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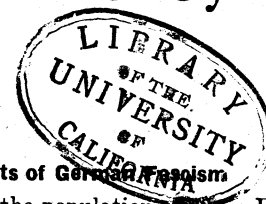
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Economy and Economic Policy

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I. Results and Prospects of the German Fascism Now in Power

Every day will show with greater clearness that Hitler is leading Germany to catastrophe."

(Resolution of the Comintern.)

Three months have elapsed since Hitler came into power, and already it is patent that fascism is just as incapable as are the other forms of bourgeois class rule of solving any one of the problems of German capitalism.

What are the tasks which German financial capital, of which Hitler is but an instrument, sets the new German Government?

(1) Destruction of the Communist Party of Germany, the vanguard of the proletariat.

In spite of the most strenuous efforts, the most pronounced form of terrorism, and the heavy blows which have fallen upon many of our good comrades, the C.P.G. is not only undestroyed, but its influence on the masses is, despite its illegality, greater than ever, and that mainly in view of the barefaced, shameful, undisguisable capitulation of the social fascists.

(2) Defeat of the German working-class in its entirety.

Despite the flagrant treason of such men as Leipart, this object has not been attained and will never be attained. The activity of the Communist Party of Germany is a guarantee to the contrary. As a matter of fact, Hitler has so far not even felt powerful enough to attempt an all-round reduction of wages, and has pronounced the verdict that collective agreements are to be prolonged until September on the old conditions.*

(3) Restoration of an "adequate" exploitation of capital.

The three months that have elapsed since Hitler's accession to office have, on the contrary, entailed a further pronounced decline in the position of German capitalism.

(4) A successful new foreign policy and a liberation from the trammels of Versailles.

The outcome of these three months of Fascist foreign policy is the almost complete isolation of Germany, even fascist Italy opposing the absorption of Austria, in itself the relatively most easily attainable foreign-political aim.

But it is not only the big bourgeoisie that presents demands to Hitler.

The internal contradiction in German fascism has become

* "Völkischer Beobachter" of April 5, 1933.

(1) **Results and Prospects of German Fascism**
What classes of the population compose Hitler's backing?
What can Hitler offer the petty-bourgeoisie?
Hitler's regime must involve Germany in catastrophe.

(2) **The American Banking Crash and the End of the Gold Standard**

The Monetary Crisis.
Outcome of the Monetary and Banking Crisis.
Further Aggravation of the Economic Crisis.
Aid for the Farmers at the Expense of the Workers.

(3) **Japan's Struggle for Predominance in Asia**

Japanese Economy of Inflation.
The Burden of War and the Spoliation of Manchuria.

(4) **General Section**

Currency Chaos, Aggravation of the Economic Crisis,
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(5) **Czechoslovakia**

The Economic Crisis.
Position of the Working Class.
The Financial Crisis in Czechoslovakia.

most clearly apparent since its accession to power. Fascism is based in the first place on the petty-bourgeois masses in town and country, which it has carried away by means of unscrupulous demagoguery and reckless promises. It is particularly characteristic of the extent of the crisis of German capitalism that the mobilisation of the petty bourgeois masses in defence of capitalism and for the terrorisation of the working class has had in part to be effected with the aid of anti-capitalist slogans, such as "destruction of interest slavery" and "opposition to predatory capital."

These petty-bourgeois masses, which in keeping with their social character oscillate between the big bourgeoisie and the proletariat, look to the establishment of the "Third Reich" for an immediate improvement in their situation.

One of the most important problems facing the Hitler-Papen government is the question:

What can be done to improve the position of their petty-bourgeois adherents?

Upon this there hinges the question, as to how **speedily** these petty-bourgeois will desert Hitler's cause and as to when and in what degree they may be expected to support the proletarian revolution.

If we are to attempt to answer this question, we must in the first place get a clear conception as to the class-distribution of the population of Germany. This is no easy task, seeing that bourgeois statistics veil, rather than reveal, the distribution of the classes. For enlightenment upon this point we can, however, have recourse to the returns of the professional census of 1925, from which we must then draw a conclusion as to the class distribution.

What Classes of the Population Compose Hitler's Backing?

Of the roughly 66 million people at present inhabiting the territory of Germany*, some 45 millions may be said to come within the working age, i.e., between 15 and 65 years.

Of these again:

34 millions are "breadwinners," i.e., people who, according to bourgeois standards, are, or **should be,** gaining their income by their own economic activity, the unemployed being included under this head. Of these breadwinners, about 22 millions are men and 12 millions women.

Four millions are "independent," that is to say pensioners and such as live on annuities, on the proceeds of their own fortunes, or on charity.

Seven millions are "dependents" within the working-age limits (non-earning wives, students, etc.).

These data are based on the last **professional census**, in 1925.

Alterations since 1925 have not been statistically covered. We may assume that, **corresponding to the increase of population**, the number of "breadwinners" has advanced from 32 millions in 1925 to roughly 34 millions in 1933. Within this total, again, the number of "independents" may be supposed to have slightly increased through the growth in the number of street traders, home-workers and those engaged in cottage-industries, out of the number of the unemployed. The total aspect of affairs, however, will probably not have changed considerably since the professional census of the year 1925.

Professional Distribution of "Breadwinners."

	Acc. to Prof. Census of 1925	Our Estimate for 1933
(in thousands)		
"Independents"	5,539	6,000
Clerks and Employees	5,274	6,000
Workers (Industry and Farming)	14,433	15,000
Contributing Members of Families	5,437	5,800
Domestic Servants	1,326	1,200
	<u>32,009</u>	<u>34,000</u>

If we are to answer the question as to whether the Hitler government can really offer its petty-bourgeois adherents any economic advantages, we must divide the above numbers from a **class standpoint**. The followers of the National Socialists are recruited in the main from the following circles (numbers on the basis of the professional census of 1925):—

(1) Non-Agricultural Petty-Bourgeoisie.

	In thousands
Independent Artisans	767
Contr. Members of Families	220
Independent Dealers	936
Contr. Members of Families	414
Innkeepers	195
"Professional Men" (Physicians, Lawyers, Engineers, independently active)	200
Total of Non-Agricultural Petty-Bourgeoisie	<u>2,732</u>

* All these data are culled from various **official** publications: "Statistisches Jahrbuch des Deutschen Reiches," "Deutsche Wirtschaftskunde," "Wirtschaft und Statistik," "Berufszählung vom 16 Juni, 1925."

Since the number of "dealers" in particular has greatly increased since 1925, we can assume the total of the non-agricultural petty-bourgeoisie, together with the non-earning members of their families at **at least 3 millions.**

(2) Agricultural Petty-Bourgeoisie

	In thousands
"Farm Workers" on Farms between 0.5 and 50 Hectares	2,630
Contr. Members of Families on Farms between 0.5 and 50 Hectares	4,000
Total of Agricultural Petty-Bourgeoisie	<u>6,630</u>

Since this group shows a **declining** tendency, we may estimate the farming class together with their contributing families at **roughly 6.5 millions.**

(3) Clerks and Employees

These may be subdivided as follows:—

Technical Experts	1,588
Foremen, Overseers	385
Commercial Clerks and Employees	3,300

Of the total of 5,274,000, some 1,152,200 are employed in the "administration," i.e., of the "Reich," the separate States, the municipalities, etc.

(4) Persons without actual or indicated occupation.

In 1925 this category numbered 3,844,430 persons.

It comprises both capitalist "rentiers" and pensioners, paupers in receipt of relief, and the dregs of the proletariat. In the main, it consists of pensioned officials, widows in receipt of pension, individuals receiving "social" aid or small annuities, and invalids. The present total is about **5 millions.** This class undoubtedly contributes a great contingent to the following of the National Socialists.

These classes, representing with the dependent wives roughly 23 millions of people within working-age limits and therefore approximately the same number of electors, form the main reservoir from which fascism recruits its voters and adherents. (The actual bourgeoisie itself is **numerically** of no great weight.) In this connection it should be pointed out that the Jewish petty-bourgeoisie and considerable sections of the Roman Catholic petty-bourgeoisie were not infected by fascism.

We must, however, most emphatically state that the figures of a professional distribution are by no means identical in all respects with those of the class distribution. Among the farming class, there are great numbers of quite **poor farmers**, belonging according to their class status rather to the proletariat than to the petty-bourgeoisie. Among the 6 million clerks and employees, **at least one half** represents **proletarian elements**, commercial employees, shorthand typists, bookkeepers, etc., drawing salaries that fall short of the wages of skilled workers. The bulk of the German population undoubtedly belongs to the proletariat, a fact which is of the greatest importance for an ultimate proletarian victory.

This, however, does not alter the fact that for a limited space of time fascism has succeeded in mobilising these classes (which rightly belong according to their class status to the proletariat) in the interests of the bourgeoisie against the proletariat alongside of the **real petty-bourgeoisie** in town and country.

It is, furthermore, obvious that even certain sections of the working class have temporarily gravitated towards the fascist camp. These are in the main sections of the agricultural workers and of the domestic employees.

In 1925, the number of agricultural workers was 2,607,232. It may in the meantime be assumed to have declined to roughly 2.5 millions.

Added to this, there are approximately 1,210,000 domestic employees, who are likewise greatly under the influence of the fascists. Finally, a small fraction of the unemployed industrial workers, especially among the juveniles who have never yet had occasion to work in factories.

Artisans, small shopkeepers, farmers, clerks, employees, pensioners, agricultural workers, and a small proportion of the unemployed and juvenile industrial workers: such are the circles furnishing the rank and file which Hitler has for the time being pressed into the service of capitalism against the revolutionary proletariat. Essentially it is a question of the petty-bourgeoisie and of the semi-proletarian circles chiefly influenced thereby, i.e., small sections of the working class (farm hands and domestics) with a petty-bourgeois mentality and the dregs of the proletariat.

What Can Hitler Offer the Petty-Bourgeoisie?

What can the Hitler government offer its adherents in an economic sense?

The National Socialists have long ceased to have anything in the nature of an economic-political programme; the "revolutionary" demands (of the expropriation of the big landlords and the socialisation of the trusts), set up at the commencement of the movement for demagogic purposes, were officially dropped when the financing of the fascist movement and thus also its actual leadership passed into the hands of the agrarians and big bourgeoisie, only the **anti-capitalist-reactionary** anti-Semitic demands (directed against "predatory" capital, against the "Jewish" department stores, etc.) being maintained. The promises were subsequently more or less modified in the agitational speeches, according to the nature of the audience in each particular case. From the economic-political literature of German fascism, replete with senseless phrases, only two tangible directives may be culled, viz, **autarchy and inflation**.*

The petty-bourgeois adherents of national socialism, the farmers, the urban petty-bourgeoisie, and the clerks and employees, look to the victory of their movement, to the Hitler government, and to the "Third Empire," for a rapid improvement of their desperate situation. If Hitler can offer nothing to these constantly vacillating classes of society, there will very soon be a severe disappointment and a wholesale falling off from national socialism of these classes which fascist demagoguery has aroused to political activity.

The question whether the Hitler government can offer these middle classes anything at all, **to what extent** and **how speedily** it can help them, is therefore of the greatest political significance.

Theoretically, and looking further ahead, the answer is obvious: The internal contradictions of monopolist capitalism must necessarily lead to a further deterioration of the position of the middle classes, to their progressive impoverishment and their increasingly speedy decline to a proletarian level.

But might not the Hitler government, at least **for the time being**, afford its petty-bourgeois adherents some measure of relief?

This might be possible in two different ways:

- Either, if the crisis could be overcome and the economic position of Germany were quickly and fundamentally improved**, in which case, along with an improvement in the situation of the bourgeoisie and the proletariat, the position of the petty-bourgeois circles would also benefit;
- Or, if the given distribution of income were to be shifted by government measures in favour of these petty-bourgeois classes.**

The problem of the development of the economic position in Germany thus acquires a special political significance.

Now it is apparent that under the fascist regime the economic position of Germany in the year 1933 has not only not improved but most pronouncedly declined, in which connection, apart from international factors (such as the bank crash and inflation in the United States) the economic policy of the fascists themselves has played no small role, as we shall still have occasion to point out. Such feeble signs of improvement as were to be seen in the autumn of 1932, proved purely transient.

There can be no question of an incipient renewal or expansion of fixed capital, since the existing plant is utilised to no more than a fraction. There is a lack of free capital for investment purposes. Nor can there be any hope of an influx of foreign capital after the "freezing" of thousands of millions in Germany by reason of the Standstill Agreement as also in view of the general standstill of capital exportation and of the general aggravation of the foreign-political situation.

Proof of this is the **minimum amount of building activity**.

According to the computations of the Institute for Business Research, the **sum total of wages and salaries** figured as follows:—

	Millions of Marks
2nd Quarter, 1928 (Peak)	11,789
4th " 1929	10,072
4th " 1930	9,652
4th " 1931	7,647
4th " 1932	6,388
Recession	46 per cent.

* The writings of Feder, Buchner, and others.

How greatly consumption on the part of the broad masses has declined during the crisis may be seen by the following figures* :—

	Productional Value		Recession from 1928 to 1932	Price	
	1928	1932		Recess.	Recess.
Foodstuffs	14,000	8,300	5,700	80	20
Tobacco, etc.	7,000	3,700	3,300	49	51
Textiles & Clothing	13,200	7,000	6,200	45	55
Household Articles†	3,800	1,000	2,800	32	68
Together ...	38,000	20,000	18,000	55	45

Now, in the interest of a better exploitation of capital, the Hitler government, as champion of the interests of monopolist capital, is bound in the near future to effect a further reduction of wages and salaries. That this has not already been done, is merely due to fear of the revolutionary vanguard, represented by the Communist Party of Germany. But the bourgeoisie is not likely to wait long. The Hitler movement has only been financed, fostered, and placed in authority so that it may enhance the exploitation of the working class and attempt to get the better of the crisis at the expense of the proletariat. But if this policy is to succeed, it must lead to a yet more pronounced diminution of the income from wages and salaries, to a further restriction of the consumptive capacity of the broad masses, and thus to a further aggravation of the crisis.

A very marked shrinkage, moreover, has also taken place in the consumptive capacity of the agricultural population.

The wholesale ruin of the peasantry is a fact; it represents one of the chief factors in the diminution of the capacity of the home market to absorb industrial goods and one of the main obstacles in the way of a solution of the crisis on a capitalist basis. An incentive to improvement is not to be expected from Section II.

Just as little can an improvement of the economic position of Germany be looked for in the near future from the world market by an increase in exportation. On the contrary, the new aggravation of the economic crisis, and especially the American banking crisis and the incipient devaluation of the dollar, will render exportation from Germany increasingly difficult. As a matter of fact, German export trade has already markedly declined during the last few months.

German Exports in Millions of Marks.

	Total	Finished Goods	Export Surplus
Monthly Average, 1932	478	374	79
January, 1932	542	417	102
February "	532	423	97
March "	527	417	163
December "	491	387	68
January, 1933	391	299	23
February "	374	284	27
March "	426	337	64

The pronounced decline in the last three months is due—apart from the increased competition of countries with an inflated currency, such as Great Britain and Japan—in the main to the retaliatory measures on the part of countries hit by the exaggerated German measures of agrarian protection and also to the boycott measures adopted by the Jews.

An improvement in the position of the petty-bourgeois masses in connection with a vigorous improvement in the general economic situation of the country, appears altogether out of the question in the near future. National Socialism is consequently faced with the question as to **how the position of the petty-bourgeois masses might be improved for the present moment by an alteration in the distribution of the national income now obtaining.**

In considering this question, we must deal separately with individual circles.

The actual urban petty-bourgeoisie, i.e., small tradesmen, artisans, and the like, attribute their ruin to the competition of capital (department stores, chain stores, co-operative stores), to the exorbitant interest charged on loans, and to heavy taxation. How strong the influence of these circles is within the National Socialist Party, is proved by the wholesale attacks on chain stores and especially Jewish stores in almost all the cities and by the

* Weekly Report of April 12th, 1933.

† In so far as not already included under "Textiles and Clothing."

official boycott of all Jewish shops, albeit only for the duration of one day.

Can Hitler cause the department stores, chain stores, and Co-operative stores to be closed down? No. They are intimately associated with the big capitalists and the banks and are not to be separated from monopolist capital as a whole.

National Socialism, the tool of monopolist capital, cannot allow its adherents from artisan and tradesman circles to eliminate their big capitalist competitors by means of terrorism. If they cannot be brought to heel, Hitler will have them beaten up by his gangsters.*

Can Hitler deliver the artisans and small tradesmen from the clutches of the money lenders? No. He can accord individuals cheaper credit out of government means, corrupt a few here or there, but he can no more deliver the entire class from the burden of interest payments than Mussolini could in Italy.

Can Hitler deliver the artisans and tradesmen from the burden of taxes? The difficult financial position of the "Reich," the municipalities and boroughs, and also the interests of monopolist capital would not allow of such a solution.

In the struggle between the urban petty-bourgeoisie and monopolist capital, Hitler must and will side with the latter. All he can and will do is to increase the oppression of the working class, abolish the small remnants of social insurance, and the like. But this will not tend to impede the relentless process of deterioration in the position of the petty-bourgeois masses.†

What can Hitler do for the wealthy and middle peasantry, which represent probably the most important mass basis of National Socialism?

The broad masses of the peasantry were captured by Hitler not in opposition to the great landowners (as at the commencement of the movement, when the slogan of expropriation of the large landed estates was first proclaimed), but in **co-operation with the landlords.** The Agrarian Union, which unites great masses of the peasantry under the leadership of the agrarians, claims the merit of having brought about the downfall of Schleicher by its violent attack on him on January 11th, while the agreement between Hitler and Hugenberg was negotiated by Count Kalkreuth, chairman of the Agrarian Union.

What can Hitler do for the broad masses of the peasantry within the limits of monopolist capital? In answering this question, we must in the first place consider the following facts:—

By reason of the catastrophic decline in the aggregate income of the workers, employees, and officials and the consequent falling off in the consumption of foodstuffs in the face of a simultaneous increase in the supply of agricultural products, Germany has become a virtually self-supplying country in this regard. Home prices are no longer equal to world-market prices, plus customs duty, but are becoming dependent on the purchasing power of the urban consumers, i.e., in the first place the workers. The autarchic supply of foodstuffs, so long serving the "Junkers" as a slogan for their tariff-increasing policy, has now been realised and has very greatly negated the effect of the higher tariffs.

The fate of the German peasantry has by this development been connected immediately and indissolubly with the fate of the German working class. The prices which the German farmer obtains for his products are, with few exceptions, dependent no longer on the level of world-market prices and duties but on the income of the working class. This is quite particularly the case in regard to the products predominantly raised by the peasant farmers, viz., meat milk, butter, and the like.

The general attack on the wages of the working class now to be effected by monopolised capital with the aid of fascist terrorism, must therefore necessarily lead to a further deterioration in the position of the peasantry. In this connection it should be pointed out that the prices obtained by the middle and poorer farmers on the market (in the face of a constant over-supply) from the mono-

* The turnover of the department stores, moreover, figures at no more than 4 per cent. of the aggregate turnover of retail trade, so that their disappearance would make no difference to the need of the tradesmen and artisans.

† The "Chief Association of Retail Trade" raised the demand, on March 15th, for a prohibition of the establishment of new department stores and chain stores and the introduction of an initiation tax for all new small individual businesses. A return to the medieval guild system. In Italy, it will be remembered, new concerns, whatever their nature, can be established only by permission of the government.

poly organisations controlling all business in their products, are yet far lower than the officially established "average prices" in the urban centres of consumption.

Under such circumstances, the burden of interest on the debts accumulated by the farmers during the period of stabilisation—partly for productive investments, and to a great part (particularly among the Prussian Junkers) for mere purposes of consumption—has become altogether unbearable.

While the prices of the vegetable foodstuffs, placed on the market mainly by the Junkers, are still in advance of the prices of industrial products, the prices of peasant produce have sunk below this level, so that the peasant farmers suffer under a marked prevalence of the economic "scissors." No customs increases, quotas, or import prohibitions have been able to stay the price depreciation.

Agricultural Indebtedness and Burden of Interest in Millions of Marks.

	End of the Year.*						
	1913	1925	1927	1929	1930	1931	1932
Established debts (a)	13,000	3,223	5,685	7,343	7,812	—	—
Estimated debts (b)	4,200	5,000	4,200	4,050	3,850	—	—
Together	17,200	8,223	9,885	11,393	11,662	11,700	—
Burden of Interest ...	800	610	785	950	950	1,010	850
Ditto percentage of gross proceeds ...	—	5.6	7.3	8.9	9.7	10.7	13.8

The farmers are looking to Hitler for a speedy amelioration of their position. This the Hitler government is absolutely unable to bring about for the simple reason that the position of the working farmers under the given circumstances can be improved only on the basis of a general improvement in the position of the urban consumers, i.e., in the first place of the workers, clerks, and employees. What little could be done for the improvement of the situation of the agricultural producers within the limits of capitalism—in which connection the big landowners to the east of the Elbe naturally grabbed the lion's share—was already done by the governments of Brüning, Papen, and Schleicher.

As regards taxation, it is not possible either, in view of the bad position of government finances, to reduce taxes any further, especially seeing that the level of taxation of the agrarians, big farmers, and middling farmers is already very low.

As an **abstract theory**, there still remains the possibility of reducing the prices of such goods as the farmers require and of liberating them from exploitation by monopoly capital. This the Hitler government, which stands for the interests of monopoly capital, can naturally not think of doing.

The outcome is that the Hitler government has no possibility whatever of improving the position of the peasantry, so seriously scourged by the agrarian crisis, or of keeping so much as one of its numerous promises. It is not for nothing that Hitler calls for a period of four years for the realisation of his programme. On the contrary, the position of the peasantry must necessarily continue to decline as a consequence of the deterioration in the position of the working class.

If this is the case in regard to the peasantry as a whole, it is all the more so in regard to the **poor section of the peasantry**, representing, in view of the present acute agrarian crisis, practically half of the entire peasant class, since the middle peasants are being rapidly impoverished. The land of the big landowners they will certainly not get at Hitler's hands. As sellers of their labour power they will be worse off than ever before.

What can Hitler do for the Clerks and Employees?

For all of them as a class, nothing! On the contrary, their position must continue to decline for the same reasons that render the position of the workers worse and worse. The great bulk of the clerks and employees are in the service of capital; their salaries form the "faux frais" of the capitalist method of production. The financial capitalists have placed Hitler in authority in order to be able to pay lower, and not higher, salaries.

The only thing Hitler can do—and this is already being done with a vengeance—is to procure his adherents jobs, or at any rate **better jobs**, at the expense of people of other political opinions. From the State apparatus, from the municipalities, from the banks,

* Culled from various weekly reports of the Institute for Business Research. (a) Real credits, medium-term credits, short-term credits; (b) appreciative mortgages, land-transfer mortgages.

and from all concerns in any degree dependent on the State (as, e.g., the publishing concerns), all "Marxists" and Jews are being expelled and replaced by National Socialists. This process of "purging" extends from the President of the Reichsbank to the managers of concert-houses and down to the humblest cashiers. After having at first set in as an elementary development, this process was soon standardised and legalised by means of the law for the "Restoration of Officialdom" and by the introduction of a percentage restriction of the number of Jewish lawyers, doctors, and teachers. But all such measures are merely alterations within the class of officials; the position of the whole enormous class of some six million people will inevitably deteriorate, seeing that the financial capitalists are bound to demand, and also to effect, a reduction of the salaries.

The fact that Hitler provides for his adherents at the expense of the ousted Social Fascists, is the chief reason rendering impossible a wholesale defection of the Social Fascist officials to the Fascist camp, willing as they would be thus to change sides.

The squabble over jobs is at the same time one of the most important factors in the friction between the National Socialists and the other bourgeois parties, especially the German National Party.

The theses of the Comintern on the situation in Germany ably sum up the impossibility of an improvement in the lot of the petty-bourgeois masses:

"There is absolutely no possibility of providing offices and employment for all the adherents of the National Socialist Party. To make room for the National Socialists now obtaining jobs, other workers will have to be dismissed. The prolongation of the moratorium until October and the introduction of a quota system for agricultural products from abroad will only suffice to satisfy a small group of the wealthiest peasants for a very short time, but cannot stay the increase of want, misery, and discontent among the broad masses of the peasantry. The demagogic actions against the department-stores and the Jewish capitalists will not entail any aid for the suffering petty-bourgeoisie, whose position will deteriorate to the extent of the further decline in the purchasing power of the proletariat."

Hitler's Regime Must Involve Germany in Catastrophe

Though part of the German financial oligarchy has long been supporting and financing the fascist movement, it was only hesitatingly and with serious misgivings that the bourgeoisie entrusted Hitler with governmental authority. As recently as last August, it will be remembered, Hindenburg still flatly refused to appoint Hitler Chancellor.

The cause of the hesitation and vacillation on the part of the bourgeoisie was the internal struggle among its individual groups, a struggle which was considerably augmented during the crisis, when—to quote the words of Marx—it was a question "of sharing not the profit, but the loss." The agrarians found themselves in opposition to the industrialists, the heavy industries to the finishing industries, the exporting industries to the agrarians, loan capital to industrial capital, and so forth. There was, moreover, a certain fear that Hitler, or at any rate, Goering and Göbbels, representing the so-called "Left" wing of the Party, might after all take their "anti-capitalist" programme somewhat seriously. Furthermore, there was a desire on the part of certain sections of the bourgeoisie to continue making use of the tried services of social-fascist leaders in the voluntary, peaceful subjugation of the working class to the yoke of capitalism (as under the rule of the "social general" Schleicher), all the more so seeing that the fascists were (and still are) but **poorly represented in the factories**, while the "National Socialist Factory Organisations" had no authority at all with the workers.

That, after a lapse of six months, the bourgeoisie should yet have decided to entrust the government to Hitler, was a consequence of the rapid development of the revolutionary crisis, of the visibly dwindling influence of the social-fascist leaders, of signs of an incipient dissension in the National Socialist camp, of the rapidly-growing influence of the Communist Party, and of the successful adoption of united front tactics. In particular, it was the Berlin traffic workers' strike, in which Communist, social democratic, and national socialist workers took part under the lead of the Communist Party of Germany, that seriously alarmed the bourgeoisie.

An important inducement, moreover, lay in the recognition that the ordinary ways and means employed for the purpose of overcoming the crisis, had proved inadequate. About two-thirds of the German enterprises are at the present moment virtually bankrupt. Though certain monopoly enterprises continue even at present to net handsome profits, the aggregate company capital of Germany may be said to be working at a loss under the serious crisis of the present time.* The only hope of restoring the exploitation of capital at the expense of the proletariat lay for the capitalists in the employment of measures of fascist terror.

But even in the formation of the Hitler government, the bourgeoisie attempted to keep the fascists away from the most important positions in the Cabinet and to leave them merely the task of organising propaganda and terrorism against the working class. However, the victory of the fascists at the polls and their ruthless appropriation of all the key positions, have ensured for them a practically complete monopoly in representing the interests of the bourgeoisie. The **Stahlhelm**, the last non-National Socialist semi-military organisation, has been forced to recede more and more in favour of the National Socialists and to range itself under Hitler's leadership. In view of the fact that, in spite of the momentary retreat of the German proletariat, and in spite of fascist terrorism, the revolutionary crisis in Germany has by no means been overcome, the bourgeoisie cannot make up its mind to risk an open armed conflict between its rival organisations. But pretty speeches are of no avail to restrain Hitler's hordes. The position in this conflict of the Reichswehr, the ultimately decisive military authority, is meanwhile rather vague. All these problems reflect the antagonisms within the bourgeois camp, which have been greatly accentuated on the basis of the economic crisis.

At the same time it is a fact that at the present juncture the bourgeoisie looks to the **Hitler government** for a solution of the problem of German capitalism and of a capitalist way out of the crisis.

Which, then, is the way the Hitler government elects under the circumstances?

It elects the way leading to inflation, to war, and to an inevitable catastrophe.

For several years, the stability of the German mark has been purely artificial. The mark has been propped by the moratorium for reparations payments, by the Standstill Agreement, and by a drastic restriction of imports. But if stability is to be maintained on this basis, it is essential that foreign trade should show a surplus of more than one hundred million marks. According to official estimates, Germany's indebtedness to foreign countries (even without the 3,000 million marks of residuary payments for reparations under the Lausanne agreement) figures at 22,950 million marks, over against which there are unestablished claims on foreign countries amounting to a few thousand millions at the most. This indebtedness and the redemption payments thereon, as provided for by the Standstill Agreement, call for a sum of about 1,500 million marks per annum. The foreign trade surplus, meanwhile, figured in the first quarter of 1933 at no more than 117 millions, as against 362 millions in the first quarter of 1932, although the month of March is for seasonal reasons the best month in the year from the point of view of foreign trade. As a result of the retaliatory measures adopted on all sides in answer to the ruthless autarchic policy of the Hitler government, in consequence of the boycott of German goods organised abroad under cover of a protection of the Jews, and by reason of the general all-round shrinkage of foreign trade and of the inflation in the United States, German exports are bound to dwindle yet further. German capitalism, at all times economically weak, will not be able to maintain the parity of the mark, if the big competitor countries, Great Britain, Japan, and the United States, abandon the gold standard.

A further factor of inflation lies in the tremendous deficit of the State budget, which will be yet increased by the growing expenditure for armaments. The replacement of Luther by Schacht as President of the Reichsbank and the demonstrative repayment of

* According to "Wirtschaft und Statistik" (various issues), 1,711 big joint-stock companies (out of a total number of about 10,000), representing an aggregate capital of roughly 17,000 million marks (out of some 24,500 millions), published their balance sheets between July, 1931, and July, 1932. They showed a total loss of 1,258 million marks. It may be assumed that the balances of those concerns which published no balance sheets were still considerably worse.

the international gold credits of the note-bank, causing the gold cover of the mark notes to sink to little more than 10 per cent., clearly indicate which course the government has adopted.

For the majority of German enterprises, which are threatened with insolvency, and for the hopelessly indebted German landlords, a payment of debts by means of inflation represents the easiest way of avoiding bankruptcy.

Inflation would at the same time relieve the Hitler government of the necessity of making a **direct** attack on the wages of the workers, since the same object would then be attained automatically.

Both objective circumstances and the interests of the bulk of the bourgeoisie tend in the direction of inflation, which it will certainly no longer be possible to avoid.

But the hope of the bourgeoisie that inflation might bring a solution of the crisis, is altogether unfounded. Inflation never does more than provide a temporary stimulus to capitalist production, and at a certain stage always turns into an obstacle. Under the present circumstances, inflation would be altogether catastrophic in Germany for the working classes, for the clerks and employees, and for the petty-bourgeoisie, without involving even a temporary marked alleviation for the capitalists. This is to be seen not only by the example of Great Britain and Japan, but also by an analysis of the tangible facts in Germany itself.

The advantageous influence on business of inflation, as long as it is in operation, consists of the enhanced competitive capacity of the inflation country on the world market and of the tendency at home for people to "make sure of their money" by buying articles of value. In the first-named connection, it is obvious that the more countries have recourse to inflation, the smaller must be the advantage of an increased competitive capacity on the world market for such as subsequently adopt it. If Great Britain and Japan have temporarily benefited on the world market by inflation, Germany, adopting inflation at a later date than its principal competitors, will find but little increase in its world-market sales, all the less, indeed, seeing that, in view of the almost complete foreign-political isolation of Germany, a German inflation would lead to a yet more strenuous boycott of German goods in many countries.

As regards the increased investment of money in goods on the home market, there would at the commencement of inflation undoubtedly be an enhanced purchase of native raw materials and of such articles of consumption as are not needed for day-to-day purposes (e.g., furniture, footwear, clothes) on the part of the more pecunious sections of the population. (In view of the long duration of the crisis, the working class has no money to invest in articles of value.) What is of decisive importance, however, is the fact that no substantial investitory activity is likely to ensue in the way of the construction and equipment of new factories or dwelling-houses or the renewal of fixed capital. After the bad experience made in connection with the great expansion of the German productive apparatus in the period of stabilisation preceding the present crisis, and in view of an exploitation of the existing apparatus to no more than 30 per cent. of capacity, a really pronounced investitory activity with a wholesale purchase of goods is altogether out of the question.

Inflation will "restore" the greatly indebted, bankrupt enterprises at the expense of loan capital, accelerate the expropriation of the petty-bourgeoisie, and further augment the exploitation of the working class by diminishing real wages, without by any means entailing full employment of the working class, as was the case in the inflation period following the war. **The want and misery of the working-class and petty-bourgeoisie will assume gigantic proportions, but there will not be any capitalist way out of the crisis.*** On the contrary, inflation will accelerate the maturing of a revolutionary situation, by causing the petty-bourgeoisie, now hypnotised by the fascists, whose rank and file they form, to turn against Hitler.

In its very nature, meanwhile, the economic policy of the fascists is a feverish preparation for war.

German financial capital attributes its particularly serious position in the first place to the system of Versailles. As a matter of fact, the situation of German monopolist capital embodies a

peculiar contradiction, for though, in so far as the concentration of production and its comprehension within monopolies is concerned, monopolist capitalism has attained its highest development in Germany, it is wholly devoid of colonies and monopolistically controlled foreign markets, while the possibility of supporting goods exports by capital exportation is extremely limited. All in all, Germany is greatly indebted to foreign countries instead of possessing great capital investments abroad like any "normal" imperialist state. By reason of the geographic encirclement of Germany by France and its vassal states in consequence of the Versailles system, Germany is deprived of the possibility of acquiring a "sphere of influence" towards the East. The German financial oligarchy has set itself the task of re-establishing the old frontiers of Germany, at least on the Eastern side and, now that the reparations obligations have been practically annulled, also of breaking the territorial fetters imposed upon it by the Peace of Versailles.

These endeavours of the bourgeoisie coincide completely with the special requirements of the National Socialist Party now in power. One of the chief means for gaining the support of the petty-bourgeoisie was the demagogic agitation against the foreign policy of the Marxists and the incitement of the petty-bourgeoisie's chauvinist and militarist instincts. Since, as we have already pointed out, Hitler is not in a position to offer the petty-bourgeoisie any other advantages, he is all the more obliged to conduct an "energetic" foreign policy.

Save in relation to Italy, Hitler's foreign policy has already led to a catastrophic isolation of Germany. The endeavours of the German fascists to escape this isolation at the expense of the Soviet Union by aspiring to take the lead in a war of intervention against the latter, will very likely be frustrated by the existing inter-imperialist differences.

Though it is therefore not yet apparent against whom Germany will make war, armaments are already being produced at a feverish pace. The immediate object in view is the establishment of a complete autarchy in regard to foodstuff supplies, with particular reference to the supply of fats, which was the weakest point in Germany's self-provision of foodstuffs during the war. It is to this end that the Hitler government has effected the most important economic measure it has so far enacted, the introduction of a State monopoly for the import of fats and the restriction of the margarine output to 60 per cent. The purpose of these measures is to develop with enormous rapidity the native production of fats in place of the importation of foreign fats (margarine, butter, oils, and animal fats), which in the year 1932 still figured at 760,000 tons. To this end, the price of margarine has been tremendously increased. The duty on margarine and cooking-fats has been increased from 30 or 12½ marks, respectively, to 75 marks per 100 kilogrammes, besides which a tax of 50 marks per 100 kilogrammes has been introduced on all margarine consumed within the country. Thus it is intended to render margarine so expensive as to make profitable the home production of oil plants (oilseed, rape oil, and beet oil). At the same time, the home production of butter is to be vigorously promoted by raising the market price of margarine to at least four times its present level.

Self-sufficiency in the case of war is likewise to be fostered by a number of customs increases in regard to all sorts of foodstuffs and raw materials, cattle, pigs, fresh meat, meat preserves, herrings, and timber.

The second important measure tending in the direction of preparedness for war, is the exemption from **taxes of all newly acquired automobiles**. Thus the possession of automobiles by private persons will be facilitated and automobile production promoted. This is a step in the direction of a mechanisation of the Army. Newspaper reports state that the German automobile factories are now working to full capacity for the purpose of supplying the German Army with automobiles and tanks.

The third highly important measure in the direction of war preparedness is the intended and partially commenced transformation of "vountary" labour-service into a **general obligatory labour-service of all youths**.

According to this far-reaching plan,* 550,000 youths of less than 25 years of age are to be compulsorily recruited every year for labour-service and to serve for two years, so that in one year's time

* There can be no question of a "regulated" inflation in view of the weakening of German capitalism and the terrible experiences of the inflation following the war; once the depreciation of the mark sets in, it will acquire exaggerated dimensions, since everyone will endeavour to save in good time whatever is still to be saved.

* v. the book by Hellmuth Stellrecht, expert adviser to the National Socialist Party on "German Labour-Service" ("Der deutsche Arbeitsdienst"), published by Mittler and Sohn, Berlin, 1933.

1,000,000 young men will be constantly employed in this way. The work is to consist of agricultural improvements (land reclamation, irrigation, cultivation of bogland, anti-inundation work, road construction, and the like). The workers are to receive sleeping accommodation, military clothing, board, and 40 pfennigs each per day. The whole thing will be organised on absolutely military lines, with "strict discipline," bodily exercises, "war games," and "political" instruction, a Reichwehr soldier being in charge of each group and a captain in command of each division, staff officers acting as inspectors. "The inspectional corps of the labour-service will thus constitute regular army corps of labour, united under the command of an army leader." (P. 78.) The entire organisation will represent a camouflaged standing army. "Upon the reintroduction of compulsory military service it is to be expected, that the German youth will be liable to only one year of labour-service and one year of army service." (P.74.) The yearly expenditure is estimated at 1,068 million marks, of which total 202 millions are, characteristically enough, to be employed for the pay of the "leaders," i.e., the staff of officers. (P.141.)

We do not believe that this plan can be immediately carried out in its entirety; the German budget, already labouring under a deficit of many millions, could hardly bear such a tremendous load. A few hundred thousand young men will, nevertheless, be enrolled.

The means for an increase of war preparedness will be obtained at the expense of the workers, mainly by means of a further restriction; if not, indeed, an entire liquidation, of the remnants of national insurance.

The great problems of German economy: the constant unemployment of the broad masses, the wholesale ruin of the working peasantry in consequence of the agrarian crisis, which is bound to increase by reason of the diminution in the income of the workers, the virtual bankruptcy of the majority of the capitalist enterprises, and the absence of profits on company capital in its entirety (in spite of the big profits of certain monopolies, the war industries in particular), can none of them be solved or satisfactorily dealt with by fascism. **On the contrary, the fascist policy must necessarily lead Germany into economic and political ruin, into inflation and war.**

II. The American Banking Crash and the End of the Gold Standard

As from the middle of February, the United States has been experiencing a renewed outbreak of the credit crisis, which early in March reached its height in the form of a banking, monetary, and currency crisis and led to the closing down of all banks and exchanges and to the abandonment of the gold standard.

This acute outbreak of the credit crisis once again demonstrated how wrongly the bourgeois business research and banking experts in America judge of the situation of American economy. No big runs or bank failures having taken place between June, 1932, and the end of the calendar year, it was generally announced that the credit crisis had been overcome. On the other hand, we had occasion to write as follows in our Survey of November 12th, 1932:—*

"The mitigation of the credit crisis in the United States is not the outcome of a natural development but is occasioned by the forcible propping measures undertaken by the Reconstruction Finance Corporation in the interest of the big capitalist enterprises threatened with insolvency. There is no guarantee that this gigantic expansion of credit will not lead to a catastrophe."

If we are to grasp the importance of a suspension of all banking activity in the United States as a symptom of the tremendous severity of the credit crisis, we must bear in mind that such a thing never happened before in the entire history of America. There were three occasions, it is true, when nearly all the banks were closed down, viz., in 1819, in 1837, and in 1857. Since 1857, i.e., in a period of 76 years, a period comprising the development of monopolised capital, there was no further recurrence of such an event.

The theoretic possibility of banking crises is at all times given in view of the internal contradiction embodied in the modern system of banking and analysed by Marx in "Capital." The nature of this contradiction lies in the fact that the banks accumulate the cash in

hand of the various enterprises and the savings of private individuals in the form of deposits with the implied obligation to repay them on demand in the form of cash to the depositors at any moment (or upon quite short notice of removal). In every capitalist country, the sum total of deposits many times exceeds the total of the respective country's entire means of circulation. In the United States, e.g., the total of deposits amounts to more than 40,000 million dollars, while the sum total of all money in circulation figured before the banking crisis at less than 6,000 millions. The deposit system is based on the presumption that at any given time only a fraction of the depositors will demand the repayment of their deposits in cash and that the circulation of goods is effected predominately not by means of cash but by transfers from one deposit account to another through the medium of cheques. Thus, in December, 1932, transactions without the use of cash figured in the United States at no less than 26,000 million dollars.

As soon as the said presumption fails to apply, that is to say, as soon as the depositors, or the great majority of them, simultaneously demand the payment of their deposits in cash, as was the case in the United States in February last, a monetary general insolvency must naturally ensue, followed by the closing down of all the banks.

It is a question of finding out how it was that, contrary to all usages, such a panic broke out in the United States as induced such a great number of depositors to demand the immediate repayment of their deposits. The starting point of this panic was twofold:

- (1) Distrust of the solvency of the banks.
- (2) Distrust of the stability of the paper dollar and the consequent endeavour to exchange banknotes for gold, thus giving these precarious assets the form of the general equivalent, the unassailably secure form of gold. In other words, the credit crisis assumed the form of a banking and currency crisis.

The distrust of the solvency of the banks was thoroughly well founded.

During the years preceding the outbreak of the economic crisis, 5,000 of the 30,000 odd banks in the United States went bankrupt. During the crisis there were constant bankruptcies.

	Banks	Deposits in Millions of Dollars
1929	642	235
1930	1,345	865
1931	2,290	1,789
1932	1,453	730
	5,730	3,619

Thus, during the crisis, more than 5,000 banks with an aggregate deposit total of more than 3,500 million dollars went bankrupt.

What is more important still, however, is the fact that by reason of the crisis practically all the banks and the majority of capitalist enterprises have become virtually bankrupt. The chief cause of this state of affairs is that, in view of the great price drop, the credits granted by the banks to their clients have become devoid of all security. This condition is characteristic not only of the United States, but it is quite particularly pronounced there as a consequence of the great degree of speculation in the preceding phase of prosperity.

As we have repeatedly pointed out, the price level created after the crisis of 1920-21, which was about 50 per cent. higher than that obtaining before the war, was far in advance of the real value of the goods. Since the productivity of labour greatly increased between 1913 and 1929, i.e., as each unit of production represented on an average a smaller amount of elapsed working time in 1929 than in 1913, and since there was no technical revolution in the production of gold within this period, such as might have decreased the value of gold far more pronouncedly than the average value of goods had been diminished, the reduction in the crisis of 1920-21, of the prices enhanced during the war down to an index of 150 per cent. was by no means sufficient to bring back the prices of the goods to their real value as expressed in gold. The divergence of values and prices continued, and a further serious crisis was needed to reduce the price level to the value level (or, as at present, even below it).

The banks, meanwhile, had accorded their debtors credits on securities which were valued on the basis of the high prices of pre-crisis times, i.e., credits on real estate, building sites and houses, and shares. The volume of credit was very greatly expanded on this basis in the phase of prosperity; the expansion of credit was several times as large as the expansion of the volume of output.

* "Economy and Economic Policy in the Third Quarter of 1932." Inprecorr.

After the commencement of the crisis and the tremendous drop in the price of goods, which naturally entailed an equally marked decline in the price of real estate and an even more rapid fall in share quotations, the debtors were not in a position to repay their debts to the banks. The banks' claims "froze." The result was that the volume of bank credits was only very slightly restricted in spite of the 50 per cent. decline in production and the 40 per cent. price drop. The loans and investments of those banks which belong to the Federal Reserve System diminished in the aggregate by 7 per cent. in 1929, 3 per cent. in 1930, 12.1 per cent. in 1931, and 10.8 per cent. in 1932. The main reason of this small restriction of credits was that a tremendous proportion of the bank credits were "frozen." While credits in the form of the discounting of commercial bills had declined pretty considerably in the course of the crisis (from 34.6 per cent. of the outstanding claims of the Federal Reserve banks at the end of 1929 to 21.9 per cent. at the end of 1930), the banks' holdings of shares increased very greatly. Since the debtors, who had received money from the banks by the pledging of shares, could not pay their debts by reason of the depreciation of the said shares, the banks were forced to take possession of the hypothecated shares. The virtual losses thus sustained were veiled in the banks' balance-sheets to a great extent by a valuation of the shares considerably in advance of their actual quotations. The activity of the *Reconstruction Finance Corporation* and other government institutions, which granted credits to the banks and other enterprises threatened with bankruptcy, only contributed to expanding the volume of credit, or rather to preventing its necessary restriction.

This entire policy was based on the presumption that the crisis would be shortlived and that the difficulties of the banks and industrial enterprises arose from a *lack of means of payment*. Or, more generally expressed, that the economic crisis in general and the credit crisis in particular could be cured by an expansion of credit from the money side. This policy was naturally bound to lead to the general and violent outbreak of a banking catastrophe.

The banking collapse was thus an immediate outcome of the economic crisis, which entailed an extraordinary fall of prices in keeping with the peculiar circumstances of post-war times and involved the bankruptcy of the majority of the farmers and house-owners and of a great portion of the industrial enterprises.

Bankruptcies of industrial enterprises have in the course of the crisis become more and more numerous and the sums involved more and more considerable.

	No. in Thousands.	Liabilities in Millions.
1929	23	483
1930	26	668
1931	28	736
1932	32	928

The crisis has, moreover, swept away the profits of the majority of those industrial and commercial enterprises which have managed to escape actual bankruptcy. According to a computation in the March issue of the *Bulletin of the National City Bank*, 840 enterprises, with a share capital of 16,000 million dollars, reported for the year 1932 a net loss (after the deduction of profits from losses) of no less than 15 million dollars.

The Monetary Crisis

The connection between a bank crisis and a monetary crisis is by no means uniform. In Great Britain there was a currency crisis but no banking crisis, while in Germany there was a collapse of the banks without any pronounced monetary crisis, in which connection, it is true, the special circumstances in Germany (the moratorium for foreign debts and the strict control of foreign trade and foreign exchange transactions) played a considerable rôle.

The monetary crisis in the United States was most perceptible in the wholesale conversion of the withdrawn deposits into gold in the month of February. This panicky abandonment of paper money in favour of gold, it will be remembered, led to a withdrawal of large quantities of gold from the Federal Reserve system, which could only be checked by the suspension of the obligation to exchange notes for gold and by an embargo on gold,

i.e., by the virtual abandonment of the gold standard. How terrific the run on the monetary institutions was may be seen by the fact that between February 11th and March 11th the total of money in circulation rose from 5,800 to 7,600 million dollars, while at the same time the gold holdings receded by 300 millions.

The distrust of banknotes was in the first place not due to the diminution of the gold cover, which still remained considerable even after the great expansion of the note circulation, but was rather a lack of confidence in the state finances, in which connection importance attaches to the fact that economically considered, the banknotes in circulation increasingly acquired the character of governmental paper money.

The "quality" of the banknotes continued to decline by reason of the fact that the notes, the cover of which ought, apart from gold, to consist of commercial bills, were increasingly replaced by notes issued on the basis of government securities; this was particularly the case after the passing of the Glass Bill. The sum total of the gold certificates in circulation dropped from 880 at the end of 1929 to 590 at the commencement of 1933, while that of the banknotes of the so-called "national banks" advanced from 600 to 800 millions, the cover being almost exclusively in the form of government securities. The gigantic deficit of the government budget and the more and more urgent demand, on the part of the farmers, the banks, the insurance companies, and other circles, for a reduction in the gold value of the dollar, i.e., for a regulated form of inflation, played a great rôle in inducing the owners of money to change their paper money into gold. The same motive caused the European banks with dollar accounts in America, hurriedly to convert them into gold. In February alone, 1,895 million dollars worth of gold was earmarked for foreign accounts, the effect being to increase the distrust of the stability of the banknote value in the country itself.

Outcome of the Monetary and Banking Crisis

After having been closed for ten days, the United States banks were reopened, save for the 5,000 which were admittedly bankrupt. To prevent a renewed run, the Federal Reserve system was authorised to issue additional banknotes to the amount of 2,000 million dollars, covered by securities, and to place them at the disposal of the banks. Furthermore, the withdrawal of deposits was restricted to a certain proportion of the individual holdings. Thirdly, not only was the redeemability of the banknotes in gold suspended, but every one was obliged to surrender his gold holdings, over and above a small quota, to the Federal Reserve banks. In particular, those who had during the last few months withdrawn larger amounts of gold from the banks, were instructed to redeposit it there. By this means a recurrence of the run on the banks after their reopening was obviated. The 2,000 million dollars worth of banknotes held in readiness proved to be superfluous; on the contrary, when the banks had reopened the note circulation again receded between March 1st and April 1st from 7,500 to 6,400 million dollars. Optimism has thus returned, and once more people in the United States are speaking of the crisis having been overcome and of an incipient revival.

But the banking crisis is by no means terminated. Those 5,000 banks, which had to be sacrificed, were for the main part small provincial banks, only loosely connected with the big New York banks, the strongholds of financial capitalism. The 15,000 banks which were reopened are practically in the same position as before the crash. The solvency of their debtors has in no way improved. Their claims are just as frozen as they were before. Therefore a further bank collapse can and will take place, as soon as, and in such degree as, the withdrawal of deposits is once more allowed. By the restriction of the right to withdraw deposits, the solvency of these 15,000 banks is artificially maintained, but this in no way alters the fact that the majority of them are virtually bankrupt and can only be rendered solvent either by inflation or else by a vigorous revival in connection with a pronounced appreciation of share quotations and the prices of goods. The much-vaunted measures of Roosevelt represent no solution of the American bank problem, but only an artificial postponement of the ultimate forcible solution in the form of a gigantic wave of insolvencies.

Meanwhile, the closing down of 5,000 banks certainly makes for a marked *centralisation of banking capital*. At the same time, a violent struggle has ensued between the two great financial concerns, the Morgan and the Rockefeller group, a struggle

in which the Rockefeller group has for the time being the upper hand. In connection with the bank collapse, the Senate appointed an investigatory committee, which inter alia inquired into the business management of the New York National City Bank, the leading bank of the Morgan group. The cross-examination of Charles Mitchell, general manager of this bank, brought to light such extensive corruption that Mitchell was temporarily arrested and obliged immediately to retire from his position. It transpired that during the last few years he had been drawing no less than 3½ million dollars income from the bank; that he and his fellow-managers were wont to cover their losses on stock exchange speculations out of the funds of the bank, whereas the clerks of the bank, to whom shares had been sold at high prices, were obliged to defray their losses in full in the way of deductions from their salaries; that, furthermore, Mitchell evaded the payment of income tax by apparently selling his securities at low prices to his relatives and deducting the apparent loss from his income; that bonds of the government of Peru to the amount of 50 million dollars had been foisted on the public at a time when the bank was already aware that Peru was about to become insolvent. The outcome of these investigations was that the deposits of the National City Bank declined by 250 million dollars.

At the same time, Aldrich, general manager of the Chase National Bank, the principal bank of the Rockefeller group, came forward with a project for the reformation of American banking. The plan consists in a prohibition for the deposit banks to undertake the emission of securities, that is to say, a severance of deposit banks from emission banks, together with stringent regulations as to the emission of securities, similar to those in force in Great Britain, where banks of emission are materially responsible for the truth of their prospectuses. This plan is directed in the first place against Morgan. Aldrich's suggestion has already led to the separation of the National City Bank Company, the emission institution of the National City Bank, from the latter, to be followed most probably by its entire liquidation.

Since some of the industrial enterprises controlled by Morgan, such as the Steel Trust and General Motors, are now also beginning to operate at a loss, and as the Senate has resolved also to extend its investigations to the private banking houses occupied in emission business, i.e., in the first place to Morgan's own bank, it is by no means impossible that Morgan's predominant position will be undermined, especially in case of a further duration of the economic crisis and a renewed acute outbreak of the banking crisis.

The idea of a reduction of the gold value of the dollar from 23.8 to 15 or 16 grains is advocated by no less a person than Wallace, the new Secretary of State for Agriculture in the Roosevelt Cabinet.

An inflation in the United States cannot start from the balance of payments, as was the case in Great Britain. The commercial balance of the United States has continued to show a great export surplus even during the crisis. Still greater is the surplus of the balance of payments in view of the great capital investments of the United States abroad (even though a very great portion of the interest, especially that from South America and from Germany, is not paid). Foreign short-termed claims have already been almost entirely discounted, so that there is no probability of even a temporary deficit on the balance of payments as in the case of Great Britain.

Therefore, inflation would have to start in the country itself; this would ensue if more paper money (i.e., banknotes covered by government securities) were pressed into circulation for the purpose of covering the budgetary deficit, which would lead to a vigorous rise of prices and to an internal inflation, leading in its turn again by way of the higher prices and an adverse commercial balance to an adverse balance of payments and a depreciation of the dollar in relation to gold. This is a lengthy process. We can observe how Great Britain, whose trade balance shows its wonted deficit and whose gold holdings are relatively small, has at present to struggle to prevent the rate of sterling from increasing in relation to gold. An internal inflation proceeding along elementary lines, could only ensue in case of a further marked deterioration in the position of the government finances, a development Roosevelt is determined to counteract by reducing the salaries of the government clerks and the pensions of disabled soldiers and also with the aid of the great revenue accruing from the sale of beer following the abandonment of prohibition. (We shall still have occasion

to speak of the inflationist effect of the projected defrayment of agrarian indebtedness.)

There remains Wallace's suggestion of a deliberate diminution in the gold content of the dollar, which would be tantamount to a relative reduction of all debts. The fact that the United States' claims on foreign countries are payable in gold dollars is, however, a serious obstacle to the realisation of such a measure.

On April 19th, while these lines were being written, inflation in the United States actually commenced. Roosevelt issued a complete export prohibition for gold (the exportation of which had hitherto been sanctioned in "well-founded cases," for the payment of foreign liabilities and the like). Under the additional influence of other inflational Bills, e.g., the government credit of 2,000 millions for defraying the unredeemable debts of the farmers, and Roosevelt's application to the Senate for authorisation to accept silver in payment for 100 million dollars worth of war debts and to employ it as money, the dollar rate dropped to 10 per cent. below its gold parity. The long-existing possibility of inflation has become a reality.

That just this moment should have been chosen for the commencement of inflation is due to the fact that Roosevelt desired it to coincide with the arrival of MacDonald in New York. Whereas for the last twelvemonth the United States bourgeoisie has been urging the bourgeoisie of Great Britain to return to the gold standard, while the British bourgeoisie has been trying to persuade the American bourgeoisie on no account to give up the gold parity of the dollar, Roosevelt has now prepared an accomplished fact for the reception of the British Premier. The struggle between British and American imperialism will henceforth be fought with equal weapons. Either inflation in both countries, or else a return to the gold standard in both countries—that is how Roosevelt wishes to present the problem to MacDonald.

Further Aggravation of the Economic Crisis

The acute outbreak of the banking and monetary crisis and the breakdown of the entire banking and creditary system were bound to lead to a fresh accentuation of the economic crisis. That increase in industrial output which ensued in the autumn of 1932 not only failed to continue, but has been followed by a decline. The industrial output of March will prove to have been no greater than at the lowest point of 1932.

The "Annalist" index of industrial production figures as follows for the last few months:

Jan.	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.
(Min.)	55.5	60.4	60	59.7	59.2	57.1	55.8

The falling off of output in March extends to all the components of the "Annalist" index:

	March.	February.	January.
Output of Pig Iron ...	15.5	18.8	18.3
Output of Crude Steel ...	15.8	22.6	21.6
Laden Freight-Cars ...	49.2	53.1	54.3
Output of Electricity ...	—	62.8	63.1
Output of Hard Coal ...	52.8	61.0	54.7
Output of Automobiles ...	23.0	31.7	47.7
Consumption of Cotton ...	—	72.1	74.6
Consumption of Wool ...	—	70.6	72.6
Output of Footwear ...	—	94.9	87.5
Output of Zinc ...	40.0	40.0	36.6
Total Index ...	—	56.3	57.2

In the course of the month of April, newspaper reports speak of another improvement having taken place, which is only natural after the panic of the banking crisis, but which has already induced the American press to start talking again about a prospective revival, an assertion which is completely without foundation in economic facts.

The influx of orders is extremely small. In March, building contracts dropped to a daily average of 2.2 million dollars, the lowest figure throughout the crisis, being less than half that of March, 1932. The index of stocks has hardly altered at all during the last few months. The price rise, which set in at the time of the acute monetary crisis, when the imminent commencement of inflation was presumed, has fallen off again. (The "Annalist" price index rose from 79.8 at the end of February to 82.8 on March 16th and dropped again by April 4th to 81.9.)

With the commencement of open inflation on April 20th, the outward aspect of the crisis has naturally greatly changed: prices of goods are soaring, as are also the rates of industrial shares, while the rates of fixed-interest bearing securities are markedly on the decline. There can, of course, be just as little talk of a boom movement on the basis of inflation in the United States as in Great Britain or Japan.

As regards the presumable extent of dollar depreciation, we consider it likely that it will be smaller than that of sterling and far sooner liquidated by a return to the gold standard with a diminished gold content of the dollar, provided, naturally, that a world war does not break out in the meantime.

As to the prospects of the further development of American capitalism and the position of the working class, interest attaches to the following figures, culled from an article by J. A. Arnold:

Starting from the erroneous presumption that the slower rate of improvement in production in the United States is conditioned by the decreased rate of the growth of population, the writer compares the following returns:

Growth of the Population and of Consumption.

	Percentage Decrease of Population.	Percentage Increase of Consumption per Head.
1869/79	29.4	52
1879/89	25.9	25.4
1889/99	21.1	17.6
1899/1909	21.3	17.8
1909/23	15.9*	15.2*
1923/30	15.2*	7.3*

*Expressed in terms of ten-year periods.

"The percentage figures of the second column are computed from the figures for the volume of consumption, comprising all material goods and all communal services save a few in regard to which there are no satisfactory data available."

The development in the increase of consumption is especially interesting, showing as it does that the gigantic growth of productive forces in post-war times has been accompanied by only a relatively very small increase of the consumption per head, which means that American capitalism has been unable to exploit the productive forces it has created, although the 1923-30 period comprised the famous prosperity phase of American capitalism. It is obvious that a computation for the decade 1923-33 would show no increase, but a decrease, of consumption per head. Since the growth of consumption naturally does not proceed uniformly according to classes, seeing that in the phase of prosperity the consumption of the American bourgeoisie and their adherents must certainly have grown very greatly, the trifling increase of 7.3 per cent. per head of the population within this period shows that the working class of the United States had no share in the increasing prosperity, but that the average consumption, especially that of the working class, probably already declined in the period in question.

The development clearly shows the trend of increasing misery of the working class, the incapacity of the capitalists to exploit the productive forces, the hopelessness of the general crisis of capitalism, and the impossibility of there ensuing a phase of prosperity as in former times.

Aid for the Farmers at the Expense of the Workers

One of the very weakest points in American economy is, and always has been, the catastrophic position of the majority of American farmers. The attempts hitherto made to raise the prices of agricultural products artificially by means of the Farm Board have absolutely failed. Roosevelt means to try another way. On March 17th, a Bill was submitted to Congress, purporting to give the American Government most far-reaching powers for the purpose of raising the prices of farm produce within the country at the expense of the working class. The chief contents of this Bill are as follows:

Object of the Bill:

"To create for agricultural products such market conditions as will raise the prices received by the farmers for their farm produce to a level at which the purchasing power of this produce

in comparison with the goods bought by the farmers will be equal to the purchasing power of agricultural goods in the pre-war period between August, 1909, and July, 1914."*

This price increase is to apply to the staple agricultural products: wheat, cotton, corn, pigs, cattle, sheep, rice, tobacco, milk and milk products.

To render possible this price increase, the Ministry of Agriculture is empowered to enter into negotiations with the producers with a view to the relative restriction of the area under the said products, and that under the obligation not to cultivate any competitive products on the area thus abandoned save by permission of the Ministry of Agriculture. The farmers who effect the respective restriction of their area under cultivation will, in addition to the proceeds realised on the open market, receive from the Government a bonus sufficient to raise the monetary yield of their goods up to the level of 1909-14.

The funds for this bonus are to be raised by means of a duty payable to the Treasury by such industries as are the first to work up the agrarian products. The amount of this duty is to be established by the Ministry of Agriculture on the basis of comparative computations. In the opinion of Wallace, Secretary of State for Agriculture, a bushel of wheat ought to figure at 94 cents, corn at 64.2 cents, cotton at 12.4 cents a pound, pigs at 7.24 cents a pound and cattle at 5.15 cents a pound. These prices would mean an advance of from 30 to 60 per cent. on those at present ruling. (It is not apparent whether these figures represent prices on the farm or prices on the exchange; in the former case, the increase would be one of 100 per cent. or even more.) On exported foodstuffs worked-up by industry, the duty is returned; in the case of those sold on the home market, it is passed on to the consumers.

The object of this measure is the reduction of the area under cultivation by from 25 to 30 per cent. and an increase of the home prices for foodstuffs by anything between 50 and 100 per cent., that is to say, a solution of the agrarian crisis at the expense of the urban consumers, i.e., in the first place the working class.

Even among the authors of the Bill themselves, some doubt prevails as to whether such an increase of the foodstuff prices can be effected without a very pronounced decline in home consumption. Therefore the Bill contains the following passage:

"If the State Secretary for Agriculture finds at any time that the imposition of the tax provided for has entailed or seems to be entailing a material diminution in the quantity of home consumption of the commodities in question, he is to establish a lower tax, so as to maintain home consumption at the same level as hitherto, or to restore it thereto. The amount of the tax is to be revised from time to time from this point of view."

This constitutes the main contradiction in the Bill. It must be obvious to anyone that a doubling of foodstuff prices must inevitably lead to a far-reaching falling off of consumption, especially as regards the more expensive foodstuffs such as milk and milk products, meat and fat. We cannot imagine that Roosevelt and Wallace were so stupid as not to observe this. The clause in question is obviously only destined to calm the perturbed urban consumers. For 14 millions of unemployed who receive no form of relief and whose consumption is in any case greatly diminished already, such a price increase would lead to a catastrophic falling off of consumption.

The prospective regulation and price appreciation of cotton is likewise very complicated. The producers of cotton are to engage to cultivate 30 per cent. less land than last year and not to use more fertiliser than hitherto per acre of cultivated land. So as in any case to cover the consequent loss to the farmers, the latter are authorised to purchase, at the present price and out of the existing cotton stocks of the Federal Farm Board and the stocks mortgaged by the banks, etc. (all of which stocks pass into the hands of the Ministry of Agriculture), a quantity of cotton such as would correspond to the crop of the area left uncultivated. Supposing that in the autumn, in consequence of the diminution of the cultivated area, the price rises above its present level, the farmers have the right either to take over from the Ministry of Agriculture the cotton purchased at present prices or else to demand payment of the difference in the present price and the price in autumn. More popularly expressed, they are thus to earn just as much without work as they would earn if they had cultivated the land in question.

*"New York Times" of March 17th, 1933.

Economically and socially speaking, the nature of the new law is as follows:

(1) An attempt at a solution of the agrarian crisis by an all-round restriction of the cultivated area by 30 per cent., i.e., an open admission that present-day capitalism makes an exploitation of the productive forces impossible.

(2) An attempt to restore the ground-rent to its pre-war level by means of a forcible artificial burdening of the urban population, in particular the working class. (Products consumed by the farmers are free of the duty, if they have been raised on the farmers' own land.)

(3) This law would give the central authorities of the United States a great degree of authority in regard to the agricultural output and the formation of prices, more authority, indeed, than has yet been experienced in any capitalist country, at any rate in times of peace.

(4) The internal contradiction of the solution provided lies in the fact that, as we have already pointed out, such a gigantic price appreciation for foodstuffs would necessarily lead to a pronounced shrinkage of consumption. Furthermore, that any such augmentation of the ground-rent must entail a great aggravation of the class struggle between the bourgeoisie and the proletariat. As a matter of fact, the attempt to shift the cost of the higher ground-rent on to the working class, i.e., to force down wages far below the value of the labour power, must lead to tremendous wage struggles. The workers will fight to shift this burden, in the form of increased wages, on to industrial capital. This is the reason why the Bill met with serious resistance in the Senate. It is, in fact, a desperate attempt to restore the ground-rent to its pre-war level at the expense of the working class or at that of the profit on industrial capital.

Another very important thing about it is that this Bill, like many other laws, indeed, give the President and the central government of the United States too extensive powers, containing quite apparent elements of Fascism. The power of the central government and its virtual independence of Congress, grow more and more pronounced. And since the contemplated great increase in the prices of agricultural products can but lead to very acute class struggles, in which the government will naturally be on the side of monopolised capital against the working class, a further Fascisation of government methods in the United States, with an increased employment of force against the workers, is a practical certainty. Even in the most "democratic" country of the world, this Fascist development, the outcome of the bourgeois attempt to find a capitalist way out of the crisis at the expense of the working class, will make great strides. The "exceptional position" of the United States is being liquidated by reason of the crisis not only economically, but also as regards the political development of affairs.

III. Japan's Struggle for Hegemony in Asia

It will soon be two years since Japan began the war for a re-division of the world by its armed attack on China. Without bothering in the least about either the resolutions of the League of Nations or the threats of the United States, Japanese imperialism is steadily continuing its crusade of conquest. It already holds the whole of Manchuria in its hands and after having seized all the passages in the Great Wall it is continuing its operations to the south of the wall, in China proper. Thus it has opened up strategically the way for a further drive down into the south, to the occupation of Peking, on the one hand, and for a drive towards the west for the conquest of Mongolia on the other. Japan is logically continuing its great plan to obtain the hegemony on the Asiatic mainland, in Chinese waters and in the western half of the Pacific Ocean. Having failed in its attempt to drive from Shanghai, the heart of China, into the inland and conquer the Yangtse Valley simultaneously with its attack on Manchuria, thanks to the resistance of the revolutionary proletariat of Shanghai, Japan then turned its attention to the northern path where the conquest of Manchuria offers a good strategic basis and where also the resistance of the working people is less than in the traditional revolutionary centre, Shanghai.

The following important problems now arise:

(1) Why do the other imperialist Powers, and in particular the United States, permit Japan to seize larger and larger sections of the Asiatic mainland? Why does not the United States answer with war?

(2) In how far has the war, which has now lasted almost two years, affected the Japanese economic system? And, in particular, how has Japan, which is economically weak, been able to bear the burdens of the war?

(3) And what are the prospects of development economically and politically, particularly with regard to foreign relations, and with regard to the development of the revolutionary crisis in Japan?

Why do the other imperialist Powers, and in particular the United States, which is the chief rival of Japan for the command of the Pacific, tolerate the steady advance of Japan?

The reasons for the passivity of the United States towards Japan are to be found above all in the all-round ramifications of the contradictions of capitalism in the present period which represents a general crisis of the system. Or, to put it more concretely:

The fundamental contradiction between the capitalist world and the Soviet Union makes it extremely difficult for the bourgeoisie of the United States to begin a war against Japan, against a Power which would play a very important role in a war of intervention against the Soviet Union in the given concrete circumstances, and which is prepared to play a leading role in such a war of intervention. The American bourgeoisie finds it extremely difficult to decide on an imperialist war against another capitalist Power which would undoubtedly lead to a weakening of the capitalist sector of the world economic system and thus to a big relative strengthening of the power of the Soviet Union. This situation is intensified by the fact that the military occupation of Manchuria by Japan represents the creation of a military barrier between the two breaches in the capitalist world, between the Soviet Union and the Soviet China, which is not only maintaining itself, but even extending, despite all the efforts to crush it.

Despite the acute character of the American-Japanese conflict, inside the capitalist world the decisive antagonism is still the Anglo-American antagonism. The American bourgeoisie cannot decide easily on a war against Japan so long as it has no guarantees that England would not take advantage of an American-Japanese war to secure a military decision of the Anglo-American antagonism, so long as it has no guarantees that in the event of a war with Japan it would not be faced with a Franco-Anglo-Japanese coalition.

The situation is thus that the existence of the main antagonisms between the capitalist world and the Soviet Union, on the one hand, and the antagonism between England and America on the other place serious obstacles in the way of the outbreak of an isolated American-Japanese war. The calculation of the Japanese imperialists that the United States would not be able to make up its mind for open war has proved, up to the present, to be correct.

The reserve maintained by the United States is also accounted for partly by the strategic circumstances. Although the American fleet is numerically superior, at least in big ships, to the Japanese fleet, the fact that it has no naval bases in the neighbourhood of the area of hostilities, the Sino-Japanese waters, disposes of this advantage and even probably gives Japan the advantage.*

The biggest naval base in the United States, Pearl Harbour in the Hawaii Islands, is 4,000 knots away from Chinese and Japanese waters. It is a generally known fact that the fighting efficiency of a fleet rapidly diminishes when it is operating more than a thousand knots from its base. It would appear further that Japan, despite the express prohibition contained in the Washington Agreement, is building naval bases, at least for submarines, on its mandated islands in the South Seas. These

* Opinions on this point naturally vary; for instance, Admiral Jones declared before the foreign political committee of the American Senate that "the American fleet would be able to overcome the Japanese fleet in Japanese waters."—Article of Kavakan, "Pacific Naval Problems," published in "Pacific Affairs," 1931, page 89.

islands lie scattered between Hawaii and the Philippine islands. In a certain limited sense Japan has succeeded in turning the China Sea into a Japanese lake. Further, the possibility of an American attack with air weapons from Alaska is limited as a result of the tremendous distances. Without going into a detailed discussion of naval strategy it is at least clear that the numerical superiority of the American fleet as far as big ships are concerned is more than made up for by the favourable strategical situation of Japan in Chinese and Japanese waters.

In view of this situation America has chiefly used the last eighteen months in unsuccessful attempts to break down or at least weaken the united front which already exists in practice between Japan, France, and England. Despite the formal success achieved by the United States with the Lytton Report, these attempts have been ineffective. Although the influence of England and France is decisive in the League of Nations and, although through its clumsy mechanism the League of Nations actually supported Japan against China, the Lytton Report had to be adopted in order to save an appearance of impartiality for the League of Nations. As is known, Japan answered by leaving the League.

In view of all these foreign political and strategical considerations the American bourgeoisie has preferred up to the present not to begin an open war against Japan and instead it has supported the Kuomintang government in the latter's attempts to set up a Chinese army with modern fighting capacity. It is known that America has granted great quantities of wheat to China on long-term credits. This represents nothing less than a cloaked form of subsidy. American arms and aeroplanes are being supplied in large quantities. American airmen are serving in the Chinese army. America has received the concession to organise a civil air service in China. In order to continue arming and equipping the Chinese army against Japan the American bourgeoisie is anxious to avoid any incident which might lead to open war with Japan because the first result of such an outbreak would be the blockade of the Chinese coast by the Japanese fleet and the prevention of the further import of American war material into China. For this reason also the American government has put a stop to the movement in the United States which aimed at organising a boycott of Japanese products, fearing that Japan might answer with a declaration of war.*

Apart from foreign political and strategical questions, apparently the conviction of the American bourgeoisie that the weak Japanese economic system will not be able to stand a protracted war in Manchuria and China plays a big role in delaying the outbreak of open war. The American bourgeoisie hopes that the economic weakening of Japan will compel it sooner or later, just as after the Russo-Japanese War and after the World War, to submit to the will of the United States.

And, finally, the American bourgeoisie hopes that the intensification of the antagonisms between England and Japan, which undoubtedly exist, despite their present united front against the U.S.A., will lead to a breaking down or at least to a loosening of this united front. Although England and Japan are in agreement that China must be divided up and that the United States must be kept as far as possible out of it, there nevertheless exist between them, as between all imperialist States, strong antagonisms; for instance, concerning the division of the spoils, a disagreement which becomes stronger the farther southward Japan penetrates into China proper. It is also opposed to England's interests that Japan should become too strong on the Chinese mainland. Japan's plan to dominate the whole Asiatic mainland threatens England's interests, and at the same time the competition of the Japanese textile industry is already striking the English textile industry heavy blows in the world market.

It is thus the joint interest of *English and American imperialism to divert Japan from China and against the common class enemy, the Soviet Union*, whereby the United States hopes that Japan would be so weakened in a war against the Soviet Union that, as in Washington, it would give way to "peaceful" pressure and abandon its Chinese booty.

The intensified provocations against the Soviet Union which set in simultaneously with Matsuoka's journey to the U.S.A. (the

stopping of the transit traffic on the Chinese Eastern Railway, etc.) show that Japan is prepared—particularly when it is promised support from the west—to take over the role of battering ram against the Soviet Union.

A war against the Soviet Union is quite in line with the policy of the militarist circles which at present have the decisive say in Japan. The greatest *strategical* weakness for Japan is undoubtedly the close proximity of the Soviet frontier to the Japanese islands, the centre of Japanese imperialism. It is the old dream of the Japanese militarist imperialists to force this frontier further to the west in a victorious war, to seize the coast of the Pacific in the north-east and to protect the Manchurian booty from the north, as shown in the famous Tanaka memorandum. In a war with the Soviet Union economically weak Japan reckons with the essential financial support of England, with military support on the Western frontiers of the Soviet Union, and with the benevolent neutrality of the U.S.A. During the course of such a war of intervention Japan reckons that it could consolidate its positions in Manchuria and North China and secure the recognition of the "independent" Manchurian State.

The militarists in Japan close their eyes to the fact that a war of intervention against the Soviet Union would accelerate the development of the revolutionary crisis in Japan by leaps and bounds and endanger their class domination in Japan. They do not want to see that they would be leading the bourgeoisie into a catastrophe.

Japanese Inflation Policy

As is known, Japan left the gold standard in December, 1931. A steady depreciation of the yen as compared with the gold currencies began and continued until about the end of 1932. In the first months of 1933 the yen was then stabilised at about 40 per cent. of its nominal gold value.

Yen Quotations as compared with the Dollar.

Nov. 1931	Dec. 1931	Jan. 1932	June 1932	Oct. 1932	Nov. 1932	Jan. 1933	Mar. 1933
98.9	86.9	72.2	60.8	46.3	41.4	41.6	42.3

The effects of the inflation on the Japanese economic system were similar to the effects of the inflation in England. Despite the depreciation of the yen by about 60 per cent., the inner price levels rose only moderately and slowly as compared with the rapid development of the depreciation.

Index of Wholesale Prices.*

Nov. 1931	Dec. 1931	Jan. 1932	June 1932	Oct. 1932	Nov. 1932	Jan. 1933
111.1	114.1	129.5	110.6	127.8	134.4	139.8
1913=100						

As we can observe, the fall of prices on the world market in the middle of 1932 was so heavy that despite the depreciation of the yen a fall of prices made itself felt. Only in the autumn of 1932 does the level of prices in Japan show a definitely inflationist tendency to rise; however, a 60 per cent. depreciation of the yen causes no more than a rise in price levels of 25 per cent.

The level of retail prices have risen even more slowly. From November, 1931, to January, 1933, they had risen by 11 per cent. only.

This tremendous difference between the purchasing power of the yen at home and abroad gave the Japanese export industry the possibility of competing on the world market with particular success. This was all the more the case because the level of wages, far from rising in accordance with the rise of retail price levels, was in many cases even still further depressed during the course of 1932. The combination of extraordinarily low wages with the advantage of the depreciation of the yen permitted the Japanese exporters to penetrate with their goods into the remotest markets, despite all the increases of customs and import duties and other defensive measures taken by the other countries.

As a curiosity it may be mentioned that a little while ago two Dutch towns, Kroningen and Isselmonde, purchased cast-iron piping from Japan for their water supply systems and that

* It is generally known, and we need not quote figures here, that the United States is almost the sole purchaser of one of the most important of Japanese export products, namely, silk.

* Monthly Bulletin of the League of Nations for February, 1933.

cast-iron goods produced in Manchuria are offered for sale in Germany at prices which are below the reduced prices of the German syndicate.*

However, the real export expansion of Japan lies not so much with its heavy industries as with the cheaper products of the textile, shoe, hat and similar trades.

During the last few months the process of the replacement of English textile goods by Japanese products has taken on a catastrophic acceleration in the areas bordering on the Indian Ocean, in the Dutch East Indies, in British India and in East Africa.

During the course of 1932 the Japanese textile export trade overtook its English rival.

Textile Exports in Millions of Square Yards.

	1932						
	Jan.	Apr.	July	Aug.	Oct.	Dec.	Whole Year
Japan ...	89	136	195	208	200	211	2,035
England..	179	199	198	181	138	196	2,193

As this table shows us, Japanese textile exports exceeded English textile exports in August, 1932, for the first time and have remained above them steadily ever since.

The import of cotton yarn into India from Japan increased by 354 per cent. in 1932 as compared with 1931, the import of silk yarn increased by 178 per cent. and the import of raw silk by 480 per cent. The competition of Japanese textile goods in India took on such dimensions that on the 11th April it was announced that the Indian-Japanese trade agreement of 1905, which granted Japan the most favoured nation clause, had been revoked and that it would cease to operate in six months' time.

It was declared that this action was not a hostile step against Japan, but a purely defensive measure intended to neutralise the effect of special circumstances such as the currency depreciation which permitted dumping to abnormally low prices and threatened the existence of the Indian textile industry.†

A decisive factor in the successful competition of the Japanese textile export trade was not only in the areas bordering on the Indian Ocean, but during the last few months in Eastern Europe and even in England itself, is that the great masses of the colonial people and of the working class in the capitalist countries have been impoverished by the crisis. Japanese textile and other products of low quality and low price therefore find a good market as compared with the better and more expensive English products.

How low wage costs are in the Japanese manufacturing industries is shown by two examples in the article of Windschuh, previously quoted. The production and export of rubber shoes have developed tremendously in recent years. Ninety million pairs of goloshes were produced and forty million pairs were exported. Wages accounted for 16.7 per cent. of the costs of production. Wages for ten dozen pairs amounted to 8.16 yen, or, according to present currency rates, a little more than ten shillings, the wage price per pair therefore being about a penny. Piece wages are paid. A man earns about 1.5 yen a day and a woman 1 yen. Korean women workers get even less and earn from 0.7 to 0.5 yen a day.

Similar rates of pay are also prevalent in other Japanese industries, in the textile industry, in the paper manufacturing trades, etc. The combination of these abnormally low wage scales with the export premium represented by the depreciation of the yen gives the Japanese export trade a tremendous impetus on the world market and only import prohibitions are at all effective against it.

In many cases the Japanese capitalists have succeeded during the course of the crisis in further lowering the costs of production and in particular wage scales. According to Japanese sources the costs of production sank as follows between November, 1929, and October, 1931, even before the inflation.‡

* According to J. Windschuh in "The Significance of the Japanese Export Offensive," published in the "Wirtschaftsdienst" on the 24th March, 1933.

† "The Times" of the 12th April, 1933.

‡ Quoted in an article by Yota.

Silk yarn ...	53.5
Cotton goods ...	36.3
Woollen goods ...	45.8
Chemicals ...	24.3
Copper tubing ...	57.2
Artificial silk ...	53.6, etc.

Under these circumstances the profits of the big undertakings have risen despite the crisis and in many cases they reached phenomenal figures in the period of inflation. According to the same source, the selling price of artificial silk at the beginning of 1933 was considerably more than twice the cost of production.

Nevertheless, despite the great pressure of Japanese competition on the world market, Japan has not succeeded by its dumping in increasing its export to any considerable extent. The result is only that the value of exports in 1932 almost approached the figure for 1930.

Japan's Foreign Trade.

(Monthly average in millions of yen.)

Year	Import	Export	Import Excess
1929 ...	180	175	5
1930 ...	126	119	7
1931 ...	111	93	18
1932 ...	116	113	13
1933 (Jan.) ...	173	107	67

The result of the Japanese dumping is that during the past three years Japanese exports have remained approximately stationary, whilst during the same period the export trade of almost all other countries has sunk by about half. The fact that the Japanese balance of trade has nevertheless remained passive is explained by the increased import of raw materials and, above all, of such raw materials as are needed for armaments.

It must also be pointed out that the figures for foreign trade do not give a complete picture of Japanese imports because the arms and equipment directly imported by the Japanese government do not appear in them. The actual passivity of the Japanese foreign trade balance in recent years must therefore have been considerably greater than these figures show.

The European press, and particularly the German press, continually points out that as a result of the war and the inflation the Japanese economic system is in a particularly good condition, that it represents an "oasis of prosperity" in the desert of crisis. This is true only in a very qualified sense.

Production Figures for Important Commodities.

	Monthly Average.				
	1929.	1930.	1931.	1932.	Dec., 1932.
Coal in 1,000 tons ...	2,850	2,615	2,150	2,130	2,413
Iron in 1,000 tons ...	102	109	89	98	108
Steel in 1,000 tons ...	191	187	155	197	267
Copper in 1,000 tons ...	6.3	6.6	6.2	5.9	5.9
Naphtha in 1,000 hectolitres	223	252	249	230	196
Cotton yarn in 1,000 bales ...	233	210	214	234	242
Textile goods in 1,000 yards	128	116	117	127	138
Artificial silk in 1,000 bales	21.4	30	38.9	53.6	61.5
Raw silk in 1,000 bales ...	50	49.4	50.9	45.1	55.2

This table shows that with the exception of artificial silk, whose production was rapidly developed in recent years for military reasons, the figures of production for 1932 remained approximately on the same level as in 1929; in other words, on the level of a year which can by no means be regarded as a year of any great prosperity.

How little one can speak of prosperity in Japan, despite war and inflation, can be best seen from the fact that at the beginning of 1933 there were still considerable sections of the productive apparatus lying idle and the limitation of production by the cartels was still very considerable. In the textile industry, which was doing the best export trade, 25 per cent. of the spindles were idle. The limitation of production of artificial fertilisers was 25 per cent. and of cement 50 per cent., etc. According to the statistics of the Ministry for Trade and Industry there were 21,000 motors with a total capacity of over a million h.p. idle.

The first months of 1933 brought with them a weakening of trade owing to the stability of the yen.

"The temporary stability of the yen and the subsequent disappearance of the effects of the depreciation of the currency depressed both the commodity and effects market."*

This shows how weak is the basis on which Japanese prosperity rests.

The peculiar dialectic of the process of inflation whereby an increased capacity to compete on the world market is accompanied by a reduction of the purchasing power of the home market as a result of the big reduction of real wages and the reduction of the purchasing power of the middle classes owing to the expropriation of their wealth by the inflation, affects Japan with particular severity. It must never be forgotten that Japan is a country which is economically particularly weak. The value of production per head of the population in Japan is on about the same level as that of the weakest economic countries of Europe: for instance, Rumania, Esthonia, or Latvia. The concentration of capital is very strong. The distribution of income and wealth is unusually one-sided. In Japan, whose national wealth can be estimated at about half that of Germany, although the population is about the same, there are many millionaires and several dozen big capitalists each owning a fortune of over five million pounds at par. The income of the workers and peasants is abnormally low and has been still further depressed in recent years by the inflation and by wage cuts. Under these circumstances the stopping of the yen inflation and the resultant sharp drop in export trade figures such as we can observe in the months of January and February, 1933, must cause a severe set-back to production and to the whole economic system because the purchasing power of the home market has sunk to a minimum.

Resuming, we must say that war and inflation have, with the assistance of dumping exports, brought Japanese production approximately up to the 1929 level and that in this sense Japan occupies an exceptional position amongst the capitalist countries. However, this favourable position rests on a very uncertain basis and can only be maintained temporarily by a continued depreciation of the yen. The extremely low purchasing power of the home market must lead to a catastrophic worsening of the economic situation in that moment when either a temporary stabilisation of the yen takes place, or when the inflation reaches that stage at which it becomes a hindrance to the capitalist economic system instead of a help.

The Burden of War and the Spoliation of Manchuria

The burdens of the war against China are naturally incomparably smaller than would be the burdens of a war against the U.S.A. or against the Soviet Union. At the utmost there are not more than 200,000 men fighting in Manchuria, whereas in the world war, as is known, over 5 per cent. of the population had to take to the field and up to 10 per cent. and even more were mobilised in the belligerent countries themselves. Despite this, however, the costs of the war have completely ruined the Japanese budget. The current budget year shows an expenditure of 1,944 million yen whilst the current income is estimated to produce no more than 1,338 million yen, so that there is a deficit of 610 million yen. Expenditure is more than half as great as income.

The next budget year, 1933-34, provides for an expenditure of 2,239 million yen as compared with an estimated income of 1,343 million yen. The estimated deficit is therefore 896 million yen or about 70 per cent. of the total income. This deficit is to be covered by the issue of State bonds.

At the first glance a budget deficit of 900 million yen does not seem so bad as compared with the budget deficits of countries like the U.S.A., France and Germany. However, this figure takes on a deeper significance when we remember the economic weakness of Japan. In 1925 the national income of Japan was estimated at approximately 13 milliard yen.†

To-day it is estimated by the pro-Japanese German Professor

* "The Economist" of the 11th March, 1933.

† "The Economic Forces of the World," issued by the Dresdener Bank in 1930, puts the national income of Japan in 1925 at a little over a milliard pounds at par.

Kurt Singer, who is at present attached to the Tokio University, at nine milliard yen.*

A State expenditure of 1,944 million yen therefore represents approximately 22 per cent of the national income. This budgetary burden weighs all the heavier because the greater part of the expenditure is directly or indirectly taken up by unproductive war armaments. For next year the budget provides for extra war expenditure to the tune of 250 million yen, not counting the regular expenditure for the army, the navy and the air fleet.

In dealing with the question of the financing of the war the problem arises: how does Japan pay for the enormous imports of arms and other war materials which it purchases in England, Germany and the United States? They are not being paid for in gold; this can be seen from the fact that since the beginning of the inflation the gold reserve has remained stable. Despite the considerable increase of Japanese foreign trade the balance of trade has remained unfavourable, as the above quoted figures show. The passivity is, as already shown, actually still greater because the armament and war purchases of the government are not contained in the import statistics. Further, Japan has no invisible income worth while mentioning from abroad. Its payments balance was unfavourable even before the Manchurian war. According to the figures of the Japanese Ministry of Finance, Japan's payments balance was as follows in the years 1930 and 1931:

Official Figures for Foreign Payments.

(In millions of yen.)

	1930.	1931.
Debit.		
Import surplus of Korea, Formosa and the South Sea Islands included	122	141
Government payments abroad net	78.8	86.4
Total	200.8	227.4
Credit.		
Net income from overseas capital investments, business and emigration sums	64.8	52.1
Net income from shipping	125.4	107
Tourist expenditure	10.4	8.1
Miscellaneous items	11.2	9.2
Total	211.8	170.1
Balance	+11	-57.3†

As in 1932 Japan's foreign trade balance remained unfavourable and as the income from shipping and foreign investments has undoubtedly considerably declined as a result of the Chinese boycott, Japan's payments balance for 1932 was undoubtedly considerably more unfavourable than in 1931. The question thus arises, how has Japan paid for its armament purchases?

According to a report of the Japanese Ministry of Finance, Japanese joint-stock companies and private persons held foreign securities and funds in July, 1932, to a total of 1,676 million yen.‡

In February a law was adopted giving the government the power to use these securities in order to defend the quotation of the yen. The article in question does not state what sort of foreign securities are involved. In our opinion the greater part consisted of shares of Japanese undertakings in China. To realise these at the moment would meet with the greatest difficulties. Taking all these circumstances into consideration the only conclusion one can come to is that during the course of 1932 the Japanese government received a secret foreign loan in order to finance its armament purchases or that the material was supplied on long-term credit.

The war expenditure contained in the Japanese budget, however, by no means represents the total costs of the war. **A considerable portion of these war costs were met by the plundering of Manchuria.**

* Quoted in the "Wirtschaftsdienst" of the 30th December, 1932.

† Quoted in "The Economist" of the 18th February, 1933.

‡ Quoted in "The Economist" of the 11th March, 1933.

The conquest of Manchuria and the setting up of the "independent" Manchukuo State was accompanied by such brutal expropriation of Chinese property by the Japanese that it would be difficult to find a parallel even in the history of colonial conquest.

The most important facts in this plundering of Manchuria are the following:

The confiscation of all Chinese railways on Manchurian territory and their amalgamation with the South Manchurian Railway. The banknotes in currency previously issued by the Chinese banks were declared invalid. The banknotes of the "Banks of the Three Eastern Provinces" and of the Transport Bank, which were regarded as State banks, were fixed at a very low rate as compared with the yen, further emission was stopped and instead a Japanese emission bank founded.

All property regarded as Chinese State property was confiscated. In many cases alleged traditional rights of the old Manchurian Dynasty and of the former Manchurian army were exploited in order to rob the peasants of large areas of land to be used as colonies for Korean settlers.

In many cases Chinese peasants were compelled to sell their land to the Japanese at prices which were only two or three per cent. of the real land prices prevailing. The Chinese factories, oil presses, wholesale and retail undertakings were brought to a standstill by terrorism. In their stead Japanese factories were built and the country was flooded with Japanese merchants.

The customs revenue was taken away from the Chinese central government and confiscated by the Japanese.

The greater part of the Chinese plunder was concentrated in the South Manchurian Railway, whose economic dominance in the "independent" Manchurian State is great and more decisive than ever it was before. The whole situation is best characterised by the fact that Muto, the Japanese ambassador to the Manchukuo government, is at the time supreme commander of the Japanese army in Manchukuo, governor of the province of Kwangtung and actually master of the South Manchurian Railway.

The expected influx of Japanese capital into Manchuria will not materialise, a fact explained partly by the weakness of Japanese capitalism which has been concealed by the inflation. The fact is that for the moment the seized booty is too big for the forces of Japanese capitalism to exploit properly.

The war in Manchuria and in China and the accelerated impoverishment of the Japanese workers and peasants caused by the inflation have resulted in a considerable intensification of class antagonisms in Japan. The patriotic war propaganda whipped up by the militarists, the strict censorship and the fascist terror are not sufficient to suppress the signs of a deep revolutionary ferment among the working masses. Peasant revolts, mutinies in the fleet and workers' demonstrations prove this. The Communist Party of Japan is conducting a heroic struggle in order to prepare the way for the development of the imperialist war into a civil war of the masses against the bourgeoisie. There is no doubt that despite its energetic war policy Japan is one of the weakest links in the capitalist chain. The preliminary conditions for a revolutionary crisis are rapidly maturing in Japan.

IV. General Section

Currency Chaos, Aggravation of the Economic Crisis, and the Danger of War

The hope of the bourgeoisie that the international economic crisis has now passed its acutest stage, and the assurance of the bourgeois business research "experts" that the slight improvement in output observed in a number of countries in the second half of 1932, represents an incipient change and the commencement of a new revival, have proved altogether illusory.

The first quarter of 1933 brought a renewed relapse and plunged the capitalist world into a political and economic chaos unparalleled in the history of capitalism. The capitalist order of society is shaken to its very foundations. It is clearly apparent that that internal mechanism which in former times led to the overcoming of the crisis on the basis of the internal laws of capitalist development itself, does not suffice for the solution of the present crisis. This

does not mean that this mechanism has been put out of operation altogether. Inasmuch and in so far as this crisis is a cyclical one, the Marxian thesis naturally applies that every crisis represents a violent outbreak of the contradictions of capitalism, but at the same time a temporary and transient solution thereof. But the present crisis is no "ordinary" cyclical crisis, as the bourgeoisie and the social fascists contend. The course of the last four years shows that the contradictions of capitalism which have found expression in this crisis have become so pronounced that the internal mechanism is not powerful enough to bring about a "peaceful," "normal" capitalistic solution. The development inevitably leads to a new series of wars and revolutions.

The most important event of the last few months is undoubtedly the departure from the gold standard on the part of the United States and the incipient depreciation of the dollar in relation to gold. **In this connection, the abandonment of the gold standard has now become the general rule and the adherence to gold parity the exception.** Those countries which still have a genuine gold currency and a free exportation of gold, viz., France, Switzerland, and Holland, are islands in the general currency chaos, and it is very questionable whether and for how long they will be able to withstand the flood.

We deal elsewhere with the special reasons which have led to the abandonment of the gold standard in America at the present moment of all times. It must, however, be obvious to every Marxist that those special reasons which have driven one after another of the capitalist countries to this step and to inflation, **must needs possess a common economic basis.**

The common economic basis **cannot lie in the internal laws of capitalism in general.** Since its existence, the capitalist order of society has passed through more than ten crises, but an inflation formerly ensued only sporadically in the case of some of the weakest members of the capitalist community and that only temporarily. The inflation which has become a general characteristic of the present crisis is undoubtedly an outcome of the general crisis of capitalism.

This alone, however, does not mean very much. We must attempt to **reveal the economic foundations** which have induced the bourgeoisie of one country after another to have recourse to inflation.

The most important economic foundation is the tremendous change which has come about in the distribution of profits between industrial and loan capital in favour of the latter. The unprecedented acuteness of the crisis made the burden of indebtedness altogether unbearable for **industrial capital** in the Marxian sense, i.e., for industry, agriculture, transport, and building. Industrial capital, the monopolies, and financial capital were faced with the alternative: **either a liquidation, or reduction, of the unbearable burden of debt by means of a general bankruptcy, or else a liquidation (or reduction) by means of inflation.** There is no third possibility. And since the burden of a liquidation of debts by means of bankruptcy would in the first place victimise industrial capital itself, while the burden of liquidation by means of inflation falls primarily on the working class, on the petty bourgeoisie, and on loan capital, it is obvious that monopoly capital, which is so closely allied with the State, should have preferred the expedient of inflation.

How is it, meanwhile, that the burden of indebtedness should in this crisis have become so unbearable as to lead to inflation?

The most important reasons are the following:—

(1) The unprecedented depth of the crisis, which exceeds all previous crises, led to a big diminution of the sum total of appropriated surplus-value, i.e., also of the sum total of profit to be shared among all the capitalists. Less than half the number of workers are at present being exploited in the big industrial countries in comparison with the time prior to the crisis, and although capital has succeeded, in spite of vehement resistance on the part of the workers, in increasing the rate of exploitation, this increase cannot make up for the enormous reduction in the number of exploited workers.

(2) **The fall in price levels**—albeit irregular, in accordance with the degree of monopoly formation—is steadily proceeding. The **price of reproduction**, which in the last resort is decisive for the selling price, **is constantly below the level of the actual price of production of the commodities.** After each turnover of the circulating portion of capital, it becomes apparent that its elements are lower in price than at the commencement of the turnover. That is to say, that the sale price of the goods fails to yield, or at any rate

wholly to yield, the surplus-value appropriated from the workers. The reduced total of surplus-value in the crisis, is reflected in a yet more markedly diminished total of profits.

The turnover period of **capital as a whole**—fixed capital plus circulating capital—has lengthened very considerably by reason of the low level of exploitation of fixed capital: the same rate of profit for each turnover of circulating capital is therefore represented by a very greatly diminished **annual rate** of profit for capital as a whole.

On the other hand, the nominal sum to which loan capital is legally entitled out of the total profit of society, has remained unchanged. This means that **loan capital**—as may be concretely seen by the balance sheets of numerous capitalist enterprises—swallows up the **entire profit**, or the great bulk thereof, in the form of interest on debentures and of other forms of indebtedness, so that no profit remains over for industrial capital on its enterprises. In many instances, the claims of loan capital are satisfied at the expense of reserves formerly accumulated. While real wages are rapidly declining during the crisis, even in the case of fully-occupied workers, and while the **real income** of the whole of the working class has sunk by one half, while the peasantry and the petty-bourgeoisie are being ruined wholesale, while more and more of the capitalist enterprises go bankrupt and the crisis is causing big monopolies, the strongholds of capitalist economy, to collapse, the claims of loan capital remain unaltered, which means that the percentage share of loan capital in the reduced yearly product-value (variable capital plus surplus value) is rising by leaps and bounds; the income of the rentier class also increases by reason of the price depreciation while the income of all other classes rapidly declines!

What has been said of income, also holds good for capital. The valuation of a capitalist enterprise depends only in a very small degree on what the plant (factories, machinery, and stock-in-trade) have actually cost. It is valued according to the profit it yields. The most up-to-date machinery is valued as so much scrap-iron under capitalism if it is unable to produce a profit. The crisis therefore means a tremendous reduction in the sum total of industrial capital, while the nominal debts with which it is encumbered remain as large as ever. As regards individual enterprises, the debts are in many instances greater than the total value of the debtor's fortune, which has been greatly reduced as a result of the crisis. Only inflation can prevent an all-round bankruptcy.

This state of affairs affects not only individual capitalist enterprises and industrial capital in its entirety, but also the State and the municipalities. The burden of interest on debts absorbs more and more of their revenue and—since a reduction of indebtedness by means of conversions has only succeeded in a few individual cases—the result is rapidly growing deficits and—inevitable inflation.

The function of inflation, therefore, is that of a forcible all-round reduction of the share of loan capital in the surplus-value and the augmentation of the latter by an increased exploitation of the working class and expropriation of the fortune of the middle classes in favour of industrial capital. By inflation it is intended to raise the exploitation of industrial capital and thus to prepare the way for a capitalist solution of the crisis.

But general inflation at the same time represents a fresh aggravation of the crisis, since, after a temporary revival connected with a feverish buying of goods, it is bound to lead to general misery by reason of the consequent sudden diminution of real income, and consequently also of the purchasing power, of the working classes. This also means a further pronounced sharpening of the class struggle and an accelerated development of the revolutionary crisis. **A general inflation can at best afford economy a short respite; it cannot supply a capitalist solution of the crisis.**

Besides this it may be remarked that the fact that Great Britain and Japan have relatively improved their output, by early resorting to inflation, in relation to other countries continuing longer to adhere to a gold parity, has aroused the illusion among the bourgeoisie that an inflation in all countries might well lead to similar results. This is obviously nonsensical. The relative improvement in the position of British and Japanese economy took place in the main **at the expense of their competitors on the world market**, inflation tending to increase their exports and diminish their imports. As soon, however, as inflation has become a general phenomenon, no country will be able at the expense of its neighbours to grab a larger share in international exports and thus a greater share in the total surplus-value of the whole of capitalist society.

If inflation becomes general, no country will derive an advantage from it on the world market, while the general chaos and

the destruction of international economic relations will be greatly accelerated.

How greatly international trade has already shrunk may be seen from the following data, comprising 91 countries, with together 90 per cent. of the trade of the world:—

“The turnover value (imports plus exports) of international trade figured for the year 1932 at 109,500 million marks; it thus fell short

“ by 33.5 per cent. of 1931,

“ by 61.5 per cent. of 1929 (peak value), and

“ by 31.7 per cent. of 1913.”

In regard to value, international trade has suffered a set-back to the level of 1905 and 1906! These figures comprise both the decline in quantities and the decline in price. On the basis of the price development in ten leading countries, the decline has been computed in the following way:—

Formation of the Volume of International Trade.

	1913	1928	1929	1930	1931	1932
Millions of marks (prices of 1913)	160	200	206	185	161	138
On basis of 100 to repr. 1913	100	125	128	115	101	86
On basis of 100 to repr. 1928	80	100	103	93	81	69

“The shrinkage of the volume of international trade from 1931 to 1932 (14 per cent.) has still increased in intensity in comparison with the preceding year (12 per cent.)”

Capital exportation (so characteristic of the monopolist form of capitalism) has diminished in an even greater degree than foreign trade during the crisis. Capital exportation from the United States has virtually ceased in the course of the last twelve-month, while that from Great Britain and France has declined to a minimum. If any exportation of capital takes place at all, it almost exclusively serves political and military purposes, the better armament of the vassal states. A generalisation of inflation will not change this state of affairs: there will be a chaotic **flight of capital** (forbidden by law and therefore restricted) from one country to another according to speculation as to the further trend of inflation, but no capital exportation in the old sense of the term.

In summing up we may repeat that the industrial bourgeoisie, i.e., **monopolist capital, sees no way open under the present circumstances other than inflation; but this way, too, will not lead to any solution of the crisis but, after a short respite, to a renewed aggravation thereof.**

Apart from a generalisation of inflation, the bourgeoisie of all countries, following the example of Japan, is seeking a capitalist way out of the crisis in war, in the violent appropriation of monopolistically governed markets, and in a new division of the world. On all hands armaments are being speeded up. In all manners and forms, alliances are sought for a future world war. The general tension is so great that war itself may break out at any moment.

V. Czechoslovakia

The increased importance attaching in a foreign-political sense to the Little Entente in its struggle against the revisionist aspirations of Germany and Hungary makes it appear advisable to inquire somewhat more closely into the position of Czechoslovakia.

Czechoslovakia is an enclosed, land-locked State of roughly 15 millions of inhabitants, at least half of which total represents national minorities, viz., Germans, Slovaks, Hungarians and Poles. The industrialisation of the country is far advanced; as early as 1921 the percentage of inhabitants occupied in industry per cent. were employed in agriculture. In the 12 years which have elapsed since then the process of industrialisation will probably have made further progress.

After the dismemberment of the Austro-Hungarian monarchy the industry of Czechoslovakia had necessarily to undergo a tremendous process of readaptation. It had been built up for the purpose of supplying an economic and customs area of more than 50 million inhabitants.

On the one hand, it was necessary to restrict the industry, in which connection the Czech capitalists, who had got the authority in the State into their hands, made use of the opportunity to subject and partly to sacrifice the industrial enterprises belonging to Germans and Slovaks; on the other hand, new markets had to be sought, in which regard serious obstacles were encoun-

tered both in the competition of the big industrial countries and in the tendency in the agrarian countries to attempt the creation of an industry of their own. Nevertheless, the Czechoslovakian industrialists succeeded, mainly at the cost of a very severe reduction, and subsequent maintenance at a low level, of the wages of the proletariat, in effecting a substantial exportation of industrial goods. Individual lines of industry, such as textiles, glass and porcelain, found foreign markets for as much as 70-95 per cent. of their output. This great dependence of Czechoslovakian industry on exportation is reflected in the big quota of exports in home production. According to the calculations of the Dresdner Bank,* exports figured as follows in percentage proportion to the total native output:

Czechoslovakia.	Great Britain.	France.	Germany.
30	25	24	23

None of the big exporting countries thus attained so great an export quota as did Czechoslovakia.

The necessity of placing abroad such a great proportion of the industrial output led to an increased formation of monopolies and to a protective-tariff system, so that as complete as possible a monopoly of the home market might afford the economic basis for a policy of dumping. At the same time, the financial capital of Czechoslovakia severed itself from Vienna and formed an intimate alliance with the financial capital of France, especially with Schneider-Creuzot and the French banks supporting that concern.

The process of monopolisation made most progress in the heavy industries. In the mining and metallurgical industries, post-war times have seen the formation of a number of big concerns, uniting the principal enterprises and exercising a decisive influence on the State and the entire economy of the country. In mining, there is primarily the "Mining and Foundry Company" (Berg und Hüttenwerks Gesellschaft), connected in its turn with Schneider-Creuzot, and the Vitkovic works, belonging to the Rothschild group, both of them giant enterprises, employing in either case more than 20,000 workers in the boom period of business. In the metal-working industry the process of concentration likewise led to the creation of two central concerns, around which there are grouped a great number of enterprises of the metal, engineering, and munitions industries. One of these two is the great war-industry firm of Skoda, also affiliated to the Schneider-Creuzot interests, while the other—its principal rival—is the "Bohemian-Moravian Piston Works, Ltd." (Böhmisch-Mährische Kolben A.G.), the outcome of numerous amalgamations. These four leading enterprises, closely allied with international financial capital, with the big Czech banks, and with the government, control the entire heavy industries of the country. The evolution of big concerns and the process of monopolisation were by far slower in the case of the light industries, nor did they attain such dimensions as in the heavy industry. Nevertheless, some big formations resulted in the clothing, glass, and other industries. In this respect mention may be made of the Bata concern in the footwear industry, which, erected on the bones of 60,000 proletarianised cobblers, controls the entire footwear trade of the country and represents the "model" of a vertically concentrated branch of production.

The far-reaching concentration of capital and the relatively advanced economic development of Czechoslovakia make it possible for goods exports to be supported to a certain extent by capital exportation, albeit the latter is, in part, no more than a re-exportation of foreign, particularly French, capital. To judge by the balance of payments of Czechoslovakia between 1926 and 1930, the capital invested abroad during this period amounted to about 4,000 million crowns. In great part, capital exportation was effected in the form of war material supplies to foreign countries. Czechoslovakia possesses a highly developed industry of armaments and thus forms the Eastern arsenal of French imperialism.

In a relatively small country like Czechoslovakia, therefore, we may observe all the characteristics, as described by Lenin, of a full-fledged imperialism, a strong concentration of capital, a full development of big banks and monopolies, capital exportation, and participation in international cartels. The lack of colonies, meanwhile, is to some extent replaced by the exploitation of extraneous peoples living within the frontiers of the country.

* "Economic Forces of the World," 1930.

The Economic Crisis

The progress of the economic crisis in Czechoslovakia shows certain special features similar to those noticeable in France. The crisis set in slightly later than in the big industrial countries and reached its greatest development in 1932. According to the production index published by the League of Nations, the industrial output figured as follows:

Index of Industrial Output. (100 representing 1928.)

1929.	1930.	1931.	1932.
103.6	90.6	81.1	59

The crisis has made itself felt most of all in the heavy industries, the iron and steel output having declined to less than one-third.

It is particularly remarkable that in the course of the last four years the cost of living has practically not diminished at all, viz., by no more than 7 per cent. for the entire period as against a recession of wholesale prices by roughly 30 per cent. It is apparent that the monopoly-capitalists and the agrarians of Czechoslovakia have been most successful in shifting the burden of the crisis on to the urban consumers in general and the industrial workers in particular.

The position of Czechoslovakian industry, especially the metal industry, would be still worse than it is were it not for the good trend of business in the case of munitions.

The importance of the Czechoslovakian munitions industry may be seen by the fact that, according to League of Nations statistics, Czechoslovakia in 1930 occupied fourth place (i.e., 9.6 per cent.) after Great Britain, France, and the United States, in respect of war-material exports in general, and second place (i.e., 16.8 per cent.) after Great Britain, in regard to actual arms. However, the good business effected in the armament industry could not balance the poor business done in other lines, even in the case of the big munition works. Thus the quotation of the Skoda shares dropped from 1,800 in 1929 to 273 in 1932. This deterioration in the position of Skoda's and the other big armament firms was undeterred by the fact that the output of war material, both for Czechoslovakia itself and for the Entente countries, and particularly for the Far East in 1932, assumed ever-greater dimensions. These enhanced war-material orders were not sufficient to make up for the greater falling-off of the rest of production.

In keeping with the great dependence of Czechoslovakia on foreign trade, the general shrinkage of international trade has affected Czechoslovakia most severely and forms a powerful factor in the spread and intensification of the crisis.

Development of Foreign Trade in Millions of Crowns.*

Monthly Average				Raw Mat. Industr.	
	Imports	Exports	Difference	Imports	Exports
1929 ...	1,661.8	1,707.1	+45.3	814	1,216
1930 ...	1,306.7	1,455.1	+148.4	593	1,072
1931 ...	976.7	1,091.4	+114.7	415	872
1932 ...	621.8	611.3	-10.5	276	426

The monthly average of 1932 shows a falling-off of imports by 63 per cent. and of exports by 64 per cent. in comparison with 1929. The drop in the case of exports refers principally to the exportation of finished goods, which declined from 1,072 million crowns in 1930 to 251 in (the early months of) 1933, i.e., to one-fourth. In regard to the recession of foreign trade, indeed, Czechoslovakia practically takes the lead among the countries of the world. Obviously, this falling-off of foreign trade most severely affected those industries which are greatly dependent on exportation, particularly the glass, porcelain, and textile industries, for which the drop amounted to as much as 70 per cent.

As in all other countries, the industrial crisis is intimately connected with the crisis in agriculture. As in Germany, attempts have been made in Czechoslovakia to call a halt to the price-drop of agrarian products by the introduction of high protective duties and import restrictions. In Czechoslovakia, however, these measures have been without avail. Thus the price of rye fell from 224 crowns per double cental in 1927 to 105 crowns

* "Mesicni Pichled zchronicniko obchodu."

in the autumn of 1932, the price of barley from 178 to 82. The burden of the agrarian crisis, meanwhile, is very unequally distributed among the agricultural population. The agrarian capitalists, who are closely allied with the monopolistically organised finishing industries, with the sugar factories, mills, breweries, and spirit distilleries, have succeeded to a great extent in shifting the losses sustained through the price recession of agrarian products on to the consumers by means of a monopolised increase in the price of finished goods. This may be seen above all in the very small decline in the cost of living, to which we have already referred. On the other hand, the agrarian crisis weighs very heavily on the poorer peasantry, who are obliged to part with their products at low prices to the monopolist buyers of the industrial enterprises and who are being increasingly pauperised through the onus of taxes and debts.

The total indebtedness of the land in Czechoslovakia was estimated by bourgeois statisticians in 1932 at between 30 and 37 thousand million crowns. The interest demanded of the farmers, especially in the poorer districts of Slovakia, are absolutely usurious and tend to impoverish the country population, to degrade agricultural production, and to cause practical famine in certain regions, particularly Carpatho-Russia. The agrarian reform, effected so demonstratively after the foundation of the Czechoslovak Republic, has done nothing to improve the position of the middle and poor farmers. It merely tended to strengthen the kulak element at the expense of the big landowners, especially such as were Germans or Magyars. The pauperisation of broad masses of the peasantry naturally diminishes their meagre purchasing capacity in regard to industrial products yet further, whereby the home market is increasingly restricted.

Position of the Working Class

The situation of the Czech workers is exceedingly bad in every respect. Their wages, at all times extremely low, have been repeatedly reduced without any corresponding diminution of the cost of living. Without doubt, the virtual wage value of the fully occupied worker is considerably lower to-day than before the crisis. As regards the position of the working class in its entirety, it has been substantially impaired by the great degree of unemployment, which has rapidly increased from year to year. The official unemployment returns are as follows:*

	1929.	1930.	1931.	1932.
Registered unemployed in thousands ...	53	240	486	746

These totals affected individual industries as follows, in full numbers:

	1929.	1930.	1931.	1932.
Mining ...	197	2,242	6,692	18,776
Metallurgical ...	5,558	22,001	39,778	25,533
Engineering ...	1,242	9,497	14,672	28,532
Textiles ...	7,147	32,642	60,596	86,769
Glass ...	456	7,226	22,685	32,374

Since the end of 1932 the number of officially registered unemployed has continued to increase, **reaching the peak of 918,000 in March, 1933.** The labour records, however, cover only a part, approximately one half, of the actual unemployment total, so that the real number of fully unemployed may be estimated at **1½ million** at the very least.

The bad position of the working class and working peasantry has led to a marked accentuation of class differences and enhances the imminence of a revolutionary crisis in Czechoslovakia, too. During the crisis the influence of the Communist Party of Czechoslovakia has considerably spread. Broad masses of workers have come to follow the leadership of the C.P.Cz., as was clearly to be seen on the occasion of the miners' strike. In Slovakia and Carpatho-Russia the resistance of the peasantry to exploitation by the government and usurious capital is in many instances assuming the form of revolts, which are sanguinarily crushed by the Czechoslovakian bourgeoisie.

* From the Bulletin of the Czechoslovakian National Bank.

The Financial Crisis in Czechoslovakia

So far, the Czechoslovakian bourgeoisie has succeeded, albeit with great difficulty, in maintaining the parity of the currency. Nevertheless, the creditary and monetary system of Czechoslovakia has for eighteen months been in a condition of the greatest tension. As in all countries supporting their goods exports by long-term credits and capital exportation, a great portion of the Czechoslovakian commercial credits abroad have virtually frozen. At the end of 1931 the aggregate of frozen commercial credits was estimated at roughly 3,000 million crowns. On the other hand, the open outbreak of a credit crisis in Germany led in the summer of 1931 to heavy withdrawals of foreign holdings from Czechoslovakia. In the course of the year 1931 Czechoslovakian industry and commerce had to repay 300 millions of short-term and as much again of long-term credits to foreign countries. In the same period the Czechoslovakian banks had to repay 826 millions to their foreign creditors. This constant withdrawal of foreign capital could only be met by sacrificing a substantial part of the National Bank's foreign-bill holdings. In the course of the year 1931 these holdings dropped from 2,447 to 1,059 million crowns. (In the course of 1932 a very small proportion of this loss has been made good.)

As in other countries, there is in Czechoslovakia, too, a heavy deficit of the government budget, figuring at the close of 1932 at 2½ million crowns. This deficit is being covered by the emission of new bonds, loans raised with the insurance companies, prolongation of those bonds already due, and similar measures. A French loan aggregating 600 million francs has not done much to alter the general situation.

The position of the banks has been greatly deteriorated by the economic crisis. By means of writing-off vast sums the four leading banks have made an attempt to re-establish themselves. These steps, however, have not sufficed to make up for the losses sustained, so that with the further aggravation of the economic crisis a catastrophe in banking is practically inevitable.* While the four big banks have so far managed to hold their ground, twelve other banks had to have recourse to government aid, for which purpose approximately 2,000 million crowns were expended. That even this government aid embodied no real salvation may be seen by the fact that already at the commencement of 1933 the Central Bank of Savings Institutes in Prague, which had received subventions to the extent of 62 millions, became insolvent and involved a large number of German savings banks in the provinces in its fall.

In the course of the crisis much has been said in regard to the "exceptional" position of Czechoslovakia. This exceptional position, however, merely consisted of the fact that the crisis began rather later in Czechoslovakia than in most other countries, an inequality of development such as occurs in every crisis. Indeed, the depth of the crisis is greater in Czechoslovakia than on an average elsewhere, and the stability of the currency will not be maintainable for long. The inception of inflation will tend to decrease yet further the virtual wage value of the working class, to deteriorate the situation of the petty-bourgeoisie, to enhance class differences, to expedite the fascisation of the Czechoslovakian Republic, and to cause the Czechoslovakian big-bourgeoisie, which is so fond of boasting of its pacifist principles, finally to follow the example of the bourgeoisie of other countries in seeking a war-like solution of the crisis.

* The development of the share-quotations of the four leading banks clearly shows their impaired position:

	Dec. 31, 1930.	Dec. 31, 1931.	Dec. 31, 1932.
	(Quotations in Czech Crowns.)		
Zivnostenska Bank ...	420	296	234
Bohemian Discount Bank ...	325	234	125
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