestion as to how England is to escape from the present crisis.

Attacks on the Gold Standard.

In England the political economists are being divided more and more sharply into two camps, which may be roughly designated as the camp of the supporters of the gold currency, and that of the inflationists. The banking world, led by the Bank of England, belongs to the former camp, supported by the official circles and the large importers. The other group is composed of a large section of British industries, led by the Federation of British Industries. Keynes may be regarded as the spokesman of this latter group.

The main thesis of the inflationists is the assertion that the restoration of the gold standard has impaired the competitive capacity of England in the world's markets; that the maintenance of the gold standard forces upon the country the necessity of hoarding an enormous and useless gold reserve; that the government, in order to protect this gold reserve, has prohibited the granting of loans abroad, thus leading directly to a lessening of English exports of industrial goods³⁹).

Keynes' speech at Manchester gives the clearest presentation of the views of this group, though the mode of expression is somewhat demagogic. In the course of this speech he declared that he believes prosperity to be of greater importance than the rate of exchange of the dollar; that prosperity, by enabling production to be increased to the highest capacity and working powers to be utilised to the utmost, renders it possible for us to pay the present real wages, and yet to reduce our costs of production at the same time.

Keynes therefore demands cheap loan capital, that is, a low bank rate, reduction of the gold reserves of the Bank of England, and with this a veiled depreciation of the rate of exchange of the pound, in order that prices may rise at home whilst remaining low in intercourse with foreign countries. This last is not clearly stated, but it is the logical conclusion of all that has gone before. This policy would also render it possible for England — although the calculations made by the Balfour committee for 1924 show that only 29 million pounds remain over for foreign loans — to grant larger loans to foreign countries, and thus to increase the export of goods. The above-mentioned memorial issued by the Federation gives various tables with the object of showing the close connection between loans abroad and exports to the countries concerned.

To sum up, the fact remains that the English bourgeoisie has not yet succeeded in finding any means of escape from the acute economic crisis.

Foreign Trade.

There has been no improvement in foreign trade during the last few months. We append the data for the first three quarters of the current year⁴⁰):

	3rd. quarter	2nd. quarter	1st. quarter
Imports in million pounds sterling			
Foodstuffs and beverages	133,5	136,2	143,6
Raw materials	83,6	93,9	125,9
Finished goods	69,2	94,0	80,5
Postal packets, livestock, etc.	1,7	1,5	1,9
Total imports	288,0	325,6	351,9
Exports in million pounds sterling			
Foodstuffs and beverages	21,4	19,5	22,5
Raw materials	38,2	43,1	47,2
Finished goods	157,8	154,8	174,5
Postal packets, livestock, etc.	3,9	3,7	3,9
Total exports	221,3	221,1	248,1
Net surplus of goods imported	66,7	104,5	103,8

³⁹) The latest literature representing this group is as follows: the above-mentioned official study published by the Federation of British Industries; Keynes' pamphlet: "The Economic Consequences of Mr. Churchill", and Keynes' speech at the meeting of the section of the Federation of British Industries in Manchester; "Manchester Guardian Commercial", 15. October. Besides Keynes, McKenna and Mond more or less support the inflationist policy, and of the leading weeklies the "Nation", "New Statesman", and "Spectator".

⁴⁰) "The Board of Trade Journal", 15. October 1925.

It will be seen that the exports of English finished manufactures have only increased very slightly as compared with the previous quarter. The main falling off is in the exports of coal and iron, ships and machinery.

The following gives an idea of the exports and imports for the separate months:

	Imports	Exports
	British goods in million pounds sterling	
June 1925	111,0	58,9
July 1925	98,7	64,8
August 1925	91,7	61,0
September 1925	97,9	60,7

The general tendency of British exports is thus a downward one.

We give in conclusion the data on capital emission during the first nine months of the years enumerated. The figures are given in pounds sterling, the statistics being taken from the "Statist":

	1925	1924	1923	1922	1921	1913	1912
England:							
State	38	10	69	347	59	—	—
Private	81	49	35	58	59	26	36
Colonies:							
State	20	25	41	42	32	20	8
Private	16	16	19	13	14	37	28
Foreign countries:							
State	—	23	25	13	6	24	10
Private	6	12	18	38	16	44	69
Total	161	135	207	511	186	151	151

The Situation in the Various Branches of Industry.

Here we can only repeat once more that the serious condition of the coal mining industry is the factor having the most detrimental effect upon the general situation. As compared with last year, production has been as follows during the last few months:

Average weekly output in 1000 tons.

	1925	1924
June	4043	4675
July	4727	4846
August	4035	4808
September	4302	5108

The relatively high production in July is obviously a consequence of the preparations for the strike. In August and September the output was approximately 20% less than in the corresponding months of 1924, although 1924 was again behind 1923.

A comparison of coal exports shows about the same ratio, as follows:

	In 1000 tons		
	1925	1924	Decrease
May	4,652	5,480	827
June	3,734	4,882	1,148
July	4,442	5,488	1,044
August	3,272	5,075	1,803
First eight months of year	33,563	41,694	8,131

The number of unemployed miners is steadily increasing.

The great struggle which was impending between the miners and the mineowners was postponed at the last moment until April next year, by means of the subsidy granted by the government to the coal owners. The danger of a miners' strike, supported by the railwaymen and transport workers, easily spreading into a general strike, induced the Conservative go-

vernment to give way for the moment, and to appoint a commission for inquiring into the coal mining situation. The English bourgeoisie has to make preparations on a large scale for the great struggle. A strike-breaking association of those ready to lend technical aid in case of strikes and such emergencies is already being openly organised under the protection and patronage of the Home Secretary. How much sincerity attached to the agreement by Baldwin is shown by the fact that at the present time new differences have already arisen, which have come about as follows.

The miners interpret the agreement with the government to mean that there is to be no reduction of miners' wages before April. Baldwin and the coal industrialists interpret it to mean that the agreement hitherto existing is left unchanged. This agreement permits of a reduction of the basis wage — this, of course, increasing profits and thus diminishing the subsidy to be paid by the government. Under these circumstances it may be safely assumed that whatever may be the result of the work of the Coal Commission, there will be a fresh struggle in the Spring.

The situation is also extremely unfavourable in the iron and steel industry. The monthly output figures are steadily diminishing. The competition of French and Belgian iron, and more recently of German, is being felt acutely both in England itself and in England's foreign markets. With regard to output, England has sunk to the third place in Europe, below France and Germany.

In the shipbuilding trade no improvement whatever is to be recorded. Conditions in the other metal working industries appear to have improved somewhat of late.

In the textile industry the workers are still on short time. A certain improvement may be observed here. Great hopes are held out that the good cotton crops in America, resulting in cheaper raw material, will increase the purchasing powers of the world's markets for English cotton goods.

Lloyd George and the Nationalisation of the Land.

It is peculiarly significant as regards the position of the English bourgeoisie that the Liberal Party, at its last party conference, expressed itself in favour of the nationalisation of the land. Lloyd George is at present stumping the country, as he did in his young days, for the purpose of agitating against the landlords.

The essence of the Liberal Party's plan is to render state aid to the lease holders, enabling these to convert their lease into a perpetual one, or to purchase the land leased. The purport of the whole campaign is obviously to gain allies for the bourgeoisie in the fight against the working class, against the Communist party. It is becoming more and more evident that one section of the labour leaders: MacDonald, Thomas, Snowden, etc. are on the point of breaking away from the great mass of the English workers who are becoming more revolutionary, and that they will join with the Liberals after the next election in an attempt to form a new government. It is not by accident that both the Liberal and the Labour Party conference expressed themselves in favour of the nationalisation of the land, for although agriculture in England is of immeasurably less importance than in the continental countries, it is still, as the "Economist" emphasises, the largest single branch of industry.

According to Lloyd George's plan it should be possible, if English agriculture is raised to the level of the Belgian, to find work for two million additional workers. It need not be said that there is much demagoguery in this calculation.

On the other hand we may observe that the English bourgeoisie is resorting to every available means to avoid defeat in the severe struggle with the working class. The growth of the influence of the Communist Party in the English labour movement, the transition to the class war standpoint on the part of the great mass of the workers of England — this is the chief cause of anxiety in the English bourgeoisie at the present time. The economic crisis in itself would not cause so much alarm. The English bourgeoisie has still reserves enough on hand, and could hold out for years. But the revolutionising of the labour movement is forcing it to seek for means in order to be able to maintain its domination over the working class.

The United States of America.

Whilst the states of Europe are all passing through some special crisis of their own, the United States continue to differ from all these European struggles in that they are enjoying a continuance of prosperity. America is the sole country with a superfluity of capital, the sole country whose production has a rapid upward tendency, both in general and during the period of this report in particular.

The depression observable in America in the Spring appears to have disappeared once more before the approach of a renewed boom. The upward tendency is however not yet clearly defined, as will be seen from the following figures, giving a survey of economic conditions on the whole:

	Index of industrial production Federal Reserve Board (basic industries)	Index showing proportion of workers in work	Loaded waggons, last week of month	New building orders, million dollars
1924 August . . .	94	89,5	—	200
1925 January . . .	127	95,0	896	309
March . . .	120	96,4	931	491
June . . .	110	94,2	991	561
July . . .	113	93,1	1030	530
August . . .	109	93,6	1124	590

The degree of employment sank by 1% in July, and rose again in August. On the other hand, production increased by 3% in July, to sink again by 4% in August. No comprehensive data are obtainable for the last few months, but the newspaper reports show economic conditions to have improved considerably. The "Iron Age" reports the steel trust to be working once more at 80% of its capacity, some departments (fine plate-rolling mills) even up to 90%. Despite the falling off, the level of production was substantially higher in August than last year.

Although the opinions formed on America's economic conditions are extremely optimistic for the most part, still opinions are not lacking among the bourgeoisie to the effect that too great a strain is being placed on credit, and that the economic development is unsound. These voices were raised at the last bankers' conference. Among the great economic weeklies the "Annalist" is especially pessimistic⁴¹), and expresses the opinion that business is based to too great an extent upon the instalment payment system, that commercial credit is speculatively overstrained, the commercial credits of the leading Federal Reserve Banks having increased by 300 million dollars during the last few years, that there is a great deal of unsound land speculation, etc., and that a factor of considerable economic influence is the fact that the income of the farmers is somewhat less this year than last, owing to the poor crops and the low prices for grain.

Unfortunately, there are no means of ascertaining whether these symptoms are only of a temporary nature, or signs of an approaching crisis; it is symptomatic of the decay of capitalism that the see-saw of economic rise and fall which is a "normal" feature of capitalism, is becoming irregular and incalculable.

This annual Spring depression imposes a heavy burden upon the American working class. When we recollect that the index figures showing the degree of employment — issued by the Federal Reserve Board and calculated on the same basis — were given at 118 for October 1923, 109, for October 1924, but only 93 for July 1925, we are bound to admit that the number of unemployed must be very great indeed. Even when we take into account the reduction in the number of immigrants, still the number of unemployed must be estimated at between two and three millions⁴²).

⁴¹) See for instance the latest number, 2. October 1925.

⁴²) The "farming population" of the United States decreased by 182,000 between 1. January 1924 and 1. January 1925. 2,075,000 workers left the farms to find work in the towns, whilst only 1,396,000 left the towns for the country, the towns thus gaining 679,000! In actual fact the country loses less than this, the natural increase of population compensating somewhat. The farm workers coming into the towns serve, as a rule, to depress the labour market.

The following figures show the output of the most important branches of industry:

	Soft coal Million tons	Anthracite Million tons	Iron 1000 tons	Steel 1000 tons	Motor cars in thousands	Cotton consumption 1000 bales
August 1924	34,8	7,1	1887	2553	255	357
January 1925	51,9	7,4	3370	4199	213	590
March 1925	37,6	7,1	3564	4199	332	582
June 1925	37,2	7,8	2673	3207	365	493
July 1925	39,6		2664	3087	358	484
August 1925	45,0	Strike	2704	3424	222	449

	Orders on hand with steel trust 1000 tons	Blast furnaces working End of month
1924 August	4798	151
1925 January	5037	251
March	4864	245
June	3710	189
July	3539	190
August	3513	192
September	3717	200

(According to "Financial Chronicle". No. 3136. p. 520.)

These figures show an improvement in heavy industry, but a worsening in the textile and motor car industries. This last is alleged to be only a transitory symptom; the large factories are bringing out new types, and the public are waiting for these...

Foreign Trade.

The following are the figures for the trade in goods during the last few months:

	Imports	Exports	Import surplus	Export surplus
	Million dollars			
April 1925 . . .	346	398		52
May . . .	328	371		43
June . . .	325	323	2,0	—
July . . .	326	338		12
August . . .	340	372		32
September . . .	349	422		73

The fact that there was an import surplus in June is of no special significance. This has occurred repeatedly in the early summer months of late years, at the season when the export of the agricultural products of the previous year ceases. The figures for the first eight months are as follows⁴³):

	1922	1925
	Million dollars	
Export	2697	3083
Import	2383	2730
Export surplus . . .	314	353

The big export surplus in 1924 — almost one milliard dollars — was mainly, accounted for by the four Autumn months, which yielded over 600 million dollars surplus.

The Economic-political Problem.

The main line of development in American economics is plain: The United States are evolving from an agrarian exporting country to an industrial or capital exporting country. At the present period, when there is such a shortage of capital in Europe, China, and in the South American countries which are now just beginning to develop, the connection between capital export and industrial goods export is even more important than before the war. The world market for industrial products is so limited that every country has to compete in the effort to supply industrial goods on credit, or to accept participation in the undertaking in lieu of cash. At the present time America is more

⁴³) "Financial Chronicle". 3. October 1925. p. 1627.

capable than any other industrial export country of competing on these lines. Hence her supremacy in the world markets. In August, for instance, America exported more machinery than at any time during the last four years, and the export of agricultural machines was 42% higher than the highest record hitherto attained⁴⁴).

The change of the exports of the United States from raw materials to finished goods, and the reverse change in imports, are shown by the following figures, referring to the first eight months of the present and last year⁴⁵):

Percentages of the total foreign trade:

	Exports		Imports	
	1924	1925	1924	1925
Industrial finished goods	40,7	40,4	20,3	18,6
Raw materials	25,5	24,7	33,6	39,8

The tendency to change in the nature of the goods is much more noticeable in the case of the imports than in the exports. The high tariffs put a great restriction on the imports.

Another point not without interest is the **geographical distribution of the foreign trade of the United States** in the first seven months of the current year. Here statistics are already obtainable⁴⁶):

	Imports		Exports	
	Million dollars		Million dollars	
	1924	1925	1924	1925
Europe	602	688	1183	1427
North America	636	596	580	650
South America	272	303	171	226
Asia	535	691	302	249
Africa	47	59	40	48

Although exports from Europe to the United States have increased by approximately 15%, nevertheless Europe purchased **twice as much from the United States** as it has been able to sell there. It is only Asia whose export balance to the United States is favourable, this being mainly due to two articles: **india-rubber and silk**. Among the separate countries, **England and Germany** are especially conspicuous with their huge **adverse export trade balance with America**: During the first seven months of the year **England** purchased goods to the value of 536 million dollars from America, but only sold goods to the value of 232 million; **Germany's** purchases from and sales to America amounted to 252 millions and 83 millions respectively!

In connection with the necessity of an increased export of industrial goods, and with the settlement of the interallied debts, there has been a heated discussion in America of late as to the advisability or non-advisability of the present rigid high tariff policy pursued by the United States. Two distinct trends of opinion are to be observed. One regards the transfer problem as the central question, and demands that the tariff wall preventing the influx of foreign goods should be lowered, thus rendering possible the transfer of the payments of the inter-allied debts. The other calls for an elastic tariff policy, in order that the export of special industrial goods, and the import of others, may be promoted.

The present political tariff dispute relates chiefly to the alteration of the present rigid system. Up to now the United States have concluded trade agreements, only on the most favoured country basis, and have not entered into tariff conventions, that is, they have not taken any active steps towards inducing the other party to the tariff agreement to reduce the duty on certain goods, as they might have done by means of a counter-offer to reduce duties on certain categories of goods contained in the American tariffs. The United States thus possess no means of reducing the duties on goods of special interest to them. Thus a group has formed in favour of Europeanising the entire **tariff policy of the United States**: this group naturally consists for the greater part of export industrialists.

The other group is mainly held together by a common fear regarding transfer possibilities, and is formed chiefly by the

banks who desire that their interest may flow back to them in the form of goods.

The anxiety as to transfer difficulties increases with the funding of the inter-allied debts. At the present time the amount of the inter-allied debts, according to the **White Book** issued by the **American treasury**⁴⁷), is 12,088 million dollars. This sum increases automatically with the accumulating interest. The sum of 5,146 millions is already funded (without the French debt). Given an interest of 3½%, this would mean a sum of 420 million dollars annually. To this must be added the interest on the capital invested abroad (in round figures 9,5 milliards), making a round sum of at least 100 million dollars yearly; further, an unknown figure for the profits on participation of capital, and the export surplus of the trade balance, amounting approximately to one milliard dollars annually. All this brings the total up to approximately 2,5 milliard dollars yearly, counter-balanced solely by the money sent home by the immigrants (decreasing steadily in amount), and the expenditure of the American tourists in Europe.

The fears entertained with reference to the transfer are closely bound up with the fear of a **renewed inflow of gold**, likely to lead to an inflationist price movement. The endeavours made to get rid of the accumulated gold have met with little success. Germany only took over about 100 million dollars to supplement the gold reserve of the Reichsbank. The tendency towards an influx of gold remains as before.

The Investment of Capital Abroad.

The solution of these — in part only apparent — difficulties is obviously to be found in a **continued rapid increase of the American capital invested abroad**. The trade balance surplus will be devoted to further investments abroad. This process can be continued for a very long time, as was the case with **England** before the war, until such time as a fresh imperialist war consumes the capital thus accumulated, or until such time as the proletarian revolution completely settles the whole question by the expropriation of the bourgeoisie.

America, by virtue of the power of her capital, at present actually rules the world's economics and the world's politics. All disagreeable problems are smoothed over by means of money. America is to be freed from her dependence on English raw rubber by the projected vast caoutchouc plantations in the **Philippines** and in **Liberia** — the "free" negro State on the West coast of Africa, which in actual fact is entirely under the influence of America. Newspaper reports state that an American motor car tyre manufactory has obtained a large concession here. This factory is going to invest 100 million dollars in caoutchouc plantations, and its production is to cover half the present requirements of the United States. The enormous accumulation of capital is sweeping away every obstacle.

Evidence as to America's influence upon the world politics is to be seen in the fact that, one after another the ministers of finance and the directors of the central banks are visiting America, in order to negotiate on inter-allied debts and **fresh loans**; further evidence is furnished by the **state and municipal loans, Japanese electrical works, radio plant in China, railway building in Persia, potash trust in Germany**. One and all seek capital in America, seek the economic and political goodwill of the small clique of American capitalist magnates upon whose word their economic existence depends. The American government — including its president, **Coolidge** — is nothing more nor less than the executive organ of this clique.

The sum total of the loans granted by private persons to foreign countries amounted ⁴⁸) on 1. July 1925 (without the inter-allied debts) to:

	Million dollars		
	To States and with State guarantee	To private undertakings	Total
Canada	1125	1420	2545
South America	915	3225	4140
Europe	1665	450	2115
Asia and Australia	442	280	722
	4147	5375	9522

⁴⁴) "The Annalist". 2. October 1925.

⁴⁵) "Financial Chronicle". 3. October 1925. p. 1627.

⁴⁶) "Financial Chronicle". 12. September 1925.

⁴⁷) „Börsen-Courier". 12. September 1925.

⁴⁸) Statements taken from the "Bulletin Economique", Correspondance de l'Etranger No. 546.

It will be seen from this that the United States continue to invest large amounts of capital in the continent of America. Two thirds of the capital privately invested is placed there.

According to the same source, the capital freshly invested in foreign loans in the first 6 months of the year amounted to 552 million dollars, of which less than one half went to Europe: 237 millions, whilst America (Canada and South America) received 283 millions. The power of American capitalism, as genuine imperialism, is extending further and further.

Capital Investments abroad and the Question of Emigration.

The latest data on immigration, extending from July 1924 till July 1925, show that 294,000 workers have immigrated into the country during this period, and 93,000 have left it, resulting in a net gain of approximately 200,000, as compared with 630,000 last year. Quite a number of States did not even send out the quota of emigrants allowed them, as follows:

Czechoslovakia	— 17%
Germany	— 11%
Great Britain	— 12½%
Italy	— 10%
etc.	

In the case of some countries the immigration from America has even been greater than the emigration to America, for instance:

	Immigrants	Re-emigrants	Net Re emigrants
Greece	826	6,574	5,748
Italy	6203	27,151	20,948
Spain	275	3,982	3,707
Jugoslavia	724	2,464	1,740
Portugal	619	3,600	2,981

The Asiatic countries: China, Japan, India, as well as Australia, New Zealand, etc. also show greater re-emigration than emigration.

This state of affairs is obviously due to the fact that a larger section of the emigrants from these countries do not settle permanently in America, but return eventually to their native countries — generally after they have scraped together enough money to buy a piece of land at home. This process takes place independently of the number of immigrants permitted from the country concerned. The laws restricting immigration thus attain their object: they diminish the number of those working class elements in the United States undesirable to the state, that is, politically unreliable for capitalism.

That America's labour market is none the less well supplied is proved by the fact that there have been no strikes worthy of the name of late. The great strike of the anthracite coal miners, now going on for two months, is an exception. These miners are the sole section of the American heavy industrial workers well organised in trade unions at the present time, and able to venture on a prolonged struggle. Whether they will be successful or not is still uncertain ⁴⁹⁾. Apart from this, American capitalism is well provided with workers, and though individual groups of capitalists may occasionally speak in favour of a relaxation of the immigration restrictions, the class interests of the whole capitalist class continue to outweigh the wishes of individuals in this question.

China.

The great national revolutionary movement which has been stirring China since the Spring now appears to be slackening. This does not by any means signify the beginning of the restoration of the old order of things. Every revolutionary movement advances in successive waves: a forward movement is followed after a certain interval by an ebbing of revolutionary energy.

The events of recent months have brought about a process of clarification in the relations between the different classes in China. Although the national anti-imperialist idea still dominates the whole the movement, in South China and other places a sharp dividing line is already being drawn between the bourgeois revolutionary forces and the proletarian revolutionists. In Canton, where the proletarian revolutionary forces have gained the upper hand, a part of the bourgeoisie has openly gone over to the impe-

rialists. There is not the least doubt that the counter-revolutionary army led by General Cheng-Chu Ming has been equipped by the English bourgeoisie in Hong Kong. Whilst the South is witnessing a struggle for power between the proletariat and the counter-revolutionary wing which is allying itself with the imperialist enemies of China, in Northern China the struggle appears to be concentrating around the legal recognition or suppression of the trade unions. It is generally observable that along with the national anti-imperialist idea, the aims of the proletarian revolutionary movement are coming more and more to the forefront.

The heroism with which the Chinese workers have held out during their long strike can only be realised when we remember the extreme poverty of the Chinese proletariat, a poverty almost past the comprehension of a European.

The Problem of the Chinese Revolution: The Peasantry.

The further development of the Chinese revolution depends on the attitude taken by the peasantry. These form the overwhelming majority of the population. Only the party which succeeds in winning over the peasantry can hope for the victory.

The class struggle between proletariat and bourgeoisie appears to have already assumed far too acute forms for it to be possible for the bourgeoisie to retain the leadership of the national movement much longer. As already mentioned, one section of the Southern Chinese bourgeoisie has already gone over to the camp of the greatest enemies of Chinese independence, the English, in order to fight the working class. Under these circumstances it appears most likely that — despite the numerical weakness of the Chinese proletariat (so far as we are aware there are no official data on the number of wage workers in China. Comrade Katayama gives the number of industrial workers, at 5 million, this including railway, coolies and domestic servants) — the leadership in the struggle for emancipation will none the less fall to the proletariat.

But when we seriously consider the possibility of a hegemony of the proletariat in China's struggle for emancipation, then we must be prepared to face the question: **What can the Chinese proletariat, as the leading class in the revolution, offer the Chinese peasantry?**

It is extremely difficult to furnish an answer to this question, for we are practically uninformed on the subject of the Chinese peasantry. We have scanned dozens of books on China during the last few months, but the result is very scanty. Modern economic literature on China does not seem have any knowledge whatever about the peasant problem, although 90% of the population of China are certainly peasants.

Chinese Agriculture.

There is a widespread belief that China is overpopulated in the Malthusian sense, and the reader will doubtless be surprised to learn that of the total area of China proper, without the outer provinces of Moju, Manchuria, and Tibet, not quite 13% are under cultivation. China still contains enormous areas of uncultivated land in the form of savannahs, prairies, steppes, deserts, etc. Shantung is said to be the sole province in which more than half of the soil is being cultivated^{50), 51)}.

The cause of this varying density of population is closely bound up with the peculiarities of Chinese agriculture. The special conditions obtaining in China, which it shares with the other regions of Central Asia and Asia Minor, only permit agriculture to be carried on successfully with the aid of artificial irrigation.

In consequence of this dependence on irrigation, the whole agricultural history of China is a history of floods and droughts. The peculiarities of the Chinese rivers demand the constant maintenance of dams for keeping the streams within their beds. Should this work be neglected on account of wars or civil disturbances, tremendous floods result, sometimes affecting thousands of square miles, and costing hundred and thousands of human lives. The damming back of the rivers and their utilisation for irrigation purposes requires innumerable workers, technical aid being of the most primitive nature. This work has always been done by forced labour. The methods of tillage themselves are a strange mixture of primitiveness with regard to implements and extreme practical ingenuity with regard to the

⁵⁰⁾ Andree, Geography of the World's Trade, vol. 2. p. 759.

⁴⁹⁾ According to the latest press reports, the strike ended with a partial victory: 5% increase in wages instead of the 10% demanded.

⁵¹⁾ Richthofen (see further) estimates that only 3% of the whole of the Southern Chinese mountain country is cultivated. p. 414.

system of irrigation. There is a great difference between the methods of cultivation employed in the North and the South of China. In the northern and north eastern outer regions of China, belonging geographically more to the Siberian area, work is done with the aid of draught animals, whilst in South China the soil is tilled solely by human labour, as in horticulture. Since the southern and central regions are strangers to the use of mineral fertilisers, and there is no cattle rearing on a large scale, it is only possible to maintain the fertility of the soil by the most careful collection and use of all household waste, including human excrement.

In those parts of the country artificially irrigated, we find the soil highly fertile, the population dense, and the land split up into small portions.

"It is calculated today that a family of five persons can just live from 15 mau, about four fifths of a hectare, when the cultivation is not carried out on entirely horticultural lines. To us this number of persons to the area appears almost incredible" (Max Weber: "Confucianism and Taoism").

On the other hand, uncultivated land is free⁵²⁾. Anyone may take possession of it, provided that he cultivates it. Uncultivated land may not be retained by anybody.

The Ownership of Land.

When we raise the question: What can a social revolution under the leadership of the proletariat offer the peasantry?, we are raising the question: Are there such things as ground rents in China, and to whom are they due? Or, expressed in other terms: Is there a class in China which lives from ground rents, and whose expropriation could bring about an immediate improvement in the position of the peasantry?

There exist no reliable statistics as to the distribution of land in China⁵³⁾. Neither are statistics obtainable on the prices of land nor on the wages paid agricultural labourers. However, with the aid of the facts compiled by Weber, who has worked up all the material accessible in European languages, and of Lee's book, the following may be ascertained:

During the course of China's history the emperors on several occasions, expropriated the land owned by the feudal lords, and the large landowners were thus expropriated down to a very low limit (about 6 hectares). As a matter of fact, at the present time there is no large land ownership in our sense of the word, and still less a large connected undertaking. I say "in our sense of the term" advisedly, for according to Chinese conceptions a piece of irrigated land 10 hectares in extent already represents a very real large landownership. In this Chinese sense there is such a thing as large landownership, but the land is divided into allotments (thus no large connected undertaking) then leased to the peasants⁵⁴⁾. The forms of lease employed are partial leases, leases paid in money or in kind.

⁵²⁾ Richthofen, China, vol. 3, p. 414; Andree, p. 760.

⁵³⁾ Comrade Katayama, in an article in the "Pravda", gives the following data for 1919, without stating his source:

11,829.000	peasants are cultivating less than 10 Mau = $\frac{2}{3}$ ha
8,281.000	" more than 10 Mau = $\frac{2}{3}$ ha
4,900.000	" " " 30 " = 2 ha
3,022.000	" " " 50 " = 3 ha
2,456.000	" " " 100 " = 6 ha

These data are however obviously incomplete, for there must be far more than 30 million separate peasant families in China!

According to the official returns issued by the Ministry for Agriculture and Finance, 1917, the figures are as follows:

17,805.125	under 10 Mau
13,097.892	over 10 "
9,971.632	" 30 "
5,197.730	" 50 "
2,935.464	" 100 "

49,007.943

This result is much more probable than the above.

⁵⁴⁾ According to Comrade Katayama's figures for 1919, 17,349,000 peasants cultivate only their own land, 6,780,000 peasants cultivate only rented land, 5,438,000 peasants cultivate their own and rented land.

These forms exist side by side. The duration of the lease is generally three years. The social relations between landlord and tenant are the more unhappy in that the large landowner letting the land, though in many cases an official or merchant who has become rich, is more often not one individual, but a family, or even a still larger social unit, the clan, which apparently comprises both the rich and the poor of the tribe. The density of the population means high rents. Besides this, the peasantry has to pay taxes. These taxes are not collected by the government itself, but have always been farmed out to the heads of the provinces ever since the beginning of the eighteenth century.

The administrator of the province has to deliver up a certain sum to the government, in accordance with the number of farms from which he derives taxes. The difference between the sum thus delivered up and the actual sum received in taxes forms the income of the administrator, who has to cover not only all his personal expenses out of this difference, but the costs of administration as well. When we further take into account the heavy burden of obligatory presents which the peasant is forced to make to the officials in question every year, and on all occasions of legal negotiations, and when we recollect the severe losses suffered by the peasants through the wars of their rulers, who in many cases have been robber-chiefs (for instance Chang-Tso-Lin), it at once becomes clear to us that a revolution led by the proletariat can in fact offer the Chinese peasant a very great deal which neither native, nor still less imperialist capitalism can offer: Release from rents, lessened taxation, freedom from exploitation by the officials. This to be followed by irrigation schemes on a large scale, securing the peasants from the catastrophes of drought and flood, and by the introduction of modern agricultural methods, enabling a greatly intensified cultivation to be carried on.

The Obstacles Hampering the Development of Chinese Capitalism.

Weber, in his book on China, treats as the central problem the question: How is it that an indigenous capitalism has not developed in China? The prerequisites of capitalist development appear to have existed to a certain extent at least, for hundreds of years ago China had reached that stage of economics, with regard to the traffic in goods, which immediately preceded the development of capitalism in Europe. China's economic status before the penetration of foreign capitalism may be described approximately as follows:

The division between town and country was reached two thousand years ago, but it must be taken into account that, in consequence of the concentration of the Chinese population in the regions made fruitful by artificial irrigation, the walled cities are for the most part inhabited by farmers. For centuries there has existed traffic in goods and money economy. There has been wholesale trade, so that mercantile capital has existed, and not only native capital, but at one period, about 1000 years ago, active foreign trading capital as well: Chinese traders penetrated to India, Asia Minor, and Northern Asia. And yet an industrial capitalism has never developed, not even manufacture on capitalist lines.

That an indigenous Chinese capitalism has failed to develop (until the present time, under the influence of European capitalism), appears to us to be due mainly to the following factors:

1. The State has not possessed a military organisation powerful enough to force the workers into the service of capitalism. The central and local powers of the state in China have originated out of the necessity of water regulation: protection against floods on the one hand and artificial irrigation on the other. Thus State authority has served an eminently peaceful object, and not, as in Europe, in the struggle of the monarchy with the feudal lords and the military organisations of the city burghers. Moreover, the vast extent of the Chinese Empire, and the building of the Great Wall, for hundreds of years protected great regions of China from external wars, so that State power naturally developed an expressly pacifist character.

The result has been the development of a ruling class of a most unique character, a type entirely unknown to European civilisation: The literate class. We must remember that Chinese writing contains no letters, but images of conceptions. Every idea possesses its own complicated sign, so that the work of learning to read and write demands in itself ten years study. The result of this peculiar system is that only 5% of the men and 1% of the

women can read and write, and a knowledge of reading and writing appears as a special educational privilege. The enormous extent of the country, and the lack of good means of communication, has further given rise to the necessity of maintaining written communication with the government. Thus it came about that the administration of the empire fell into the hands of the literates, and a specific system of state examinations, requiring decades of study, became a requisite for those desirous of gaining positions as officials. The emperor, or the central government, maintaining military forces only in the frontier districts, had no wish to see the administrators of the separate provinces organising their own military forces, and becoming independent of the central government. In order to prevent this, a system arose under which a provincial administrator was only permitted to hold office for three years at longest, nobody was allowed to become administrator in the province in which he was born, etc. The final result has been that, up to very recently, there has been no state force organisation in China in the European sense of the word.

To this must be added the retention of the ancient family and clan organisation all over China. Up to recently every Chinaman has felt himself to be a member of his family or clan; he has been entirely subject to the discipline and authority of the clan, and this has, on the other hand, protected him against every outsider, even representatives of State power. This is a factor hindering the forced working discipline indispensable to the development of capitalism.

2. Up to very recently there have obviously been no "free workers" in the Marxist sense. The member of a Chinese clan (in a similar manner to the members of the Mir organisation in Russia), after having left home, perhaps to seek work as an industrial worker in the city, has retained his right to land should he return to his native clan. This again has prevented the formation of a proletariat such as capitalism requires.

3. A third point of importance is the cultural fact that in China no mathematics or physics exist as we understand them. Despite the fact that China has a four thousand years old civilisation natural science in our sense of the term has not developed. There has thus been no technical basis for division of labour, not even for manufacture, let alone for undertakings with machinery. Industrial production, like agriculture, has remained purely a handicraft, based on empirical rules handed down from generation to generation.

These three main causes: the lack of a force organisation, the support given the workers by their clan, and the absence of natural scientific prerequisites, appear to be the basis of the otherwise so remarkable fact that China's independent economic development came to a standstill in the period before the development of the manufacturing phase.

The Effects of the Penetration of European Capitalism.

The penetration of European capitalism has, therefore, been all the more destructive in its effect. Up to now the Chinese peasantry has not been a peasantry as we understand the term, that is, it has not been specialised in agricultural production. This specialisation is of recent date in Europe as well; one hundred years ago the European peasant also could spin, weave, make clothing and innumerable industrial articles. Even today the farmers of the different lands vary greatly in this respect. Whilst the American farmer limits himself frequently to growing one single type of crop and eats tinned meat, tinned vegetables, and tinned fruit on his own farm, the peasants of Eastern Europe are still producing all their food and many industrial products besides.

In China foreign capital put in an appearance at a period when the Chinese peasantry had scarcely begun this process of specialisation, or, in other words, at a period when the industrial activity of the peasantry was still a necessary complement to the farm work. The intrusion of European manufactures, forced by the military power of the European imperialist Powers, thus appears to have not only affected the city handicraftsmen, but at the same time to have deprived the poorer strata of the Chinese peasantry of the supplementary earnings gained in their home industries.

The Chinese peasant possesses such a very small portion of land, that it has scarcely sufficed to keep him alive even with the aid of additional industrial work for the market. Once this source of earnings is cut off by the competition of European industrial articles, innumerable peasants are bound to be ruined. This appears to be the explanation of the fact that at the present time millions of free wage workers are to be had, that millions of "vagabonds" are wandering about the country, joining together

in robber bands or enlisting as mercenaries to the military power. And now the development of this military power furnishes that force organisation so necessary to enable capitalism to exploit the working class. The lack of natural scientific and technical knowledge is being overcome by the importation of finished foreign machines. Thus the three causes which we have adduced as reasons for the non-development of an indigenous capitalism in China have all been swept away by the penetration of foreign capital.

The penetration of capitalism explains at the same time the peculiar position of the students. These students were intended for the class of the officials, the ruling class⁵⁵). Since their studies required decades, they studied at the expense of the clan. The rule of the military generals having ousted the official class, the students have lost the certainty of a State post. Now it is military competence and party adherence which decide the future. And on the other hand the clan already frequently fails to provide for the students. The result is a vast mass of proletarian students, who place all their hopes upon a revolution.

And now to actual events.

The period of this report was filled with revolutionary movements, huge strikes, both trade union and political, boycotts of foreign goods, armed fighting in Southern China.

One result is particularly striking: The imperialist Powers, who a few decades ago were still ready to send an international punitive expedition to China, have proved unable on this occasion to agree among themselves to do so, although expressly called upon by their countrymen living in China. The English and American Chambers of Commerce in Shanghai and Hong Kong demanded instant intervention, which was, however, coolly declined by their governments.

What has caused this change?

1. China is no longer defenceless! China would openly resist any intervention, however "friendly".

A well informed writer to the "New York Times"⁵⁶) on 19. August 1925 observes that we shall do well to note that in the eyes of the Chinese a "friendly" intervention in China is no longer possible. Any intervention would be taken as an act of aggression and met accordingly. The writer goes on to state his opinion that any intervention would certainly be the signal for the mobilisation of large military forces. This raises the question of the character, cost, and probable consequences of such an action. A recent estimate of the military forces of China gives a total of 1,700,000 men. Many of these troops are excellent, others mediocre, others again of poor quality. Taken all in all, these troops are furnished with up-to-date weapons, rifles, light artillery, machine guns, bombs aeroplanes, and tanks. The Chinese are beginning to make poison gases. America's share in an intervention would have to be 100,000 men. This would cost 2 to 3 milliard dollars. China would doubtless be able to obtain the services of many an experienced Russian officer. An intervention would unite all the rivals among the Chinese generals, etc.

The fact that China is no longer defenceless greatly affects the attitude of the English bourgeoisie, which is compelled to abstain from the use of force and to put as good a face as possible on the matter.

2. The imperialist powers are engaged in a secret but determined fight among themselves for the Chinese market. All other colonial or semi-colonial countries having already been divided up, China is the last hope of all imperialist robbers, who are now beginning to court the favour of the hitherto despised China in a most revolting manner.

Here the United States are most energetic of all! The reason is not far to seek. The United States possess no "special interests" in China. That is, they have hitherto had no opportunity of siezing pieces of China, like England, Japan, or France. The American bourgeoisie is pursuing a far-sighted policy in China. It reckons on the decay of the British Empire, of which it regards itself the legitimate heir. It reckons on a war with Japan. Thus it is anxious to weaken the position of England and Japan in China, to abolish their special rights, and to compete with them

⁵⁵) The children of porters, domestic servants, barbers, etc. were excluded from studying, on principle, and thus prevented from rising into the ruling mandarin class.

⁵⁶) Th. F. Millard, author of several books on China, extremely anti-Japanese, but worth reading.

on an equal footing. Hence the readiness of the Americans to allow increased tariffs and to inquire into the "unequal treaties"⁵⁷⁾. They are attempting to divert the Chinese hate of the foreigner to the English factories in Shanghai, etc.⁵⁸⁾

The mutual jealousy and unbounded greed of the imperialist Powers prevent united action against China. The tariff conference, intended to raise the ad valorem duties from 5% to 7 $\frac{1}{2}$ % or 10%, will not appease the indignation of the Chinese. Can this be called an advance, when the imperialist powers are still empowered to determine for all time the amount of the duties: for the "agreement" fixing the 5% duties is permanent, there is no possibility of giving notice of termination.

3. The most decisive and important reason preventing the imperialist Powers from proceeding by means of armed force in China is, however, the fear that such action would "bolshevise" China. The fear of a social revolution in China, the fear of an alliance between the Soviet Union and China — this spectre is more terrifying than any other. Thousands of newspaper articles weigh the possibility, the probability, and the improbability of such a development. This fear is particularly strong in England and Japan; it is not so strong in America, to judge by the press.

It will be seen from all this that the main object of the imperialist Powers is the securing of the bourgeois rule in China. England and Japan join in arming the counter-revolutionary Generals, that the radical forces of the Chinese revolution may be paralysed! A Chinese revolution under the leadership of the proletariat is the nightmare of the imperialists, for they are quite aware that it is solely a revolution led by the proletariat that can be logically national and anti-imperialist, whilst every revolution led by the bourgeoisie inclines to compromises. The imperialist powers could content themselves with the existence of an "independent" bourgeois China, just as they have with the existence of a bourgeois Japan or a bourgeois Turkey. It is true the colonial gains would not be so gigantic as at present, but they could invest capital, do business and open up a tremendous new market for capitalism. But a China ruled by the workers and peasants, and thus closely connected with the Soviet Union, is a perfectly appalling idea to the imperialist bandits. Not only would this greatly increase the foreign political strength of the Union, but the effect would be disastrous upon the colonies owned by the imperialist powers: India, French India, Manchuria, Corea, etc. Therefore England is sparing no expense in the organisation of White Guard troops in China, since, the reasons mentioned above — to which must be added the possibility of resistance on the part of the proletariat in England itself — render direct intervention impossible. At least for the present!

It is difficult, owing to lack of data, to form any idea of the effect of the revolutionary movement on the economic life of China itself. We are however of the opinion that less damage has been done than at first appears. The country is enormous. Revolutionary strikes and civil war are limited to restricted areas, and the numbers in the fighting armies form but a small fraction in comparison with the huge masses of peasantry continuing their accustomed activity. Many facts go to show that the economic life of China has not been greatly disturbed. The Chinese currency has not depreciated of late, but has, on the contrary, risen considerably in international value.

The following is the rate of exchange quoted for the Shanghai tael in New York:

	Cents:
1924 July 24.	51,5
1925 July 29.	76,6
1925 Oct. 1.	78,0

This fact appears to contradict the alarming reports published by the English press. The "Economist" for 1. August reports, for instance that in China the depreciation of the smaller coins continues, that in Kuantung they have sunk to 33%, in Yüan to 50%. The Generals make incomes for themselves by having silver coins made with a very small percentage of silver, and so forth.

⁵⁷⁾ See the attitude adopted by Kellogg after his conference with Coolidge.

⁵⁸⁾ See for instance, a typical essay in the high class American periodical "Foreign Affairs". Oct. 1925. p. 20: "The Shanghai affair and after."

These contradictory facts are explained by the circumstance that the Chinese tael is not a coin, but a certain weight in silver, and its international value thus depends upon the current price of silver. The price of silver has risen lately to a considerable degree, partially owing to large purchases on the part of China (see for instance the "Times" of 4. September), and the value of the tael has risen with it. This does not however exclude the possibility that coins circulating in China — the so-called Mexican silver dollars for instance — and the copper coins may lose in value in consequence of the issue of counterfeits.

There will probably be a repetition of what has been going on for years: the imperialist press maintains a loud outcry that the unrest in China is making all business impossible, but the annual reports admit with surprise that excellent business has been done after all.

England's dominant position is seriously threatened by the latest plan of the Canton government — however the plan is not new — which projects the enlargement of the harbour of Canton for large sea-going ships, and thus will undermine the dominating position of British Hong Kong for the foreign-trade of China. Between 1921 and 1923 approximately one quarter of China's total foreign trade went via Hong Kong. (In 1923, 248 million taels exports, 176 million imports.) The plan of extending the harbour of Canton has thus aroused the greatest uneasiness in England.

Very little can be foreseen with certainty regarding the further development of conditions in China. The tariff conference, if it comes to pass at all, will attempt to conciliate the Chinese bourgeoisie by granting higher duties, and perhaps by allowing some pseudo concessions with respect to "unequal treaties", while at the same time keeping a sharp eye on the interests of the imperialist powers. But the decisive question is: **Will the Chinese peasantry follow the Chinese bourgeoisie or the Chinese proletariat?**

Japan.

So far as can be judged from press reports, the economic depression in Japan continues undiminished. The character of this economic crisis appears in many respects to resemble those in the countries of Central Europe. There is the same shortage of circulating capital, the high rates of interest for loan capital, caused by restriction of credit, again made necessary in order to prevent the depreciation of the yen.

The numerous articles written on the subject, as repeatedly published in the "Japan Chronicle" for instance, again and again point out the fact that Japan possesses neither the necessary capital, nor has she in her own borders the necessary raw materials — coal, iron, cotton, wood —, which would enable her to build up an industry of her own. Japan's former great advantage over her competitors, cheap labour, appears to have greatly declined. And on the other hand there is considerable discontent among the working class, caused by the capitalist attempts at reducing the costs of production at the cost of large cuts in wages. An idea of the trend of feeling actually existing may be gathered from the title of an article appearing in the "Japan Chronicle" of 10. July: "Is the discontent to end in a revolt?"

At the moment the economic position is rendered worse by the unrest in Central and Southern China, which affects very unfavourably many of the Japanese undertakings opened up in these regions. The shipping and ship building industry, specially important to Japan, is suffering severely from the crisis. The shipyard of Nagasaki, one of the largest in the country, recently discharged 1000 workers, this being the fourth retrenchment since 1923⁵⁹⁾. Many of the shipping companies have reduced the number of voyages made by their liners, and are in great difficulties. Over half a million tons of shipping are laid up. The press complains of the demoralisation of many of the best skilled workers as a result of the continuous unemployment. The match industry, another of Japan's leading industries, recently reduced wages by 20 to 30%⁶⁰⁾ etc.

When we speak of bad trade, European standards should not be employed, at least not where profits are concerned 325-joint stock companies attained an average profit of 17% and paid a dividend of 11%, during the second half of 1924.

⁵⁹⁾ "Economist". 15. August.

⁶⁰⁾ "Japan Chronicle". 5. August.

The adverse trade balance has been the profoundest source of embarrassment and has only become favourable again since July of this year. Up to the end of July the balance was adverse to the amount of 442 million yen. The government supported exports by every available means. Thus special state-supported export companies were formed, receiving a credit from the State bank at the rate of 5% interest yearly, and enjoying other advantages of various kinds. The government exerted at the same time every possible effort to maintain the value of the currency by balancing the state finances. The financial year, which closed on 31. March, shows a surplus of almost 25% of the total revenue, 502 million yen. This was managed by increased taxation and by a reduction in expenditure of almost 200 million yen. As already mentioned in the General Section, the Japanese government is endeavouring at present to raise the currency to gold parity; for this purpose not inconsiderable quantities of gold have been sent to New York, and a fund in support of the currency has been formed.

The recently published data on Japanese capital abroad and foreign capital in Japan are extremely interesting. A compilation appearing in the Japanese press shows the following Japanese capital to be invested abroad⁽¹⁾:

	Million yen
China	400
South Manchuria (including railways)	300
Caoutchouc plantations in Indo China	40
Various foreign enterprises	50
Foreign securities	70
	860

To this must be added 290 million yen for Russian state securities and 260 million yen for Chinese state loans, dating in part from the war, and in this case to be counted as lost. As opposed to this, the foreign capital invested in Japan is

⁽¹⁾ Reprinted in "Japan Chronicle". 20. June.

stated to have been 2302 million yen at the end of 1924. This capital is composed mainly of state and railway loans, municipal loans, and electric undertakings. This capital comes almost entirely from England, perhaps to the extent of 10% from France, and about 20% from America. If the Japanese capital invested abroad is subtracted, there is not much more than about one milliard worth of purely foreign capital invested in Japan.

The position of the working class is very bad, and is becoming worse in consequence of the growing unemployment, the wage reductions, and the rise in the price of food. To give a few examples only, the index figure for rice, the chief food of the Japanese working class, has risen as follows:

June 1924	318
May 1925	348
June 1925	362

Wheat and other grains have risen proportionately in price.

The number of unemployed is unknown. The "Japan Chronicle" estimated the number at 200,000 in July, but this is certainly far short of the actual number. The total number of workers is estimated at less than 10 million, over 3 million of whom are agricultural labourers, and approximately three quarters of a million fall to each of the professions: transport workers, fishermen, forest workers, and unskilled labourers. The periodical estimates that about 3.4% of the industrial and commercial workers are out of work.

At present there is a severe conflict going on in Japan for the recognition of the trade unions by the employers. In other words, for the **legalisation of the trade unions**. A bill to this effect has been submitted to parliament. At the same time a new labour party has been formed, obviously social democratic. All this tends to prove that the Japanese bourgeoisie has abandoned the hope of permanently suppressing the labour movement by means of force, and prefers to resort to the European methods of corrupting the labour movement with the aid of the trade unions and social democracy.