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Economics and Economic Policy in the Second Quarter of 1929.

(Concluded down to 15th July, 1929.)

By E. Varga.

I. Development, Purport, Contents and Future of the Young Plan.

The Rôle of the Reparations Bank.

The Reparations Bank forms the nucleus of the entire Young Plan, the effectuation of which it is intended to render technically feasible in the widest sense of the word by means of its financial operations. Its main tasks in this connection are as follows:

The Bank is to serve as the trustee of the Allied Powers in their dealings with Germany. It is to take over the German payments, check them and distribute them among the Reparations creditors.

The Bank will effect the mobilisation of the German obligations and take upon itself, in its character of a bank of emission, the moral, and possibly also the material, guarantee for the service of interest.

The Bank will obviate the result arising from difficulties of transfer for the Reparations creditors (holders of obligations), crediting Germany out of its own funds for such foreign values as the latter fails to raise.

It is intended that the Bank shall obviate all difficulties of transfer in assisting Germany to raise the necessary foreign values; it will finance deliveries in kind (even after the official termination of such deliveries), granting credits to countries devoid of capital so as to enable them to pay for the German deliveries in kind, and effecting an apparent transfer by investing capital to advantage in Germany and then liberating foreign bills for the service of the Reparations debt.

If, nevertheless, Germany has recourse to the moratorium provided in its favour, the Bank will see to an uninterrupted continuation of the payments, taking over the German payments in marks and investing them profitably in Germany.

Finally, the Bank is also to serve as an advisory agent for a possible later revision of the realisation of the Young Plan.

Besides this, the Reparations Bank will accumulate part of its profits for the purpose of covering the last 22 annual pay-

ments¹). Whether the profit-share provided for covering the 22 payments in question will suffice, depends on the total profit of the Bank and seems highly improbable to us in view of the calculations contained in the foot-note. This question, how-

¹) The German daily press has made out that Germany has no more than 37 annual payments to render in all, while the Bank is supposed to be responsible for the last 22 payments. This is inaccurate. Germany's obligations amount to 58, or,

NOTE: All quotations from English and American sources contained in this Report have been retranslated from the German.

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ever, is wholly irrelevant, for who can seriously imagine that the Young Plan will really remain in force for 37 years?

The International Tasks of the Bank.

Besides the tasks immediately connected with Reparations, the Reparations Bank is to serve far-reaching international purposes. It is to be a central bank of the banks of issue, an international centre which is to realise that old American ideal, the stabilisation of the currencies of the whole world. These international tasks figure foremost among the general tasks of the Bank.

Besides this, it is intended that by granting credits to poor countries the Bank shall raise the total volume of international trade and therefore, incidentally, promote German exports.

If it is to prove equal to these great international tasks over and above its work in the service of Reparations, the bank will have to have very great funds at its disposal. As a matter of fact, Young originally suggested a share-capital of 300 million dollars. British resistance reduced this sum to 100 millions, of which, however, no more than 25 millions are to be paid up at once. At the same time, however, the Bank is allowed by the Young Plan to maintain considerable accessory means, including the following:

Obligatory permanent deposits: Germany must maintain a lasting deposit of 100, and — if it is to lay claim to a special share of the profits to cover the last 22 annuities — of 400, million marks; France one of 500 million marks as a special guarantee for the mobilisation of its quota.

The regular German Reparations payments, which are to remain at the disposal of the Bank until they have been distributed among the creditors.

Voluntary deposits on the part of the note banks and possibly also of the Governments and private banks.

We can see from the above that the funds of the bank are relatively small in face of the great tasks they are intended to fulfil. It will depend on the attitude of the note banks and on that of American financial capitalists, whether the new institution can work successfully. Officially the Reparations Bank will be the banker of the note banks; it will be conducted by the note banks of the Allied countries, Germany and the United States, the Governors of which will either figure as official members of the Board or else be responsible for the nomination of such members³⁾. Any transaction effected by the Reparations

including the current year, 59, payments. Germany, moreover, has a claim to no more than a quite insignificant portion of the Bank's profits, as appears from the following figures set forth in Section 11 of annexe I; five per cent. of the profits will pass to the Reserve Fund until the latter has come to amount to 10 per cent. of the Bank's capital; 6 per cent. will form the dividend on the share capital, and, of the balance, 20 per cent. will be employed for the dividend, which must, however, not exceed 6 per cent. of the capital. Of what remains, one half will pass to the reserves until the latter attain the same total as the capital itself, after which 40 per cent. of the remaining profit will be thus employed until such time as the capital has been doubled, whereupon the quota will be 30 per cent. until the capital is trebled, and so on.

75 per cent. of the balance are to pass to the Allied Governments, which will have permanent deposits with the Bank, while 25 per cent. will be used "to assist Germany to pay the last 22 annuities", provided Germany maintains a permanent deposit of 400 million marks with the Bank, Germany's share of the profit decreasing in the same proportion as this German deposit diminishes.

If we employ this ratio of division under the supposition that the full share-capital of \$ 100,000,000, is paid up and thus a net profit of \$ 50,000,000 annually is attained, the quota falling to the share of Germany every year would figure between four and five million dollars.

³⁾ The Government of the United States has forbidden the members of the Federal Reserve Board to accept nomination to the Board of the Reparations Bank, or to effect the nomination of others thereto; therefore the American members are to be appointed in some other way — obviously by Mr. Morgan.

Bank in any country will require the consent of the note bank of the country in question. The Bank will naturally buy and sell gold and discount bills of the note bank like any other.

Will the Bank prove equal to the task of a central administration of the gold assets of the world? We shall not need much consideration before answering in the negative.

The Young Plan starts from the consideration that the central note banks will deposit part of their gold holdings with the Reparations Bank or at any rate entrust the latter with the right to dispose thereof. Currency fluctuations which are now counteracted in an anarchic way by transports of gold from one country to another, could thus be settled simply by a transfer in the books of the Bank. The fight for gold, which is so characteristic of capitalism at present, is to be replaced by a central settlement of gold movements on the part of the Reparations Bank.

It is obvious to every Marxist that capitalist society cannot do without gold as its international tender, fulfilling in its natural form the functions of settling the various balances resulting in international financial obligations. For the bourgeoisies, organised in States which are fighting each other, it is likewise impossible to leave the disposal of their gold holdings, which are among the most important means for carrying on war, in the hands of a centre not under their own authority. Therefore the plan of a central administration of gold holdings and of a central settlement of currency rates is impracticable.

Let us explain this in a somewhat more concrete manner. Deviations from gold parity in international intercourse result when as an outcome of its international liabilities and claims a country has a serious deficit at any given moment; this deficit may be made up for by capital importation, which would mean turning an immediately payable sum into one due at a later date, or else by means of payment in international money, i. e. gold. If neither of these things is done, a disparity results in the currency in question³⁾. It is obvious that a settlement of the balance of payments by means of gold transports can only be envisaged in the case of a temporary deficit in the said balance, for no State — except perhaps a few gold-producing countries — can export gold for any length of time without depleting its anxiously hoarded gold holdings. A lasting deficit in the balance of payments can therefore only be made good by capital importation, if it is not to lead to a disagio.

It is clear that the concentration of part of the world's gold holdings with the Reparations Bank cannot make any essential change in the circumstances. The settlement of temporary deficits in the various balances of payments will be accelerated, seeing that no time will be lost in transporting gold, and the overhead charges will be smaller in the absence of such transport. Economically, however, there will be no change. The mechanism will only act in so-called normal times. If, as at present, great tension ensues on the international money market, each note bank will reserve its gold holdings on behalf of its own currency. Lasting deficits in the balance of payments of a country will continue to be rectifiable only by importation. A regulation of currency rates thus ultimately means a regulation

³⁾ The reason of currency depreciation is often thought to be the deficit in State economy or rather the covering of such a deficit by the issue of uncovered paper money. The result of such a procedure, however, must necessarily affect the international balance of payments if a depreciation of the currency in question is to result on the world market. The connection is as follows: The emission of paper money to cover a deficit represents a temporary enhancement of the social purchasing power over the product value of society. Therefore, the demand for goods comes to exceed the supply. Prices rise; the sum total of prices exceeds their value total. It becomes profitable to import goods from abroad, while exportation grows unprofitable. The balance of payments — all else being equal — suffers from increased imports and decreased exports and the result of this is a depreciation of the currency on the world market. The disagio tends towards restoring the equilibrium of the balance of payments in making importation more difficult and exportation more profitable.

of the international movement of capital, a fact which finds due expression in the alleged purpose of the Reparations Bank.

This is the reason why the banking interests of the United States of America have been so insistent in their pursuance of the plan of founding a bank of this kind. It is obvious that at times of tension it is only the United States that can spare gold out of their superabundant holdings for the purpose of preventing a depreciation of the currencies of other countries. It is equally obvious that the capital importation requisite for rectifying a lasting deficit in the balance of payments can in the first place likewise only be furnished by the United States. Equally so, that the more critical the situation becomes in other countries the greater will be the importance of the United States with their powerful reserves.

All these facts must naturally make it apparent that, although its Board is formally to consist of representatives of the six States participating in the Reparations problem besides the United States of America, and though Germany and France are even to be allowed one additional representative each, the Reparations Bank will act as an instrument for the enhancement of America's influence. It will become an instrument of United States imperialism, however much the statutes of the bank may seem to obviate any such purpose. Therefore, it is clear that those capital-exporting-countries which are competing with the United States for the possibilities of capital investment — these being Great Britain and France in particular — will do their utmost to weaken the position of the United States in the Reparations Bank by all means at their command.

Nature of the Young Plan.

The actual nature of the Young Plan may be summed up as follows: The Young Plan is a compromise, in which however, the accentuation of imperialist differences is clearly apparent; it is a step in the direction of encircling the Soviet Union and the starting point of serious imperialist struggles. It will accelerate the Western orientation of Germany in so far as this implies an attitude friendly to the Allies against Russia; but on the other hand it leaves the question of the relations of Germany to the United States and to the Allies in general unsettled, and is thus liable to entail serious differences in connection with future military and political alliances. The struggle which is being waged by the United States for the purpose of dividing France and Great Britain and by the latter for the purpose of gaining Germany as an ally of the Entente, is by no means weakened by the Young Plan, but is conducted more systematically within the Plan.

Both the new compromise itself and the concealment of its real import will serve the Social-Fascists as means for spreading pacifist illusions. In view of this fact it should be all the more clearly pointed out that the Young Plan represents no solution of the Reparations question or at most a short-lived temporary solution, and is in the first place a factor making for war, either against the Soviet Union or among the Imperialist Powers. It was never so apparent as at the Paris Conference how this so-called liquidation of the great world war, unmistakably paves the way for the preparation of further conflicts.

The advantages Germany is likely to derive from this new regulation are sevenfold:

a) The hitherto unlimited number of annual payments is established at 58 (or with the current year of transition, 59);

b) The "welfare index", which threatened a constant increase in the annual payments, disappears;

c) The amount of the annuities is reduced from 2,500 million marks, plus welfare index, to an average of 2,050 million marks. The present value of these payments totals 36,500 million marks, whereas the Dawes plan contained no temporal limitation of the annuities and officially upheld the tremendous total of 132,000 million marks, as established by the Reparations Commission;

d) For the first 10 years (not including the current year of transition), which are of particular importance, seeing that nobody can know what may happen in 10 years time, Germany will be paying only 18,600 million marks, as against something between 25,000 and 30,000 millions according to the Dawes plan.

The following table, culled from the "Frankfurter Zeitung" of June 2nd, furnishes a good survey of the differences between the Dawes and the Young plan, respectively, for the first ten years.

Payments in the Next Ten Years. (subject to reservations) (in millions of marks):

	D. wes Plan	Paris Plan	Alleviat on	Transfer guarantee	Sum to be raised.	Not undertrans-fer guarantee.	Deliveries in kind.	Allowance for war damages.	Inter-Allied payments to U. S. A.
1st Transition									
Year 1929-30	2500	1933	567	—	—	—	—	—	840
2nd Year 1930-31	2500	1708	792	1048	524	660	750	743	853
3rd Year 1931-32	2500	1685	815	1025	513	660	700	743	914
4th Year 1932-33	2500	1738	762	1078	539	660	650	743	959
5th Year 1933-34	2500	1804	696	1136	568	660	600	743	1095
6th Year 1934-35	2500	1867	633	1207	604	660	550	743	1150
7th Year 1935-36	2500	1892	608	1232	616	660	500	743	1168
8th Year 1936-37	2500	1940	560	1280	640	660	450	743	1215
9th Year 1937-38	2500	1977	523	1317	659	660	400	743	1273
10th Year 1938-39	2500	1995	505	1335	668	660	350	743	1289
11th Year 1939-40	2500	2043	457	1383	692	660	300	743	1305

e) Out of the profits of the Reparations Bank a part is to be set aside for the payment of the last 22 annuities which only serve the payment of inter-Allied debts to the United States after the actual Reparations have been settled in 37 annuities. Furthermore, Germany is to be allowed 2/3rds of a reduction, if any, made in the inter-Allied debts;

f) The control by the Allied Commissioners of the most important German economic positions will be replaced by a control on the part of the Reparations Bank;

g) The evacuation of the Rhine territory is likely to ensue shortly.

The disadvantages of the new regulations as it affects Germany are as follows:

a) There is no longer any transfer protection. In making out that the German annuities may be divided into a section of 600 million marks, not protected by the transfer and including the interest on the Dawes loan, and a balance enjoying transfer protection, the Germany daily papers are altogether in the wrong. There is now no transfer protection such as was provided by the Dawes Plan, but only the right to a two-years moratorium for the transfer of the amount destined for inter-Allied debts, a reservation also contained in the inter-Allied debt agreements. The postponed transfers must be effected within two years after their original maturity.

It is obvious that the said transfer moratorium is provided for an unusual contingency, and is by no means to serve as a permanent reduction of the sums to be transferred or, subsequently, of the payments to be made in marks, as was the case under the Dawes Plan.

In place of the express prohibition of transfers in the eventuality of the stability of German currency being thereby endangered (as provided for in the Dawes Plan), and of a suspension of German payments if the non-transferable sums total 5000 millions, we have merely the recommendation by the bank Committee to the Allied Government to modify the realisation of the plan, as we have pointed out above.

b) The mobilisation of the actual Reparations payments, to be effected by the Reparations Bank according to the plan. The German Government will be obliged to surrender the requisite obligations, to cover which the revenue of the German State Railways, and certain other items of revenue (customs and excise), are to be set aside to the total of 150 per cent. of the requisite yearly amount⁴⁾. Obviously, the commercialisation and mobilisation of the Reparations debt will render a further reduction difficult.

c) The deliveries in kind are to be reduced successively by 300 millions in the course of 10 years, after which they will cease entirely.

Whether the advantages Germany has gained have been set off by the drawbacks involved in the new plan, cannot be well estimated, seeing that the advantages and disadvantages are hardly liable to comparison, the former referring to the reduction of payment in money and the latter to the transfer problem and the end of transfer protection. Their estimation depends on the

⁴⁾ v. Annexe 3, para. 3.

manner in which we regard the further difficulties attending the transfer.

France, which stands to receive 50 per cent. of the German Reparations, bears the main onus of the allowances made to Germany. On the other hand it will enjoy certain advantages, such as the connection between the inter-Allied debts and the Reparations, the French payments being immediately covered by those received from Germany, so that they will in no wise encumber the French budget. Furthermore, there is the mobilisation of the actual Reparations payment and thus also their final guarantee against any further reduction as an outcome of amicable negotiations.

Great Britain has allowed Germany the extent of the payments hitherto made to the United States, and also the claims of the Dominions. The principle underlying the Balfour note, whereby Great Britain was to receive as much in Reparations and inter-Allied debts as it owed the United States, could be upheld for the future but not retrospectively. On the other hand, Great Britain attained a reduction in the deliveries in kind, which had proved so irksome to British industry.

Italy benefitted by an augmentation of its share by 20 per cent., so that it will be able to cover its inter-Allied liabilities out of its Reparations receipts.

Belgium gained the particular advantage of an indemnification for the German paper marks issued in Belgium during the occupation.

The United States, being in the strongest position, made only an insignificant sacrifice in the form of a reduction of the cost of occupation. On the other hand, they energetically repudiated any attempt to reduce the inter-Allied debts, while in the Reparations Bank they secured a powerful instrument to strengthen their economic position.

We thus clearly see the compromising character of the Young Plan: it is a weak temporary compromise which would seem to have been concluded for the express purpose of preparing a forcible solution of capitalist differences.

The Young Plan Liable to Aggravate Class War in Germany.

If they are to compete on the world market and meet their international liabilities, the German bourgeoisie will have no choice but to beat their imperialist rivals by reducing wages. They must therefore try to increase the productivity and intensity of labour at the present, if not at a lower, wage level.

The transfer obligation established in the Young Plan necessarily leads to a further increased pressure on the German working class. The economic mechanism here in operation is rather complicated and may be summed up somewhat as follows:

The obligation of the German Government to pay the annuities in foreign currency constitutes an item in the balance of payments of the country which at present — even without Reparations payments — closes with a deficit. Hence the chronic dearth of foreign means of payment and the constant menace of a depletion of the gold holdings and a disagio of the mark. To prevent the outflow of gold, the Reichsbank will have no other means than to increase the bank rate and restrict credits⁵⁾, or in other words to make the rate of interest on loan capital so high that capital importation will prove lucrative and make up in a private way for the deficit in the balance of payments. This means that the bearers of German economy, private capitalists, joint-stock companies, corporations, communities, and the like, will find it more profitable to raise loans abroad than at home and that foreign capital will consider it more advantageous to invest money in Germany than elsewhere. A transfer obligation will mean a higher rate of interest for loan capital.

A high rate of interest however, means that the German industrial capitalists, almost all of whom employ foreign loan capital as well as their own, will have to part with a far greater share of their profit in the way of interest than their competitors on the world market⁶⁾. They will therefore be forced to

⁵⁾ The simple refusal to part with gold for export purposes is naturally no solution, since it would immediately lead to a disagio of the mark.

⁶⁾ German capital now pays more than 10 per cent. for loans, which is about twice as much as the average rate in France or Great Britain (June 1929).

exercise increased pressure on their workers so as to diminish their wage expenses and thus remain in a position to compete on the world markets. The Young Plan thus leads automatically to an increased pressure on the German workers and consequently to an accentuation of class differences. It will be for the Social Democratic Government to support the bourgeoisie in this serious situation.

The Young Plan and Foreign Politics.

Objectively considered, the Young Plan represents a certain change in the position of Germany in imperialist world politics, in the first place as regards the Soviet Union.

With the progress of socialist development in the Soviet Union, with the sharpening of class struggles in the capitalist countries, and with the growing emancipation movement in the colonies, the Soviet Union is by its very existence becoming a mortal danger to the capitalist order of society. The bourgeoisie is mobilising to overthrow the proletarian dictatorship by force of arms. But the deep-rooted differences among the individual capitalist Powers, which arise from the nature of imperialism and are indivisible therefrom, render united action very difficult.

The economic strength of Germany for an economic blockade and its central position in Europe in the case of a war against the Soviet Union, are factors of particular importance. The creation of the Young Plan and the evacuation of the Rhine territory are to serve to accelerate the process of Germany's inclusion in the anti-Soviet camp.

The differences among the imperialist Powers, however, are far too deep-rooted to make a full satisfaction of the desires of the German bourgeoisie possible. The attempt of the German bourgeoisie to get back some of their lost colonies, or at any rate to attain a modification of the Eastern frontier established by the Versailles Treaty, have met with a decided refusal on the part of the Allies. The main contradiction embodied in the present position of Germany — an internal economic development urging towards imperialist expansion without the possibility of colonial conquest — is hardly to be overcome by pacific means through the medium of negotiations.

Even the premature evacuation of the Rhine area, will apparently not prove a very simple matter. The Young Plan merely contains the stipulation that, as from September 1st, no further occupation expenses are to be included in the annual payments to be made by Germany.

On the other hand, Stresemann pointed out in a speech held on June 24th, that he could

“... declare most emphatically that, once the evacuation is effected, there can be no question for the German Government to accept any kind of commission of conciliation or compromise.”

The second important foreign political circumstance is the attempt to include Germany in the resistance of the European debtor nations against the United States.

It thus appears that the introduction of the Young Plan has influenced Germany's foreign policy only in one respect, in the direction of a speedy and decided adherence to the anti-Soviet front. On the other hand, the question of an American or an Anglo-French orientation has by no means been decided for the German bourgeoisie.

* * *

The question of a ratification of the Franco-American debt agreement has led to considerable attacks on the United States. If France fails to ratify the debt agreement by August 1st, it must pay the 400 million dollars owing to the United States for the army supplies left in France by the Americans (this being known as the “Commercial Debt”); if France ratifies the agreement in question, these 400 millions will be included in the political debt.

So as to persuade Parliament of the necessity of this ratification, Poincaré held a speech of 6 days' duration in the United Commission for Foreign Politics and Finances. He did not attain the desired result. Against the protest of Poincaré, the

French Parliament passed a resolution, according to which the Government was to appeal to the United States for a further postponement of the settlement of the Commercial Debt. The American Government replied in the negative, politely but firmly, Mellon declaring that, if the ratification did not ensue by August 1st, he presumed France would pay the sum of 400 million dollars owing to America.

This caused great excitement in the French press and led to a Parliamentary resolution for the ratification of the debt agreement, though only with the reservation that France would not pay unless the payments provided for in the Young Plan were actually received from Germany. The United States, however, have often declared that they will not accept any conditional ratification. It is to be expected, however, that France will finally give in, though it is obvious that the American attempts to loosen the Anglo-French alliance have by no means been advanced through this insistence on ratification by August 1st.

Future of the Young Plan.

In Germany the introduction of the Young Plan must necessarily lead to a further alienation in industry and to an increase in the class struggle.

It is by no means the entire German bourgeoisie that is agreeable to the Young Plan. It is well known that Vögeler, Germany's former second delegate and general manager of the United Steel Works, retired under pressure on the part of the heavy metal industries, which would not go beyond the original offer made by Schacht⁷⁾. That the German Government, which undoubtedly represents the majority of the bourgeois classes, should favour the Young Plan in spite of the greatest difficulties, is to be explained as follows:

The main advantage of the Dawes Plan as compared with the Young Plan lay in the pronounced transfer protection contained therein. But just the experience of the last few months has shown that before the transfer protection became effective in the sense of the Dawes Plan, i. e. before the Reparations Agent suspended the purchase of foreign bills and before the Reparations payments could accumulate with the Reichsbank, the latter would be forced under pressure on the part of the Agent, to effect an increase in the bank rate and restrictions in credit to just the same extent as would be the case under the pressure of the transfer obligation during the operation of the Young Plan. The economic consequences are thus the same.

The risk of a renewed inflation, too, and the consequent probability of an acutely revolutionary situation, with a view to forcing the Reparations creditors to revise the Dawes Plan under the threat of a social revolution, is a method which only a very small section of the heavy industrialists would care to attempt, to whom inflation would mean big profits. The majority of German capitalists are chary of adopting such methods, since they are not sufficiently sure of their power to resist any such shock; they have therefore chosen the less dangerous policy of accepting the Young Plan, which provides for a reduction of Reparations as against the Dawes Plan, stimulates the influx of foreign capital through the Reparations Bank, and ensures a maintenance of deliveries in kind for the present and the prospect of financing them in a different form in the future.

The German capitalists hope to be able to tide over the next 10 years — possibly with the insertion of a moratorium without any acute transfer crisis. With the help of the Social Democrats, they will increase their pressure on the German workers (by a reduction of unemployment insurance, an increase of customs and excise dues, and in some cases direct wage reductions), so as to lessen the costs of production and augment exports.

In his Parliamentary speech on June 24th, Stresemann outlined the position as follows ("Abend" of June 24th):

"Hugenberg and the German National Party led by him made no mention of the situation that would result

from a refusal of the Young Plan; they say nothing of the terrible effects of the crisis with which, as they profess, they wish to point the German people the way to freedom. This crisis would lead to the ruin of the entire industrial middle class. The great firms would be able to weather it, but the middle class in economy would never stand the absence of all credit. The outcome of this crisis, which Hugenberg recommended at Marburg, would be that the inordinately powerful industrial concerns would be faced by nothing but enterprises of an entirely dependent nature."

The most important fact is that the German capitalists believe time will work in their favour. The price they hope to get for their participation in the anti-Soviet front has a rising tendency. Their main consideration is that the next war cannot be long in coming and would upset all agreements regarding inter-Allied debts and Reparations. In view of the advancing accentuation of social and imperialist differences, this calculation is not likely to be very far wrong.

But even if a war does not ensue so speedily, the differences will so greatly increase that the collection of Reparations payments will prove more and more difficult.

In summing up we may say that the Young Plan is just as far from being a "final" solution of the Reparations question as the Dawes Plan was. It represents a further step towards gaining Germany for the anti-Soviet campaign and is an instrument making for the continuation of the rivalry between Great Britain and the United States on a larger scale. The Young Plan does not represent the end of the Reparations struggle but only its continuation along new lines.

II. The New Agrarian Crisis.

The Price Slump on the Grain Market.

There is every indication of the fact that the latent agrarian crisis is about to reassume an acute form. We have had frequent occasion in these reports to point out that it has been temporarily possible to overcome the agrarian crisis resulting from the great slump in grain by the following three measures:

a) A reduction of ground rents (a fall of land prices and leases) in keeping with the lower price level for agricultural products;

b) An increase of grain prices by the elimination of the Soviet Union as a grain-exporting country, and in a smaller measure by the operation of the Canadian grain pool;

c) For the European grain-importing countries, an enhancement of prices by means of higher import duties on agrarian products.

The main reason of the great price slump lies in the big transitional stocks, which have remained over from last year's harvest. These big stocks are the outcome of the exceptional harvests of the last two years.

The World's Output of Wheat

(without the Soviet Union) figured as follows in millions of metric centals:

1909—13	1924—25	1925—26	1926—27	1927—28	1928—29
823	840	903	913	950	1030

The world's crops in the last two years were thus, respectively, 50 and 150 million metric centals in advance of the average of the preceding years. Consequently, as there has been no corresponding increase in the world's consumption of wheat, a transitional reserve has accumulated of 62, or according to another estimate of 90, million metric centals⁸⁾.

The big harvests of the last two years were the outcome of good yields rather than of an increase of the area under cultivation.

⁷⁾ v. the public accusations directed against Thyssen by G. Bernhard.

⁸⁾ The alternative figures are culled from the "Wirtschaftsdienst" of June 7th, 1929, and from the "Kölnische Zeitung" of May 28th, 1929.

The area under wheat developed as follows:

	Area under Wheat (In millions of hectares)					
	1909/13	1924/25	1925/26	1926/27	1927/28	1928/29
World (without Soviet Union)	79.4	87.4	88.5	91.7	93	94
Thereof:						
Europe (without Soviet Union)	29.3	27.1	27.9	28	28.4	—
Canada	4	8.9	8.4	9.3	9.1	—
United States	19.1	21.3	21.1	22.8	23.7	—
Argentina	6	6.5	7.1	7.4	7.5	—
Australia	3	4.4	4.2	4.8	4.9	—

The ground under wheat is thus considerably larger than was the case before the war. The increase falls to the share of the big wheat-producing oversea countries, where the cultivated area is 40 per cent. greater than in pre-war times, while in Europe the cultivated area is slowly approaching its pre-war extent, which it has not yet quite regained. In the last few years it has been the United States in particular in which the area under wheat has increased (by 2.4 million hectares or more than 10 per cent. between 1924 and 1927).

The crops of the wheat-producing countries figured as follows in the last few years:

	Wheat Crops (in millions of metric centals)				
	1921/25	1925/26	1926/27	1927/28	1928/29
United States	219	184	226	237	245
Canada	100	108	111	120	145
Argentina	55	52	60	65	70
Australia	35	31	44	32	43
	409	375	441	454	503

The wheat crops of these four chief exporting countries have increased in the last two years by roughly 100 million metric centals above the average of the seven preceding years. The bulk of the world increase falls to the share of these chief exporting countries and the entire surplus output figures as an additional supply on the world market, the consumption in these countries showing no tendency to increase. In the case of Canada, Argentina and Australia, with their very sparse population, a possible increase of home consumption would not make any perceptible difference; in the case of the United States there is an apparent tendency towards a smaller consumption of bread per head of the population, obviously in connection with the great concentration of the inhabitants in the cities. According to the relatively accurate official calculations⁹⁾, which take both the transitional stocks and foreign trade and seedcorn into consideration, there is the following consumption per head (allowing for quantities used as fodder):

Per Capita Consumption of Wheat in U. S. A. (In bushels)					
1899/1908	1909/13	1914/20	1921/25	1925	1926
5.6	5.3	5	4.7	4.4	4.3

There are two weak points about this calculation; in the first place the unreliability of the harvest statistics themselves, and in the second place the vague allowance for such quantities of wheat as are used for feeding live-stock. Nevertheless, the statistics cover so great a period of time and are so pronounced in their tendency that there can hardly be any doubt as to their general trend.

In relation to the question of an exportable surplus, moreover, the problem of whether relatively more or less was consumed by man or beast is really immaterial. What is essential is the fact that, in spite of the increase of the population, the consumption of wheat within the country is practically stationary.

⁹⁾ Yearbook of Agriculture 1927", p. 751.

Wheat Output and Home Consumption in U. S. A.¹⁰⁾

	(In millions of bushels)				
	1899/1908	1909/13	1914/20	1921/25	1926 1927
Crops	678	690	845	804	830 872
Home Consumption (without seedcorn)	460	502	514	529	512 —

While in the last five pre-war years the difference between the home consumption and the crops showed an average of 188 million bushels per annum, the quantity disposable for the world market rose in the last five years to more than 300 million bushels. In view of the stagnant home consumption, every increase of crops means a corresponding increase of supplies on the world market.

It should be remembered that the total consumptive capacity of the world market as regards wheat is fairly limited and is liable to increase very little even in the case of low prices, as the following figures show:

World's Net Exports of Wheat (In millions of metric centals ¹¹⁾)				
1909/13	1924	1925	1926	1927
145	178	154	162	194

Obviously, in view of this small consumptive capacity of the world market, the increase of crops in the four chief exporting countries by from 50 to 100 million metric centals, or by roughly half the total quantity of wheat on offer on the world market, could but lead to a slump in prices.

This slump would have ensued at an earlier date, if a great part of the stock, particularly in Canada, had not been retained for the purpose of preventing a price drop. The transitional stocks, however, increased very rapidly in the last few years, and in view of the good harvest prospects the slump could no longer be avoided.

This low price level can naturally not be restricted to wheat. Low wheat prices necessarily lead to low feed prices and the latter a few months later to an overproduction and a crisis in the breeding and fattening of pigs and in one or two years' time to a crisis in cattle-breeding. Low grain prices automatically lead to a greater cultivation of other plants, to which the crisis thus extends. In this way we approach a general agrarian crisis.

The price slump in wheat reached its lowest figure at the end of May, and in June a marked improvement was noticeable. This was occasioned, as we shall explain later on, by the new Farmers' Relief Bill in the United States and by bad reports in regard to American crops, the accuracy of which can, however, be doubted.

Measures against the Agrarian Crisis.

The pronounced slump in grain prices at the end of May led to legislative measures in various countries. In such European countries as have a relatively small importation of grain, an increase of import duties appears to be indicated. In France, the duty on wheat was raised by a Cabinet decision of May 23rd from 35 to 50 francs per metric cental. In substantiating this measure, stress was laid on the necessity of raising the wheat output of the country. The same reason was advanced in Italy, where the duty was raised from 11 to 14 gold lire per metric cental. In Germany, the situation was slightly more complicated, the duty being bound to the trade treaty with Sweden, which had to be cancelled to open the way for an effective increase of duty.

With a view to effecting a customs increase, the German agrarians have gone to the length of propagating a purchasers' strike. In the official publication of the Agricultural Union of East Prussia, von Rohr-Demmin writes on April 19th:

"Agriculturists ought, and that immediately, to omit all increase of inventories, all new constructions, and all

¹⁰⁾ Ibid.

¹¹⁾ "Annuaire Internationale de Statistique Agricole" 1927/28, p. 235.

personal expenditure in the way of clothes, household chattels, etc. The quicker and more radical the steps which are taken in this regard, the better it will be for agriculture. If agriculturists henceforth abstain from purchases and introduce methods of economy making for decreased expenditure, and if in consequence unemployment increases and the crisis grows more acute, even this will be better than that agriculture should continue to play the thankless part of a prop to a system which must die, if Germany is to live. Abstention from purchases is a factor of self-help. If this self-help is at the same time a measure against a ruinous system, the service rendered to agriculture will also be a service rendered to the country."

In the case of all these countries which import wheat, the matter is theoretically fairly simple. The sinking of the world market price is counteracted by higher duties. The home prices remain at the same level; the ground rent is unchanged, as are also the profit of agricultural capital and the prices for consumers. From a practical standpoint, however, the matter is much more complicated. Duties cannot be changed very often. If the world market price continues to fall, the duties will prove inadequate and the home price come to fall short of what it was before the duties were raised. If the world market price rises again, the home price will do likewise, the profit of agricultural capital and the ground rent also rising. To master these difficulties, the Social Democrats have been propagating the idea of a sliding tariff scale, or of a monopoly of foreign trade in grain¹²⁾.

But how is the price of agricultural products to be maintained above the world market level, if the customs area in question produces an exportable surplus? An ordinary protective tariff must necessarily fail at such a pinch. In the case of industrial goods such a difficulty is easy to meet by the formation of a monopoly within the country; the surplus of home production over home consumption is placed at low prices on foreign markets, while home prices are kept at the level of world market prices plus the duty. In agriculture with its millions of small economic units, a monopoly formation is impossible, the nearest approach to it being a marketing organisation such as the Canadian wheat pool.

The solution of this problem in the case of Germany was found to lie in an export voucher system. Before the war, Germany had an exportation of rye. So as to maintain the price of rye within the country at the level of the world market price plus the duty, the rye exporters received per ton of exported rye an export voucher for the amount of the duty, which could be used in the importation of certain goods for paying customs duties in the place of cash. If this system is stripped of the camouflage with which it was provided for political reasons, it appears in the following light: **The State pays an export premium to the amount of the duty, so that the surplus of rye can be exported and so that the home price may remain at the level of world market price plus duty.**

It was this system which the representatives of farming interests in the United States desired to introduce in that country by means of the Jones-Ketcham Bill after the MacKary-Houghen Bill had been frustrated by the veto of President Coolidge and the treachery of the Senate. This attempt also failed in face of the resistance of all representatives of financial interests. led by Herbert Hoover. It is obvious that the financial capital of the United States has nothing to gain by raising ground rents through the augmentation of the prices of agricultural products. The financial capital of the United States is far less interested in agriculture than is the case in Europe. In so far as the big capitalists of the United States themselves carry on agricultural production, they are sure of netting a profit even at a low price level, in view of the highly perfected technique of modern American agriculture when practised on

a large scale. The chronic need of the farmers is one of the foundations of the tremendous profits of American monopolies.

The Jones-Ketcham Bill contained a provision according to which export vouchers were to be issued on the exportation of wheat, maize, rice, pigs, cattle, cotton, and tobacco, figuring for the first five articles at half the current rate of duty and for cotton and tobacco at 2 cents a pound. These export vouchers were to be used instead of ready money for customs payments, after the manner of the German system. According to the calculations of Lamont, Secretary of State for Trade¹³⁾ the realisation of this plan would have had the following result:

The increase of costs for the public would theoretically figure as follows:

	Quantities sold in millions ¹⁴⁾	Amount of Export Premiums in cents	Increase of price in millions of dollars
Pigs (lbs.)	12,500	1/2	31
Cattle (lbs.)	13,500	7/8	118
Maize (bushels)	500	7 1/2	37
Rice (lbs.)	1,109	1	11
Wheat (bushels)	660	21	139
Cotton (lbs.)	7,800	2	156
Tobacco (lbs.)	1,300	2	26
			518

Thus the increased takings of the farmers would total roughly 500 million dollars annually, a sum which is fairly insignificant when compared with the total income of the United States, of which it represents at best rather less than one per cent.

The sum total of export premiums would figure somewhat as follows according to the calculations of the Secretary of State for Trade on the basis of the exports of the last three years:

	Average Exports 1925/27	Rate of Subsidy	Value of Subsidy in millions of dollars
Pigs (1000's lbs.)	1100	3/8 cent	4.07
Wheat (1000's bushels)	185	21 cents	38.8
Corn (1000's bushels)	18	7 1/2 "	1.36
Rice (1000's lbs.)	164.8	1 cent	1.65
Cotton (1000's lbs.)	4658	2 cents	93.2
Tobacco (1000's lbs.)	492	2 "	9.8
Cattle (insignificant)	—	—	—
			Total . . 148.88

This total is also by no means large enough to be a heavy charge on the American budget, being well within the limits of the budgetary surplus of the last few years.

The whole leading apparatus of American financial capital, with President Hoover, Mellon, State Secretary for the Treasury, Hyde, State Secretary for Agriculture, and Lamont, State Secretary for Trade, at its head, was mobilised against this plan. Their line of argument is summed up in the "Ten Points" of Hoover¹⁵⁾, the most essential of which are as follows:

1. This plan means a direct subvention of agriculture and would thus represent an increased onus for the tax payer.

2. A considerable part of the subvention would benefit not the farmers but the dealers and speculators who happen to have the stocks in hand at the introduction of the system; the export vouchers could only be sold at a discount, and so on.

3. The introduction of export premiums would lead to increased duties in the importing countries and would therefore lose much of its efficacy.

4. As a result of the export premiums, the foreign workers-up of cotton or maize could purchase the latter cheaper than Americans, which would mean a menace to American industry and would cause a tariff increase for finished goods.

¹³⁾ "New York Times" of April 22nd 1929.

¹⁴⁾ The average quantities sold by the farmers in the production years 1925/26, 1926/27, and 1927/28.

¹⁵⁾ "New York Times" of June 22nd, 1929.

¹²⁾ The world market price naturally decreases as soon as the industry of the customs-protected States throws too great a quantity on the world market, in which case the customs-protection only apparently achieves its object. The home price together with the duty is artificially held above the world market price until the latter itself sinks, putting an end to profit within the country. Hence the tendency towards international monopoly organisations.

5. The promotion of the output of certain products would interfere with the agronomically necessary transition to "mixed" farming.

6. The most decisive argument of Hoover however is as follows:

"If the price increase benefits the farmers, the plan will stimulate over-production and thus increase the supply on the world market, which will in its turn lead to a falling-off of the world market price and thus also of the profit of the farmers, so that the plan would automatically frustrate itself."

This is the crucial point of the whole line of argument, all else being of secondary importance. The same argument is repeated in the expatiations of Mellon, Hyde, and the others.

Is this argument correct?

It is so in principle, if no steps are to be taken in the direction of a compulsory restriction of output. If, for instance, the wheat price were to be raised by 21 cents per bushel, or by about 20 per cent., the cultivation of wheat in the United States would probably greatly increase. In 1919, the area under wheat figured at 75,500,000 acres, as against 58,500,000 acres in 1927, being thus almost 30 per cent. greater. A renewed vigorous expansion of the cultivated area would be likely to ensue under the influence of increased prices on the home market. This would result in an increase of crops by from 100 to 200 million bushels, which quantity would pass exclusively to export purposes, since the consumption would certainly not rise in the case of higher prices. As, however, the consumptive capacity of the world market being very limited, as has already been shown, this surplus, ranging between one seventh and one fourth of the entire exportation, would obviously lead to a great price slump on the world market.

The analysis thus tends to confirm the general thesis that in the case of a maintenance of free agricultural production the means for economic politics are not sufficient to procure the farmers of the United States a secure existence. It is only by a compulsory restriction of output together with a system of export vouchers or else with a grain monopoly, that high home prices could be procured. This would have been the natural consequence of an introduction of the export voucher system. The financial capitalists of the United States, however, will by no means agree to such a step, although in a private form they are employing a similar system in industry with great advantage to themselves.

Once again trust capital has after a hard fight carried off the victory over the unorganised agricultural small capitalists. Export vouchers were struck off the legislative Bill in question. What remained over was the institution of a Farm Board for the purpose of the co-operative organisation of sales; to this end the Board is to be provided with a permanent State credit of 500 million dollars. This is an attempt to improve the position of the farmers at the expense of commercial capital. Whether this Board will ever develop into a pool like that existing in Canada, remains to be seen.

The passing of the amended Bill was facilitated by the fact that in June grain prices rose considerably after their serious slump. The reasons of this rise were twofold:

1. The delegation of a commission to China for the purpose of studying the possibility of employing the American wheat surplus in the form of starvation relief. The United States would thereby not only get rid of their wheat surplus, but also do good commercial and political business in China.

2. The spread of unfavourable reports as to the harvest prospects in the United States and in Canada.

* * *

Since these lines were written, the harvest prospects in the United States and Canada have continued to deteriorate. The wheat crops of the two countries were calculated in the middle of July to be 80,000,000 metric centals smaller than in the preceding year. On the Southern hemisphere, the dry weather hampered the early development of grain, the consequence being that the crops of Argentina and Australia will probably also fall short of those of 1928.

This fact has been exploited by the speculators for the purpose of forcing up the wheat prices.

Wheat Prices

	End of May	July 1st	July 15th	Excess over May
Winnipeg . . .	106 cents	135 cents	167 cents	58 per cent.
Chicago . . .	97 "	116 "	138 "	42 " "
Liverpool . . .	7 s. 7 d.	8 s. 6 d.	9 s. 10 d.	29 " "
Buenos Aires	7,9 pes.	9,3 pes.	11,1 pes.	41 " "

In the middle of July prices had thus reached something like the level of the previous year; in the second half of the month a further slight increase took place. Naturally a renewed recession is not excluded. The crops in the European wheat-exporting countries have been most favourable; the import requirements of these countries will be smaller than last year. The stocks from the old crops are large enough to eliminate all question of a shortage of wheat in the coming campaign. The big transitional reserves must needs exercise considerable pressure on the prices of the coming year.

So much is certain, that a slump of wheat prices such as threatened in May and which might have caused a general recession of the prices of agricultural products, has now been avoided. Heat and drought have quickly changed the aspect on the grain market, but the economic tendencies mentioned above continue to obtain and the price rise of the last few months by no means represents the elimination of a new acute phase in the agrarian crisis.

III. General Section.

The General Aspect of World Economy.

The most important factors of economic development in the last few months have been as follows:

a) The improvement in the business position in the pronounced capitalist countries, to which we drew attention in the first quarter of this year, has made further progress. In the United States this improvement has risen to the dimensions of a regular boom, such as has not been experienced since 1923.

b) A series of capitalistically less developed countries, such as Poland and Roumania, have not yet been affected by the general upward trend and are still experiencing a certain depression.

c) The former partial crises regarding coal, oil, sugar and cotton have not yet, or only in a very small degree, been affected by the upward movement and still constitute weak points in the improved business position.

d) Besides these structurally weak points, there are already certain symptoms of an approaching new critical phase of a very acute degree. The tension which has already prevailed for several months on the money market in the form of an international credit crisis has lessened in the last few weeks, but is likely to resume an acuter form in the next few months in connection with the heavy autumn purchases of Europe in the way of raw materials and foodstuffs. Unrestricted Stock-Exchange speculation still continues.

e) The improvement in the business position has led to a decrease but to no real absorption of unemployment. Among capitalist countries it is only France that shows a certain shortage of labour, which is not even felt in the United States in spite of the business boom. In Great Britain and Germany there are still more than one million unemployed in either case.

f) The improvement in the business position has removed the contradiction between productive and consumptive capacity of the market only in exceptional cases, e. g. that of the iron and steel industry of the United States, but in general this contradiction has remained and is the most significant fact about the present declining period of capitalism. The development of the productive apparatus and the increase of productive capacity continue uninterruptedly even in such branches of industry as are suffering from a chronic crisis.

The best example of this kind is to be found in the cotton industry. Between the middle of 1927 and the beginning of 1929, the number of spindles increased by half a million¹⁶⁾.

¹⁶⁾ "Memorandum on Production and Trade, 1913 and 1923/27."

The two leading countries in the textile industry, Great Britain and the United States, have together decreased their number of spindles by nearly three millions, but other countries, especially those with a young textile industry, have increased their total of spindles by about the same amount, so that the increase reported from the Soviet Union — about half a million — represents the actual accretion for the textile industry of the world. In this connection it is probable that the output capacity of the United States has increased rather than decreased in spite of the smaller number of spindles, as a result of improved mechanical devices.

A similar state of affairs may be assumed to prevail in the other branches of industry, in regard to which no comprehensive statistics are to hand. Thus the League of Nations reports¹⁷⁾, that, without any further technical changes, the coal output has been increased by one quarter in Germany, one quarter to one third in Great Britain, and by one half in Poland.

The theoretic capacity of the automobile industry in the United States is estimated at ten million cars, the actual output amounting to about half this figure. The capacity of the boot and shoe industry in the United States is 720 million pairs per annum, the actual output again figuring at about half this total. Apart from fluctuations in the business position, the fundamental disparity between capacity and output grows greater and greater.

This anomaly leads to an ever-increasing competition for the control of the world market, notwithstanding the fact that such part of industrial production as is disposed of outside the respective producing countries is far smaller than is generally supposed, figuring for the entire industry of the United States at no more than 6 to 8 per cent., for Great Britain at something like 25 per cent., and for Germany at about 15 per cent. But without such exports there would either be a glutting of the home markets in spite of the great formation of monopolies (the cartels having in such an eventuality to be dissolved), or else the exploitation of productive capacity would have to be further diminished and the costs of production increased, seeing that amortisation and general overhead charges would remain unchanged. Thus exportation is a necessary presumption for profit in the case of most of the industries in highly capitalised countries, even if it is carried on at dumping prices.

As regards the business position of the main capitalist countries, the following chief points are worthy of note:

In the **United States**, as already remarked, there is a business boom such as has not been experienced since 1923. The month of May brought record output figures in a number of industries, especially steel, iron and automobile construction. The output of the Steel Trust was in advance of its theoretic capacity. Even the textile industry, which has been suffering a depression for years, has "got going" again. Only the building trade shows a slight falling-off in comparison with last year. The great consumptive capacity of the home market, so characteristic of the business boom, led in the month of May to a deficit in the trade balance. The weak points in the business situation are the agrarian crisis, the over-production of oil, the threatening over-production in the automobile industry and in the building trade, the tension on the money market, and the continuation of an exaggerated Stock-Exchange speculation. The elements of the coming crisis are already clearly apparent.

The business position in **Great Britain** gives evidence of a steady, if slow, improvement in spite of the high rate of interest and the constant tension on the money market. The upward trend is most marked in the iron and steel industry, while the position of the cotton industry is still very bad. Exportation is likewise looking up, figuring in May 15 per cent. higher than last year, but experiencing a considerable setback in June.

In **France, Belgium and Sweden**, there is a sustained favourable business outlook, although in France, now that home prices have reached the world-market level all along the line, sales meet with increased difficulty and are causing a considerable deficit in the foreign trade balance. A slight improvement is likewise noticeable in **Italy**.

The economic position of **Germany** is highly complicated. The high rate of interest and the credit restrictions of the Reichsbank, as also the uninterrupted influx of foreign capital during

the last few months — all consequences of the international crisis and of the difficulties attending the Reparations negotiations — tend to prolong depression and impede the elements of improvement. The last few weeks appear to have brought a change, the great recession in the number of unemployed, especially in the outdoor professions, the big output of the heavy metal industry, and the increased freight traffic on the railways all pointing to an improvement in the business outlook. At any rate, the estimate of the Institute for Business Research would appear to be undeservedly pessimistic.

Certain East European countries, particularly Poland and Rumania, continue to be a prey to depression. In the case of Poland, the responsible factor seems to be the circumstance that the unfavourable harvest of last year coincided with low world-market prices for grain and also that the most important branches of Polish industry, coal and textiles, are suffering from a chronic crisis.

The business position in the **oversea countries** is very varied. In Canada there is a business boom running parallel to that in the United States. The Latin-American countries — with the exception of Mexico and Brazil — show an upward business tendency. So does South Africa. As regards the Asiatic countries, **Japan** cannot completely shake off the depression it has been experiencing for some years. In **China**, there is a certain improvement in the economic position, notwithstanding the terrible want prevailing in certain provinces. The diminished extent of civil war, the slightly improved financial position of the Nanking Government as an outcome of the new customs tariff, and the recommencing importation of capital are the main factors of this improvement, the importance of which must, however, not be overestimated. The unsolved agrarian problem, the discontent of the peasants, which again and again finds utterance in armed rebellion, the constant threat of renewed warfare among the generals, and the starvation prevailing in wide areas, demonstrate the weakness of the new regime in China.

The economic position of **India** is likewise very complicated. Contrary to the tendency in the rest of the world, the bank-rate has been reduced three times in the course of the last half-year and now figures at 5 per cent., which is lower than in London. Foodstuff imports are on the increase. In industry there are serious labour struggles, which make it difficult to pursue the actual course of the business development.

UNEMPLOYMENT.

The improvement in the business position, the spring season, and the reaction to the extraordinary cold winter have led to a considerable decrease in unemployment in most countries, without, however, anything like liquidating the permanent tremendous unemployment total of the most developed capitalist countries: Great Britain, Germany, and the United States. The number of unemployed in Germany is still above that of the corresponding period last year, while in Great Britain it is only just below it. The United States keep no unemployment statistics¹⁸⁾, but it is remarkable that in spite of the business boom no complaints have been heard as to a shortage of labour. The calculation made by capitalist experts, who have every reason to put the labour-market conditions in the United States in as favourable as possible a light¹⁹⁾, show an unemployment total of 1½ millions (without agriculture) for the boom year 1923. As since then organic — or, as it is called in America, "technological" — unemployment has drawn wider circles, the pre-

¹⁸⁾ The next census, which will be held at the end of this year, will for the first time register the number of unemployed.

¹⁹⁾ In the comprehensive work just published under the title of "Recent Economic Changes", constituting the report of the "Unemployment Commission", operating under the auspices of President Hoover, the following minimum figures for unemployment in the United States have been recorded (not including unemployment in agriculture):

In Millions:							
1920	1921	1922	1923	1924	1925	1926	1927
1.4	4.3	3.4	1.5	2.3	1.8	1.7	2.1

¹⁷⁾ "The Problem of the Coal Trade", p. 9.

sent number of unemployed is likely to be greater than in 1923, figuring in spite of the boom at something between 1½ and 2 millions. It is only in France that complaints are heard as to a shortage of labour.

Percentage Figures for Unemployment.

End of the Month	Great Britain	Belgium	Denmark	Germany	Holland	Norway	Sweden	Australia	Canada
1927 June . . .	8.8	1.4	18.5	6.3	6.0	22.5	9.5	6.4	3.2
1928 May . . .	9.8	0.7	14.3	6.3	4.4	18.0	8.1	—	3.7
1928 June . . .	10.8	0.6	13.7	6.2	4.4	14.4	7.6	11.2	3.2
1929 January . .	12.3	3.5	27.6	19.4	18.9	22.2	14.9	—	6.3
1929 February .	12.2	4.6	30.0	22.3	20.9	21.0	14.6	—	6.8
1929 March . . .	10.1	0.9	23.3	16.9	15.1	20.0	14.2	9.3	6.0
1929 April . . .	9.9	0.4	13.7	11.1	3.2	—	12.0	—	5.5
1929 May . . .	9.9	0.4	11.0	9.1	3.0	—	8.1	—	—

PRICE FORMATION.

The following table furnishes a general view of the price formation in the last few years and the last few months, respectively. It appears that the general price level in the last three years — if we disregard the consequences of currency fluctuations — had a falling tendency and that this has not changed even in the present year of business prosperity. Hence the constant complaints of capitalists as to the small profitability of business.

Wholesale Prices.

(On the basis of 100 for 1913)

	Gt. Britain (Economist)	France	Germany (Statist. Reichsamt)	Italy (Bachi)	U. S. A. (D. o. Labor)	Japan	India	China
1926	149.4	702.6	134.4	603	143.3	178.9	148	164.1
1927	134.7	617.2	137.6	495	136.7	169.8	148	170.4
1928	140.9	620.6	140.0	462	140.0	170.9	145	—
1928 May	146.7	632.6	141.2	465	141.3	171.5	147	164.5
1929 January . .	136.1	630.6	138.9	461	139.3	172.2	145	160.1
1929 February .	137.3	638.5	139.3	463	138.5	171.0	144	162.4
1929 March . . .	138.1	639.4	139.6	461	139.7	171.0	143	164.2
1929 April . . .	135.0	626.7	137.1	455	138.7	169.6	140	161.2
1929 May	131.5	622.8	135.5	452	137.3	168.6	—	—
1929 June	131.8	610.0	135.1	442	—	—	—	—

These index figures are naturally not comparable with one another. They merely furnish a survey of dynamics in the individual countries, and even these dynamics are veiled by the method of index calculation which tends to set off the contradictory price formation of certain goods.

THE INTERNATIONAL CREDIT CRISIS.

The tension on the world market, which was already apparent in the first quarter of the year, has continued to rise during the last few months and has led to an international credit crisis. The outward expression of this crisis is to be seen in the further rise of the bank-rates. In the months from April to June, the bank-rate in certain countries moved as follows:

Hungary	by 1% to 8 %
Austria	by 1% to 7½%
Germany	by 1% to 7½%
Poland	by 1% to 9 %
Rumania twice, by 2 and 1½% to 9½%	

What is more important is the fact that in the two world-market centres, London and New York, a further increase in the bank-rate could only with difficulty be avoided. The "Economist"

of July 6th, writes as follows on this matter at the head of its half-yearly survey:

"The money market will long have reason to remember the first half of 1929 as a period of alarm, since, besides the raising of the bank-rate to 5½ per cent., a further raising again and again appeared imminent."

As regards New York, Mitchell, Chairman of the National City Bank, demanded in the monthly review of the bank, a raising of the bank-rate to 6 per cent. as early as the beginning of April. On May 21st, the "Federal Advisory Council", after deliberations lasting an entire day, resolved to recommend to the Federal Reserve Board an increase in the bank-rate from 5 to 6 per cent. However, both in London and in New York it has so far been found possible to avoid a further increase.

What are the actual reasons of the credit crisis?

It starts from the United States, where the business boom has led to a vigorous increase in the amount of money required for circulation and consequently to increased recourse to bank credit. The business boom, however, was anticipated by a hectic speculation in shares on the Stock Exchange, occasioning a big rise in credits on securities, so-called "broker's loans". It has for months been the policy of the Federal Reserve Board to put a stop to this Stock-Exchange speculation, which could only be done by a restriction of credit. The increased credit requirements of economy as a result of better business were and are in direct contradiction to the policy of the Federal Reserve Board in favour of credit restriction.

The development of the entire Federal Reserve system may be seen by the following table:

Development of the Federal Reserve System. (In millions of dollars)

	Gold	Bill Discount	Purchases	State Loans	Entire F. R. Credit	Note Circulation	Deposits
14. 1. 1926	2,790	506	327	369	1,202	1,733	2,325
12. 1. 1927	2,916	490	338	311	1,139	1,750	2,274
12. 1. 1928	2,808	439	393	545	1,377	1,680	2,314
11. 1. 1929	2,632	877	477	239	1,593	1,745	2,452
18. 4. 1929	2,779	994	141	161	1,296	1,653	2,380
17. 5. 1929	2,838	915	146	156	1,217	1,647	2,366
14. 6. 1929	2,876	934	114	170	1,228	1,644	2,366
28. 6. 1929	2,896	1,017	83	150	1,263	1,689	2,420

This table shows firstly that the note circulation is smaller than at the beginning of the year, in spite of the great expansion in the turnover of goods at the present time, and secondly that the Federal Reserve banks have been anxious to raise the credits granted for immediate business purposes, as may be seen by the greatly increased total of discounted bills. On the other hand, both the purchase of bills on the open market and the investment in State securities have declined, so that altogether the credit advanced by the System has decreased since the beginning of the year by 300 million dollars.

The actual purpose, i. e. that of restricting Stock-Exchange speculations with borrowed money, has not been attained. The "Broker's loans" have dropped by no more than a few hundred millions and speculation on the Stock Exchange continues undiminished. It is obvious that the Federal Reserve system by no means controls credit or the money market of the United States.

On the one hand, the great industrial enterprises have loaned part of their cash reserve immediately on Change; on the other hand, the big banks, led by the National City Bank — whose chairman, Mitchell, has repeatedly publicly condemned the "anti-Stock Exchange" policy of the Federal Reserve Board — at the critical moment placed great sums at the disposal of the Stock Exchange so as to prevent a crash through a sudden collapse of prices.

The credit-restriction policy of the Federal Reserve Board, however, hit the European money and capital market with full force, and this in a threefold sense:

20) "New York Times" of May 22nd 1929.

a) American money invested in short-termed loans was withdrawn from Europe as soon as there was a possibility of a higher rate of interest on the American Exchange.

b) European loan capital came to America.

b) The emission of loans in America for foreign countries and for Europe in particular suffered a severe setback.

The result was the raising of the bank rate in almost all European countries, credit restrictions, and an increasing difficulty in the way of the business boom in Europe, subsequently also big gold consignments from Europe to America.

The countries which have been spared the general credit crisis are France, Switzerland, and Belgium (the two latter being intimately influenced by the Paris money market) and also India. In France, the low bank-rate of 3½ per cent. was maintained throughout the entire half-year. In India, the bank-rate was reduced on April 11th, May 9th, and January 6th, by 1 per cent. in each case and now figures at 5 per cent.

It is difficult to gain a clear impression of events in India. If we investigate the returns of the Bank of India, we shall see that the credits advanced by this bank were far smaller at the beginning of June than a year ago, but that its cash reserves had risen from 120 to 175 million rupees. It appears that British capitalists have employed their influence on the administration on the Bank of India in order (by means of lowering the bank rate), to prevent gold from leaving London for India.

The international credit crisis led to a renewed vigorous movement of gold towards the United States. The mechanism in question is explained in the following simple way in the May report of the National City Bank: The United States have a balance of trade showing a surplus of 1,000 million dollars; in the way of interest on their foreign capital they derive 800 million dollars, and in the way of inter-Allied debts 200 millions making together 2,000 million dollars²¹. If capital exportation falls considerably short of this total, the difference must be made up by gold imports. The foreign emissions in the United States figured as follows:

1st half 1928	1,049 million dollars
2nd half 1928	440 million dollars
1st half 1929	243 million dollars

This great recession in foreign loans during the last year, together with the withdrawal of short-termed capital, could but lead to a credit crisis in Europe and to fresh gold imports to the United States²².

The gold losses or gains of the most important banks of issue were as follows in the last half year:

F. R. Banks of U. S.					
(millions of dollars ²³) . . .	2,588	2,824	2,896	plus	308
Bank of England					
(millions of sterling) . . .	153	163	155	plus	2
Bank of France					
(millions of francs)	32,679	36,596	36,625	plus	3,946
German Reichsbank					
(millions of marks)	2,729	1,764	1,911	minus	818

²¹) The official balance of payments of the United States for the year 1928 shows a net balance of capital exportation of no more than 730 millions, even with the inclusion of the "invisible" items, chief among them the tremendous expenditure of American tourists abroad, figuring alone at 600 million dollars.

²²) A greatly diminished quota of the decreased foreign emissions, moreover, fell to the share of Europe:

	Percentage of Foreign Emissions in Total Emission	European Share in Foreign Emission
1927	18	41
1928	16	47
1st quarter 1928	19	55
1st quarter 1929	9.5	16

²³) The entire gold stocks in the United States are roughly 1,200 millions, forming the property of the Treasury (Fed. Res. Bulletin, June, p. 3967).

The gold holdings of the Federal Reserve bank have thus increased by more than 300 million dollars, whereas Germany has lost 818 million marks, corresponding to about two thirds of the American gain.

The Bank of England was hardest hit by the outflux of gold in June. Again and again the necessity of another raising of the discount rate was taken into consideration, seeing that the foreign currency rates, especially for the dollar and the mark, were above par. At the beginning of July, Norman, Governor of the Bank of England, unexpectedly went to New York, whereupon heavy purchases of sterling bills on the New York Stock Exchange brought about an improvement of the sterling rate. It would appear, therefore, that Norman came to some agreement with the New York Federal Reserve Bank for the purpose of bolstering up the rate of exchange though this is officially denied²⁴).

The necessity of an agreement was given, seeing that the rate of sterling in relation to the dollar is generally lowest in the autumn, so that the gold holdings of the Bank of England are mostly exposed in the autumn to the severest drain, both consequences of the heavy autumn purchases of foodstuffs and agricultural raw materials by Great Britain. At present 150 million pounds is looked upon as the necessary minimum for the gold holdings of the Bank of England. So as to prevent the gold holdings from a further diminution in the autumn and so as to obviate a further rise in the discount rate, an agreement with the United States has apparently been reached. This would wholly correspond to the policy of the Federal Reserve Board, which is out to diminish Stock-Exchange credit but by no means to curtail Europe's purchasing power in regard to American goods by a serious credit crisis. The outflux of gold from Great Britain, however, has continued, and it is doubtful whether the Bank of England will be able to avoid a further raising of the discount rate.

Upon the whole there has thus been a certain alleviation of the credit crisis in the first weeks of July, though there can be no question of a reduction of the bank-rate in any country. In the poorer European countries and also in Germany industrial capital has to pay from 10 to 20 per cent. interest on loans, a state of affairs which must be considered decidedly critical.

INTERNATIONAL MONOPOLIES AND INTERNATIONAL COMPETITIVE STRUGGLES.

In attentively pursuing events in regard to the international formation of monopolies, we can day by day see new proofs of the accuracy of the Leninist thesis according to which monopolies do not put an end to competition; it is fully apparent how altogether wrong the Social Democratic theory of international correlations as a basis of a peaceful super-imperialism is. We need but cite a few examples from among the ample material of the last two months.

Chemical industry: Three national monopolies have been developing in this industry, the British Chemical Trust (Imperial Chemical Company), under the leadership of Lord Melchett, the "I. G." (Interessen-Gemeinschaft für Farben) in Germany, and finally, not yet so firmly established, the DuPont concern in the United States.

The peculiar thing about the development of these trusts is that, as a result of technical evolution, the lines of division between the chemical and metallurgical, chemical and coal industry, and chemical and electricity industries, respectively, are increasingly vague, so that in a certain sense chemicals have become a centre of all industrial production, not to speak of the very close connection between the chemical and the munition industry. It results that the chemical industry forms a nucleus of a very extensive system of industrial concerns covering the most varied branches of industry. The opinion often advanced at the time of the decline of inflation concerns, that the age of concerns comprising numerous inter-dependent industrial enterprises was definitely over, has proved altogether incorrect in regard to the chemical concerns in the widest sense of the word.

This is illustrated by the development of each of these three gigantic systems. The British Chemical Trust is just now effecting a capital increase of 20 million pounds, following on

²⁴) "Statist" of June 13th 1929.

an increase of 10 millions in the summer of 1928. This will bring the total capital up to 95 millions. The range of the Trust is being ever widened by the accession of additional enterprises, many of which are no longer chemical concerns in the actual sense of the word but rather metallurgical works, and coal and ore mining enterprises. The entire concern has interests throughout the British Empire, besides intimate relations with the Solvay group in Belgium and certain connections with the United States, although the British-American financial syndicate founded with great publicity by Mond a year ago for the purpose of obtaining capital from the United States for the reorganisation of the British industry has not been able to develop any noteworthy activity, obviously by reason of the great tension on the United States money market. Hence, the new capital increase of the Mond concern.

The "I. G." responded to the capital increase of the Imperial Chemical Company in various ways. In the first place it concluded a hard-and-fast agreement with the Swiss coal-tar-dye industry. Seeing that the "I. G." has already for some time been in close connection with the French colour industry, about 90 per cent. of the Continental (representing 80 per cent. of the European, and 70 per cent. of the universal) output of tar-dyes is closely connected with the "I. G." The purpose of this alliance is competition with the British and American tar-dye industries, especially on the Far Eastern market.

In the second place, the "I. G." has greatly increased its connections with the United States, founding the American I. G. Chemistry Company, which enjoys the participation on the Board, of many big financiers including Henry Ford and Teagle, Chairman of the Standard Oil of New Jersey. On the other hand, the "I. G." has taken over 40 per cent. of the shares of the Berlin Ford Works, delegating one of its leading men, Bosch, to the board of this enterprise. Whether any immediate business transactions are connected with these alliances it is difficult to say: with the Standard Oil the "I. G." is at the same time competing and allied, the latter in regard to the production of petrol out of coal²⁵); while for the automobile industry — and still more so for aviation, to which both Ford and the General Motors are paying increased attention — the "I. G." will act as a supplier of light metals, sparking-plugs (Bosch), and the like. Probably, however, the "I. G." is pursuing the main object of forming American alliances as a set-off against similar steps taken by Mond.

A process of concentration similar to that in Great Britain and on the European Continent, is also noticeable in America, where the Dupont concern is becoming the organisational focus of the chemical industry and competing most actively on the world market with European concerns. This enterprise, moreover, enjoys a very pronounced tariff protection, which is to be further increased by the new tariff laws.

These three monopoly organisations — which are at the same time factors of prime importance in armaments, in which connection they are altogether "national" industries — are carrying on a violent competition on the world market. Their development points to certain political bloc-formations — United States, British Empire, European Continent.

An analogous development is proceeding in regard to artificial silk. Here again certain giant concerns are evolving, a British, a German, and an American concern, which are inter-connected in various ways, although they are just at present fighting one another by competitive price reductions, at the same time forcing such enterprises as are still independent to join one or other of the rival groups.

In spite of many attempts, it has not yet been found possible to create international alliances in regard to certain lines of industry threatened or already affected by serious crises, e. g. coal and oil. Nay, even the conference convoked by Hoover at Colorado Springs for the purpose of restricting the overproduction of oil in the United States, has proved futile. The output figures at present at more than 2.7 million barrels daily, which is 300,000 barrels more than a year ago, the stocks increasing from week to week. Similarly, all attempts to form a sugar cartel have failed in view of the resistance of

the Java sugar industry, which is in a position to produce at particularly low prices.

In existing international cartels the struggle of national interests continues. On the occasion of the renewal of the International Crude Steel Union, due to occur in the autumn, the German steel industry is determined to demand an increase in its quota by 5 per cent., to which the West European participants are not likely to consent.

Even in the copper cartel, which last year yielded its participants super-profits of at least 100 million dollars, serious internal struggles have ensued. The tremendous price increase (in the spring of 1929, dealt with in our last report) has led to resistance on the part of the consumers and to a substitution of other metals for copper. Hence the well-known drop in copper prices in the last few months, to which the cartel responded by a restriction of production. On the other hand, opposition has arisen within the cartel under the lead of the Belgian-African Union Minière du Haut-Katanga, which according to the statutes of the cartel was not obliged to take part in the recent restrictions. There is consequently a growth of differences within the cartel, enhanced by the British preparations for the exploitation of copper occurrences in Rhodesia; it is within the bounds of possibility that the cartel will be dissolved.

We thus see a similar process on all hands, i. e. the formation of tremendous monopolies competing violently with one another and sometimes calling a truce in the form of an international alliance, which, however, is always liable to be dissolved again by reason of the unequal development of the individual enterprises or of the individual national cartel-organisations.

IV. Special Section.

Germany.

The economic position in Germany has grown extraordinarily complicated during the last few months by reason of a series of contradictory tendencies.

Economy is most seriously affected by the scarcity of loan-capital which, emanating from the United States, has at times almost reached the dimensions of a credit crisis. The Reichsbank was forced to raise the bank-rate from 6½ to 7½ per cent., on April 25th and at the same time to effect credit restrictions.

Apart from the serious effect of the American withdrawal of short-termed loan-capital from Europe in general and Germany in particular, it was especially the crisis of the Paris Reparations negotiations in the second half of April which exercised a deterring influence on the capital market and on all business activity.

The situation improved after the Paris negotiations came to a definite conclusion, whereupon the influx of foreign capital was resumed. The loan received from the United States after the failure of endeavours towards raising a loan within the country, not only made it possible to restore the mark to par, but also helped to replace, by gold purchases in London, part of the outflux of gold and foreign bills from the Reichsbank to the extent of as much as 1,000 million marks. The high prevailing rates of interest, however, remained in force and continued to prevent long-termed investments and constructional operations.

On the other hand, following on the serious setback caused by the long duration of cold weather in the first quarter of the year, there was a certain incentive to increased production so as to make up for the deficiency in output which has resulted. In this way there were two conflicting tendencies, the one making for a continuation of the depression which has now lasted for more than a year, and the other working in the direction of improved business. The fact that the depression continues to affect mainly the output of articles of consumption while the improvement is most noticeable in connection with the manufacture of the means of production, points to an approaching change for the better, provided international influences, such as the credit crisis and the economic trouble threatening from the United States, do not put a premature stop to the upward movement.

The output of the heavy metal industries has increased and is now greater than it was a year ago.

²⁵) Allegedly, the Standard Oil has also started the production of artificial petrol.

In regard to the fairly satisfactory position of coal-mining in the Ruhr district, the "Frankfurter Zeitung" of June 2nd writes as follows:

"The relatively good sales hitherto effected have been accompanied by an indefinite but by no means inconsiderable improvement of profits. The average of last December is said to have been regained; in the last four months it was rather higher as an outcome of increased sales on the home market. A very marked indication of the improved market position in Ruhr mining is to be seen in the fact that the "leisure shifts" introduced by reason of poor sales have for the last few weeks been abandoned, not occurring at all in March and April, while for May statistics, it is true, speak of 97,388 individual leisure shifts in the first three weeks, though these were mainly occasioned by the May-Day celebration. It may be said, therefore, that leisure shifts are at present no longer resorted to to counteract bad market conditions."

The iron and steel industry shows a greater daily output than last year. The world-market prices are very firm, thanks to the business boom in the United States, so that exports have developed favourably, while on the home-market with its customs and cartel protection profits are considerable.

Engineering came to occupy the first place in regard to German exports in 1928, outstripping the chemical industry. In the last few months, too, the volume of orders received from abroad was satisfactory, so that the decrease of sales on the home market was well balanced.

Building activity, which promised a considerable expansion by reason of the plans set up in the spring, experienced a setback owing to the high rate of interest for loan-capital; the good business position as regards constructional materials and the marked decrease of unemployment among the building workers, however, point to an improvement in this respect.

The general amelioration in economy is also evidenced by the vigorous increase in traffic, the number of loaded freight-cars figuring in June from 10 to 15 per cent, higher than in the corresponding month of 1928.

The business position of the industries engaged in producing ordinary commodities continues unsatisfactory. The textile industry is still occupied to no more than 60 or 70 per cent. of capacity, and business in the outfitting trade is decidedly slack. The footwear industry suffers considerably under the effects of foreign, particularly Czechoslovak, competition.

Development of Unemployment.

In the current year unemployment in Germany reached its peak at the end of February with a total of 2,622,000; by the end of May the number of unemployed had fallen to 1,011,000. There was thus a diminution by 1,611,000 in the course of three months. Even at the end of May, however, the total was a quarter of a million above that of 12 months earlier, while by the end of June the advance over last year amounted to 200,000. In this connection it must not be forgotten that by reason of the bad financial position of the unemployment insurance authorities the number of unemployed accorded relief had been greatly reduced in an administrative way.

The recession in unemployment is to the main part attributable to the greater degree of occupation in the seasonal industries, although a certain improvement is also to be ascribed to the business boom. The position of the individual industries shows great lack of uniformity; while in certain branches (chemicals, metallurgy, timber, etc.) unemployment has receded, it is on the advance in other lines.

There has been a rapid decrease of unemployment in the building trade, but an increase in the textile, wearing-apparel, footwear, and leather industries.

Foreign Trade.

The increase of German exports noticeable for the last four years also continued during the last few months. In the space of five years German exports have doubled, whereas before the war ten years were needed for the same development. Since at the same time imports have decreased, the foreign trade balance has greatly improved and in May showed an export surplus for the first time in a number of years.

Monthly Movements of Foreign Trade. (Millions of Marks)

	Imports	Exports	Export Deficit or Surplus	Finished-Goods Exports.
Monthly Av. 1913	898	841	— 57	562
January 1929	1319	1105	— 214	791
February 1929	1017	973	— 44	713
March 1929	1022	984	— 38	709
April 1929	1255	1231	— 24	876
May 1929	1122	1175	+ 53	826
June 1929	1077.6	1079.3	+ 1.7	788

If foreign trade in the next six months continues to develop as hitherto, Germany will this year — allowing for the increase of prices — have greater exports than in 1913 and a better commercial balance.

The reliability of German foreign trade statistics has frequently been questioned of late years. It is a fact that by reason of Reparations liabilities there is a tendency in Germany to present the economic position in general and foreign trade in particular in an unduly adverse light. To what extent this is reflected in official figures we cannot say. It is not excluded, however that, once the Reparations question has been newly regulated, the German foreign trade figures will be much more favourable than hitherto.

According to the figures to hand, the progress made in the first five months is very great when compared with the corresponding period of last year.

Foreign Trade in Millions of Marks.

	Imports	Exports ²⁶⁾	Import Surplus	Raw-Mat. Imports	Fin. Goods Exports
1st 5 Months 1928	6094	4912	1182	3174	3514
1st 5 Months 1929	5735	5468	267	3103	3915
Increase (+) or Decrease (—) ag. 1928	—359	+556	—915	—71	+401

The trade-balance deficit has receded by almost 1,000 million marks, in the first place owing to the increase of exports and to a smaller degree because of a decrease of imports. There has been a particularly marked advance in the export of finished goods, while the import of raw materials has diminished only very little.

If the albeit decreased onus of the Young Plan and the interest of capital invested in Germany are to be covered out of exports, or if, in other words, the deficit on the balance of payment, reckoned by the Statistical Bureau to amount to 3,700 millions, is to be covered out of goods exports, the exportation of finished goods — since an increase in that of food-stuffs and raw materials can hardly be excepted — would have to be augmented by a further 4,000 to 5,000 millions, seeing that an increased exportation of finished goods is only possible in the case of a corresponding increase in the importation of raw materials.

Since, according to our estimate, which is based on the calculations of the American Board of Commerce, the total consumptive capacity of the world market as regards finished goods amounts at present to roughly 40,000 million marks (or 2,000 million pounds), German finished-goods exports would have to oust those of other nations to the extent of one eighth of world market requirements or else appropriate the entire presumable increase in such requirements, if they are to make up for the deficit in the balance of payments. In the present

²⁶⁾ Including Reparations deliveries.

competitive circumstances on the world market this is altogether improbable. Therefore, a further alienation of German capital is inevitable.

France.

If compared with its great capitalist competitors, the United States, Great Britain, and Germany, France is characterised as regards its economic position by a very pronounced liquidity on the money market. The Paris money market has been completely free from the tension prevailing elsewhere. The bank-rate has remained unchanged at $3\frac{1}{2}$ per cent. French industrial capitalists have thus only half as much interest to pay for loan-capital as their main competitors, a fact which gives French industry and economy in general a certain degree of stability and assurance.

On the other hand, the lengthy spell of relative calm in the relations between capital and labour appears to be at an end. The process of adaptation to world-market prices now appears also to have spread to retail trade. Retail-trade prices and the cost of living are on the increase; the workers advance wage demands, strikes increase in number and vigour and involve an ever greater number of workers. The fact that there is a permanent shortage of labour in certain branches of industry strengthens the position of the workers. The French capitalists are in fear of losing the satisfactory profits they have hitherto been reaping and the undisturbed possibility of exploiting the workers.

The feeling of uncertainty is aggravated by the very serious deficit of the commercial balance in the first five months of the year. The vagueness of the political situation at home resulting from the problem of a ratification of the debt agreements likewise causes a complication of French economic life and impedes the further development of the business boom.

Output has continued to increase in the last few months, albeit very slowly.

Index Figures of Production

(From the "Statistique Générale" — on the Basis of 100 for 1913)

	1928	1929
January	116	137
February	119	136
March	123	138
April	123	139
May	123	139

Among the various branches of industry, coal-mining — also an exception — is well supplied with orders and working at a profit. The output is roughly 10 per cent. above that of last year's.

The output of the heavy metal industry has not increased any further. The iron and steel production in May was 3 or 4 per cent. above that of 1928.

Output of Iron, Steel and Coal. (Thousands of Tons)

	Coal	Iron	Steel
Monthly Average 1928	4,280	841	783
January 1929	4,425	905	837
February 1929	4,094	781	742
March 1929	4,562	880	804
April 1929	4,553	871	810
May 1929	4,425	891	819

In all branches of the iron-working industry and of engineering there is a satisfactory trend of business. Only in regard to agricultural machinery has a falling-off of orders been noticeable, longer credits being sought²⁷⁾. The railways have placed heavy orders for rolling stock. Many factories are replacing their machinery. Building activity, both public and private, is on the increase²⁸⁾, favoured by the very low rate of loan capital.

In France too, the textile industry is subject to depression, though not all branches thereof are equally affected. Thus the silk industry shows a better business development.

The price drop in regard to grain on the world market has enhanced the difficulties of French agriculture. The agricultural price index of the Comité de Forges²⁹⁾ — which comprises grain, meat, butter, eggs, potatoes, wine, sugar, coffee, and cocoa, and is thus rather unhappily put together — shows a status of 544.5 for the beginning of June (on the basis of 100 to represent 1913) as against 620 in May. So as to weaken the effect of the price-drop of wheat on the French market, the duty on wheat was raised from 35 to 50 francs per 100 kilogrammes.

In spite of the two weak points — textiles and agriculture — the business position is in general satisfactory and shows a slow but steady rise.

Shortage of Labour.

Contrary to other highly capitalist countries, France has no noteworthy unemployment; indeed, complaints are heard as to the shortage of labour.

Reports in this regard have been more frequent of late than was formerly the case. This is proof of the fact that there can be no question as yet of a business decline and also an indication that the capitalists desire to promote the immigration of reliable elements to exercise a pressure on wages. In spite of this loudly proclaimed shortage of labour, the position of the working class has not improved during the last few months, seeing that prices, though on the down-grade in wholesale business, still show a tendency to rise in retail trade.

The price formation shows an upward trend in regard to native products, especially animal food-stuffs, which have considerably risen in price in the course of the last twelve months; foreign goods, textiles, and vegetable foodstuffs show a decline. The retail-trade index, which is restricted mainly to foodstuffs (bread, meat, bacon, butter, eggs, milk, cheese, potatoes, beans, sugar, oil, petroleum, and spirit has quite pronouncedly risen³⁰⁾).

May 1928	January 29	February 29	March 29	April 29	May 29
546	599	602	607	615	626

This vigorous increase is the outcome of the important rôle played by animal foodstuffs in the said index.

There is, finally, an index of the cost of living which is reckoned for Paris every three months and comprises foodstuffs, rents, fuel, lighting, clothing, and sundry other expenses. It shows the following development.

1926	1927	1928	1929
4th quarter	4th quarter	4th quarter	1st quarter
545	498	531	547

Since the close of 1927 an increase of roughly 10 per cent. has ensued; it is obvious that under such circumstances there is much agitation among the working class for a rise in wages, and this has led to numerous strikes during the last few months.

Foreign Trade.

The low cost of living and the consequent low level of wages having enabled French industry to maintain an exceptional position on the world market for a number of years. In various reports we have pointed out that it has yet to be proved whether technical changes have eliminated the local disadvantages hampering the development of French industry before the war. The development of foreign trade in the last few months points to the fact that after its definite adaptation to world-market prices French exportation still meets with difficulties.

²⁷⁾ "Manchester Guardian Commercial" of May 23rd 1929.

²⁸⁾ Ibid. of May 9th 1929.

²⁹⁾ "Bulletin Quotidien" of June 13th 1929.

³⁰⁾ "Le Temps" of June 12th 1929.

Foreign Trade in the First Five Months
of the Year.
(Millions of Francs)

Imports:	1929	1928	Increase (+) or Decrease (-) as ag.
Foodstuffs	5,900	4,700	+ 1,200
Raw Materials	15,700	14,000	+ 1,700
Finished Goods	3,900	2,900	+ 1,000
Total	25,500	21,600	+ 3,900
Exports:			
Foodstuffs	2,400	2,600	- 200
Raw Materials	5,300	5,500	- 200
Finished Goods	12,700	13,000	- 300
Total	20,400	21,100	- 700

The most striking fact is the increase in the importation of finished goods in the face of an albeit slight decrease in exportation. This points to a lessened competitive capacity of French industry on the world market.

Nor is the entire trend of export trade at all favourable. Whereas the exports of Germany have been rising in the last few years since the stabilisation by roughly 500 million marks every year, France's exports show a downward tendency.

French Exports.

	Monthly Average (in Millions of Francs)
1927	4577
1928	4279
1929 (five months)	4022

A decrease of exports by 550 millions monthly naturally causes serious misgivings, the more so as it is questionable whether the consumptive capacity of the home market will continue to be as great as it has been of late years.

The deficit of the commercial balance — more than 5,000 millions in the first five months of 1929 — also arouses misgivings. If no change comes about, the deficit for the whole year will amount to 12,000 millions. The French trade balance, it is true, showed a considerable deficit — roughly 1,500 million gold francs (pre-war value) — even before the war, in 1913. On the basis of the returns for the first five months, it does not seem probable that this year's deficit would exceed that of 1913. Before the war, however, France's balance of payment was far more favourable, since the revenue from foreign capital investments was far greater than it is now. It is just for this reason that the great falling-off in tourist traffic, especially as regards Americans, is so seriously felt.

"Many reasons have been advanced for the decrease in tourist traffic, but French authorities seem to lay the most weight on two reasons, the very aggressive propaganda carried on in the United States by Germany, Italy, and Spain for the purpose of attracting tourists to these three countries, and the profit such propagandists have derived from the assurance that France collects a luxury tax from its foreign visitors.

"American visitors on the other hand are inclined to explain the decrease by the inevitable adaptation of French prices to the world-market level. This is, we are assured, absolutely true in regard to the most important items of the budget of expenditure of most tourists, especially in regard to first-class hotels, foodstuffs, and articles of luxury³¹⁾."

Italy.

The material to hand as to the economic position of Italy is very scanty and unreliable. There is often a considerable divergence between the words and the deeds of Fascist Government circles. With this reservation, it may be established that the business position in Italy has somewhat improved in the

course of the last twelvemonth. Thus we read in the annual report of the Banca d'Italia:

"In 1928 Italian industry advanced somewhat more steadily and more speedily along the path of its re-establishment. One year after stabilisation was effected, it could be perceived that the adaptation of production to the new currency conditions had been 'almost' perfected. By a new regulation and better exploitation of the plant, through the elimination of concerns not capable to hold their own, and through concentration or in other words by means of a progressive rationalisation, Italian industry has been rendered more efficient. The indications of a re-animation of the various industries were more frequent in 1928, especially in the latter half of that year. Attention may be drawn to the increase in raw-material imports, and to the decrease of unemployment, as also to the growth of the consumption of electric energy and to the growth of capital investments, which in 1928 figured at roughly 2,961 million lire as against 1,503 millions in the preceding year; finally also to the increase of traffic by land and sea. Demand has, however, not yet reached the level of production, while consumers have not in all cases succeeded in adapting themselves to the high cost of output³²⁾."

The first half of 1929 saw a continuation of the very slow improvement without the development of any business boom.

"Most industries are now working full time and though profits are low in comparison with those of the time before the stabilisation, there is less unemployment than a year ago, and the trend of business is steady. It is generally recognised that rising profits depend on a commercial and technical reorganisation, and a general process of rationalisation is noticeable, especially in regard to the cotton, wool, paper, and automobile industries, as also in mining and the building trade³³⁾."

With the close of the winter season, unemployment greatly decreased, standing in April at about 100,000 less than twelve months earlier.

Unemployment (in Thousands):

	1928		1929	
	Unemployed	Short-time Workers	Unemployed	Short-time Workers
January	439	76	462	17
February	413	58	489	16
March	412	47	293	16
April	356	46	257	17
May	307	46	228	9

The great increase of unemployment in the winter months was an outcome of the unusually cold weather. This fact explains the sudden subsequent drop in the unemployment total. It must be pointed out that these figures are only of value in regard to their movement, the absolute totals certainly being far greater than is officially admitted.

The economic position of Italy and its entire economic policy were summed up lucidly in a speech held by Martelli, Italian Minister of Economy.

"The Minister has recognised that industry is in a fairly difficult position; he acknowledges that there is an over-production in certain goods, for which he makes the unduly large number of enterprises in certain branches of industry responsible. He appears to be sceptical regarding the advisability of an increase of protective tariffs and concludes by saying that economic discipline is just as necessary as political discipline, and that the sound industries of the country must unite in order to be able to fight better on the world market.

"The Minister has thus in a certain measure prepared Italian industry for fresh sacrifices embodied in a selection of the fittest according to strictly Darwinian rules. He has advised each industry to save itself in this manner.

"Minister Martelli calls to mind that in a country, three-fifths of the population of which consists of peasants,

³¹⁾ "New York Times" of March 21st 1929.

³²⁾ "Frankfurter Zeitung" of April 3rd 1929.

³³⁾ "Manchester Guardian Commercial" of June 6th 1929.

an economic renaissance can only emanate from agriculture. He declares that Fascism opposes all excessive industrialisation in Italy, and that agriculture must occupy the first place in national economy, while industry takes a back seat³⁴."

In this speech we can see the contradiction in the Fascist policy. Now that the capitalist character of the Fascist Government has been revealed and has lost the Government its original adherence of petty-bourgeois circles and workers, it is attempting to create a new social basis among the wealthier peasantry. To this end there have been repeated tariff increases, the main campaign in this regard being known as the "grain war", which resulted in an increase from 11 to 14 gold lire per 100 kilogrammes. On the other hand, Fascist militarism cannot do without a great "national" armament industry, which, however, can exist only as part of the general industrialisation of the country. Hence the constant vacillation between industrial and agricultural promotion³⁵.

As a matter of fact, Italy really is still an agrarian country, the general character of which has not been changed by the industrialisation of the North. According to the census of September 17th 1927, the results of which were recently published³⁶, there were in Italy the following totals of industrial undertakings and workers:

	Industrial undertakings	Workers
Together	741,894	4,010,858
Hereof:		
Textile Industry		642,654
Clothing Industry		491,973
Foodstuff Industry		343,081
Mining (including Salt, etc.)		171,922
Metallurgy		122,519
Metal-working		478,896
Chemical Industry		100,000
Transports and News Service		516,050

These figures show that Italy is not a pronounced industrial country. On an average, there are not even six workers to each concern. The great predominance of textile and wearing-apparel workers over the workers of the industries producing the means of production, shows the character of Italian industry to be mainly that of a "light" industry. It is only such enterprises as work directly for the army that are equipped in an up-to-date way and well supplied with orders.

The foundation of Italian economy is and will continue to be agriculture, in which regard progress is slow in spite of the high-sounding phrases of Mussolini. The area under rye, barley, oats, and maize, has hardly increased at all of late years, while that under wheat has increased quite insignificantly.

Area under Wheat (Thousands of Hectares)

1926-27	4,915
1927-28	4,975
1928-29	4,978

Before the war, 4,743,640 hectares of the then smaller territory of Italy were under wheat cultivation. It is questionable whether the area under wheat is at all larger than it was before the war; at any rate the increase cannot be substantial. The yields per hectare have increased during the last two years, but it is open to doubt whether this is a result of better cultivation or of better weather conditions.

A weak point in Italian economy is foreign trade. The deficit in this connection shows a rising tendency.

³⁴) "Information Financière" of June 19th 1929.

³⁵) The budget for 1929-30 contains a series of items for irrigation, electrification of agriculture, etc., ("Bulletin Quotidien" of July 11th, 1929). A closer inspection, however, shows the sums provided to be very small, totalling about 30 million lire or roughly 350,000 pounds, a very small sum when compared with the tasks envisaged and the high-sounding speeches of Mussolini.

³⁶) "Bulletin Quotidien" of June 18th, 1929.

Foreign Trade (Millions of Lire)

	1928	1927
Imports	22,000	20,400
Exports	14,500	15,600
Import Surplus	7,500	4,800

The recession of exports falls mainly to the share of two typical export industries, silk and automobiles. The deficit further increased in the first four months of 1929.

Foreign Trade in First 4 Months (Millions of Lire)

	1929	1928
Imports	7,624	7,009
Exports	4,525	4,481
Import Surplus	3,099	2,528

This deficit in foreign trade is all the more menacing, seeing that an important item of the balance of payments, the remittances sent home by Italian emigrants, threatens to disappear. In the year 1928, the total of emigrants was not more than 24,000³⁷). Since the old stock of emigrants is partly losing touch with the old country and partly dying out, the remittances are likely to get smaller and smaller.

The import surplus of the last few years was mainly covered by foreign loans. According to data supplied by the Banca Commerciale, the foreign loans figured as follows:

Long-Term Capital Importation (Millions of Lire)

	1925	1926	1927	1928
State and Municipalities	1,900	—	1,140	—
Public Enterprises	—	380	374	—
Industrial and Financial Companies	190	903	1,414	812
Total	2,090	1,283	2,928	812

In the course of four years, 7,100 million lire of long-termed foreign loans came to Italy, but in 1928 the total was no more than 812 millions. The deficiency of the commercial balance could, therefore, not be made good and the note-bank was forced to part with considerable amounts in foreign bills. In this connection the Banca Commerciale reports:

"An unfavourable influence was exercised by the recession in emigration and thus in the remittances of emigrants, added to which there is the service of the Italian loans placed abroad (375 million dollars by the end of February, including the Morgan Loan of 100 million dollars), to which may still be counted the dividends for the great number of shares sold to America and other countries. Temporarily, moreover, various Italian capital investments abroad have adversely affected the rate of exchange. So as to improve the balance of payments, moderation is indicated in the issue of notes and the granting of bank credits, to which end the bank-rate should be maintained at a high level, while the outflux of capital must be prevented and expenditure curtailed. Although the so-called invisible part of the balance of payments is difficult to estimate, it may be assumed as insufficient to cover the deficiency in the commercial balance, which explains the recession in the Bank's holdings of foreign bills³⁸."

The holdings of foreign bills receded between the end of May 1928 and the end of May 1929 from 7.3 to 4.9 million lire. A still greater recession could only be prevented by the raising of the bank-rate from 5½ to 6 per cent. early in January and from 6 to 7 per cent. in the middle of March. At the same time,

³⁷) "Economists" of July 13th, 1929.

³⁸) "Frankfurter Zeitung" of April 3rd, 1929.

the credits accorded by the bank of issue have been restricted; the note circulation has receded since the de facto stabilisation of the currency by almost 3,000 million lire and now stands at 16,000 millions. It is hoped that prices may be forced down with a view to preventing importation and promoting exportation. Hitherto these measures have not proved very successful. Bacchi's wholesale index dropped from 464 in April 1928 to 455 in April 1929, or by not more than 2 per cent. On the other hand, the cost-of-living index (Milan) has risen in the same space of time by 6 per cent. The position of the working class has undoubtedly continued to deteriorate in the last twelve months.

Great Britain.

Three years have passed since the collapse of the General Strike. When the miners' struggle had likewise collapsed, a very serious depression set in in the British labour movement. For forty years there have never been so few strike days as in the years 1927 and 1928.

We are now apparently at a turning-point in the development of labour struggles in Great Britain. After the overthrow of the first MacDonald Government the working class, disappointed at the failure of Parliamentary politics, took up the economic struggle with great vigour. The failure of the general strike and of the miners' struggle, due to treachery on the part of the leaders, led to a strong reaction in the sphere of labour struggles and to a renewed orientation in the direction of Parliamentary methods. The result of this movement may be seen in the election victory and in the second term of office of the Labour Party.

The new Government is in an extremely contradictory position. The capitalists expect the Labour Party to assist materially in rationalisation, especially as regards the removal of such obstacles as arise to rationalisation in the works through the traditional rights and usages of the Trade Unions. The workers, again, look to the MacDonald Government for the fulfilment of certain promises made by the Labour Party during the election; the re-establishment of the seven-hour day in coal-mining, the abolition of the anti-trade-union law, the diminution of unemployment, and the support of the Government in the realisation of long-postponed claims for better working conditions.

The contradiction between the expectations of the workers and of the bourgeoisie, respectively, must needs lead to a considerable struggle between capital and labour in the near future. In this struggle, the MacDonald Government will attempt to keep the workers in check with various promises, while actively helping the capitalists. The Labour Government is a government of the British bourgeoisie, as is shown by the friendly reception and the constantly growing recognition on the part of the bourgeois press. Some examples of this attitude may be quoted here:

The Conservative "Statist" of June 8th writes as follows:

"It would be an exaggeration to declare that the outcome of the elections is looked upon in banking circles with any degree of alarm. It is recognised that, in view of the present position of the parties, the Labour Government can cause very little trouble in the coming Parliament... Besides this, the Labour Government will do all in its power to gain the confidence of the City. As regards the conduct of State finances, the result obtained in 1924 — apart from the plan of a Russian loan, which led to the defeat of the first MacDonald Government — was very appreciable; Mr. Snowden in particular, who is now again Chancellor of the Exchequer, gaining an enviable reputation during his term of office in 1924, and worked in an effective and amicable co-operation with our central banking authorities."

The "Economist" of June 29th (Monthly Supplement) states:

"Industry has accepted the outcome of the elections and the Government of the Labour Party with practically unruffled calm... The accession to power of MacDonald and his colleagues caused little disquiet... In general industry is inclined to give the new Government a chance and let it show what it can do."

The choice of personalities forming the Ministry has met with the particular approval of the press. The disappearance of Wheatley from the new Cabinet is just as much welcomed as

is the appointment of Thomas and especially that of Ben Turner, the champion of industrial peace.

What has been achieved by the MacDonald Government so far is fully calculated to call forth the satisfaction of the bourgeoisie. Clynes, the new Home Secretary, has refused an amnesty for the miners condemned in 1926, while the delay in the resumption of diplomatic relations with the Soviet Union, the continuation of the same policy as hitherto in India (refusal to interve in the great trial of leaders of the revolutionary workers of Bombay), the ostentatious, theatrical peace asseverations of MacDonald, the way in which Thomas has approached the question of unemployment — all these facts have served to pacify the British bourgeoisie and to convince it that the Labour Government will look after its interests as well as, if not better than, Baldwin's Government did. The correspondent of the "Frankfurter Zeitung" had reason to write a short while ago that, from the standpoint of British Liberalism, the Labour Government is pursuing rather too "Right" a policy.

While the MacDonald Government avoids any step which might prove disagreeable to the British bourgeoisie, and while the General Council of Trade Unions has resolved to continue negotiations in regard to "industrial peace" with the employers, the workers are endeavouring to obtain recognition of their demands. The pressure of the working masses is so great that the reformist leaders of the individual trade unions are unable to keep the movement in check. Four great categories of workers, textile workers, miners, railwaymen, and engineers, are preparing to take up the struggle.

The employers in the cotton industry have called upon their workers to accept a wage-cut of roughly 13 per cent. They point to the very bad position of the cotton industry and to the fact that the present wages have been in force since 1922, when the cost-of-living index stood at 185 as against 160 at the present time. The trade unions of the cotton industry have declined this suggestion on the part of the employers. A written vote of the employers was taken in the matter, seeing that according to the regulations of the Association a lockout can only be effected if at least 80 per cent. of the industry approve it. The approval of 92 per cent. was established. The wage reduction is to be put through as from August 1st, when the lockout will commence if the workers refuse to accept the cut. The Government is attempting to prevent the outbreak of the struggle by the establishment of an investigatory committee, but, as the "Economist" of July 6th writes, whatever the Government does, the employers of Lancashire are resolved to put through the wage reduction. About 500,000 workers will be affected by this measure.

The National Union of Railwaymen, which is the chief railway trade union, resolved at its annual conference on July 4th, to demand of the railway companies that the 2½ per cent. wage-reduction agreed upon with all railwaymen last year, should lapse in three months time. The Associated Society of Locomotive Engineers and Firemen, and the Railway Clerks' Association had already adopted similar resolutions at an earlier date, so that all the railway employees of Great Britain are backing up this demand. The simultaneous demand for the nationalisation of transport is not of serious importance at the present time.

The engineering workers put forward a claim to an increase of wages by eight shillings a week. The employers replied that they would be inclined to approach the question in six months' time, a suggestion to which the trade unions would not agree. The "Economist" remarks in this connection, that all wage-movements attempted by engineering workers since 1924 have proved futile with the exception of an increase of two shillings a week in July 1927.

A greater leniency was evinced by the ship-builders, who responded to a demand of the trade unions for a five shilling weekly wage-increase, by according a rise of 2s 10d and declaring themselves willing to work out an agreement with the trade unions on a national scale.

The situation is naturally most difficult in regard to coal-mining. The Executive Committee of Miners Federation resolved, under pressure on the part of the workers, to call upon the Government for an immediate repeal of the law regarding the eight-hour day, as the Labour Party had promised before and during the elections. This step on the part of the trade unions has caused considerable uneasiness in the industry.

The "Times" of June 17th, points out that the introduction of the eight-hour day has increased the working output by 18 per cent. The greater output, together with the wage-reduction following the defeat of the miners, has diminished wage-costs by an average of 3s 2d a day. Even after this reduction of wage-costs, mining has upon the whole been experiencing a depression. The Government could not, after dispassionately examining the facts, hold the opinion that a sudden return to the seven-hour day would be possible without a catastrophe, all the more so as the miners called for a reduction of working hours without any reduction of wages. If a crisis was to be avoided, the introduction of the seven-hour day must be postponed.

Most of the tariff agreements concluded after the mining lock-out terminate at the end of this year or at the beginning of 1930. The workers desire to negotiate regarding the new tariffs on the basis of the seven-hour day. There is, therefore, a prospect of very extensive struggles in almost all essential branches of industry. The Labour Government will find itself in a very difficult position, since the disappointment of the workers at the treachery of the Government in view of the promises made before and during the elections, will be very great. The prospects of the C. P. of Great Britain of gaining influence with the masses and becoming a real mass-party were never so great as they will probably be in the near future.

Rationalisation in Great Britain.

As already remarked, the bourgeoisie expects from the MacDonald Government energetic support of capitalist rationalisation in industry. For although there can be no doubt at the present time that a considerable rationalisation has started in Great Britain, it must be admitted that what has been done so far does not go beyond organisational preparations for rationalisation, while technical rationalisation with an adaptation and development of the works has commenced only in a very slight degree.

Besides other organisational measures, the greatest pressure has already been brought to bear on the workers, for the purpose of intensifying labour. In this regard, however, friction has ensued in view of the traditional rights of some of the trade unions, according to which certain work may be performed only by the members of definite unions. These regulations as to the employment of workers in factories, some of which are of long standing, are a great hindrance to a rational organisation of the exploitation of labour in industry.

On the other hand, the existence of very small factories — an inheritance from the time when, relying on its monopoly for the supply of the world market, British industry was pronouncedly specialised — is an obstacle in the way of rationalisation.

The organisational preparations for rationalisation are, therefore, advancing most speedily in the more concentrated metal-working industry, the concentration of which is making rapid progress by an amalgamation of enterprises. The endeavours towards the creation of a coal cartel on a national scale, have hitherto led to no result. Meanwhile, the new "Five County" organisation makes successful progress, uniting as it does roughly 100 million tons under its control out of the 250 million tons of Great Britain's coal output. It has succeeded in restricting production by several million tons and in regulating prices to some extent.

Rationalisation is proving most difficult in the textile industry, that branch of economy which suffers most severely under the present crisis.

It is characteristic that the fine spinning mills working up Egyptian cotton, which are less seriously affected by the crisis, recently succeeded in combining 15 mills in one enterprise. These mills represent a total of three million spindles. The sum total of spindles in regard to Egyptian cotton is sixteen millions, of which ten millions are now united in a few giant concerns. The recently formed trust comprises some of the best and most up-to-date works. Fresh capital to the extent of 2½ or 3 million pounds has been introduced, so that the new enterprise may not lack the necessary circulating capital.

The reorganisation of the mills working up American cotton is proving far more difficult, through the well-known organisation of the "Lancashire Cotton Corporation", is continuing to work out its programme. At the beginning of May,

the Corporation sent a circular letter to the mills to the following effect:

The Corporation has received the balance-sheets of 200 mills, with 20 million spindles and 24,000 looms. The total balance shows the following returns:

	Millions of Pounds
Paid-up Capital	28.2
Creditors	28.9
Together	57.1

Interest, computed at 6 per cent., requires a sum of 1.7 millions annually without any amortisation.

The Corporation has calculated that if, according to its scheme, an agreement is reached with the shareholders and creditors, and making the necessary deductions for share-capital and debts, it would be able to pay the following amounts out of the sum of 1.7 million pounds requisite at the present time alone for interest on the debts of the mills:

	£ 1000
5½ per cent. Interest on 12½ Millions of Debentures	690
2 per cent. Amortisation	251
6 per cent. Interest on 383 Millions of Preference Shares	23
About 6 per cent. Dividends on 13.2 Millions of £ 1 Shares	769
	£ 1733

A glance at these figures will show that, if the 200 enterprises in question are fused in the Lancashire Cotton Corporation, the creditors will have to reduce their claims from 29 to 12½ million pounds. The total share-capital would have to be written-off from 28.2 to 16 million pounds (2.4 millions of the latter sum representing deferred shares).

Besides this great reduction of share-capital and debts, the present profit would have to be raised to the fourfold to attain the above rate of interest, since the actual profit of these 200 enterprises is reckoned by the Corporation to amount to no more than roughly 400 million pounds per annum. To raise the profits to 1800 millions, the Corporation hopes it may count on the following factors:

1. Economy by the reorganisation of the works into a single unit.
2. Full exploitation of the productive capacity by a recovery of the business lost through the strike in Lancashire.
3. Standardisation of output and distribution of qualities in such wise that each mill working full time will produce a special type of yarn.
4. Concentration of purchases and sales in a single organisation.
5. Avoidance of parallel work.
6. Elimination of uneconomic machinery.

Besides this, the Corporation expects to effect a great saving by abolishing the 200 individual mill managements and their corresponding staffs.

Obviously, the prospect of a loss of half the share-capital and half the creditors' claims is anything but satisfactory to the enterprises to be reorganised; nevertheless, the reorganisation appears to be making progress. So far, 80 mills have been inspected, while offers have been received from 71 joint-stock companies with more than 10 million spindles. Five mills were turned down by the Corporation as unprofitable enterprises which it will be impossible to reorganise. Negotiations with the creditors of several dozen enterprises are in progress. In any case there will still be great difficulties to overcome before an effective reorganisation is completed.

Improvement of Business Position.

In the last few months, a slow but steady improvement of the business position has been noticeable in Great Britain. The relapse in business noticeable regularly for some years past at the beginning of the summer season, did not occur this year.

The output in the last six months has steadily increased, as will be seen by the following returns:

Production Index of the Board of Trade.

(On the Basis of 100 for 1924.)

Year	Year	1st Quarter	4th Quarter	1st Quarter
1927	1928	1928	1928	1929
106.8	105.5	109.3	108.5	110.2

Index Figures of Business Development. ("Economist" — On the Basis of 100 for 1924.)

	May 1928	March 1929	April 1929	May 1929	June 1929
Net Imports of:					
Raw Materials	108	124	110	113	105
Coloured Metals	116	118	117	124	135
Consumption of:					
Iron and Steel	91	70	83	96	106
Cotton	104	116	105	110	103
Rubber	246	290	259	289	265
Coal	102	119	114	104	98
Electricity	108	128	123	115	108
Railway Freight Traffic	94	92	92	—	—
Export of British Manufactures	107	109	104	111	106

Among the individual industries, coal-mining has somewhat recovered, though very many enterprises are still working at a loss. A decided upward curve is noticeable in the case of iron and steel. In the course of the year, 30 additional furnaces were lighted, while some iron-ore mines long at a standstill started working again.

The industry is supplied with orders for three or four months ahead.

Iron and Steel Output. (Thousands of Tons.)

Monthly Average 1913	Iron	Steel
" " 1920	855	639
" " 1925	670	756
" " 1926	522	616
" " 1927	205	300
" " 1928	608	758
" " 1928	551	710

	Iron	Steel
January 1928 561 1929 564	January 1928 626 1929 765	
February 1928 551 1929 520	February 1928 764 1929 775	
March 1928 593 1929 591	March 1928 793 1929 860	
April 1928 563 1929 611	April 1928 644 1929 809	
May 1928 592 1929 655	May 1928 753 1929 840	
June 1928 573 1929 668	June 1928 721 1929 844	

In May, the iron and steel output together for the first time reached the level of the average output in 1913.

A certain improvement is also visible in **shipbuilding**, and **engineering**, while the automobile industry has suffered a setback. The situation of the textile industry is lastingly bad; in the last few weeks, business has further worsened.

"The demand for British yarns and fabrics is at present smaller than ever before; export business in particular leaves much to be desired. Certain markets, such as the African and South American, have absorbed rather more of late, but the main markets, especially on the European Continent and in the Far East, have shown an altogether unsatisfactory demand. India, it is true, has purchased rather more yarns since a big strike again broke out in the cotton spinning mills at Bombay, the results of which will probably benefit British industry. At the same time, India is showing a general reserve, if not indeed an aversion, in regard to British goods, mainly due to the well-known propaganda of Ghandi, Chinese business is very disappointing³⁹⁾."

Money and Capital Market.

Following on the increased tension in the first quarter, a certain relaxation ensued in April, while in May a sudden setback on the market occurred. Sterling fell below the dollar parity and in June a marked outflux of gold to America and Germany ensued. In the second half of June, the Bank of England parted with 9 million pounds of its gold holdings. A raising of the bank-rate was expected from week to week, but this would have exercised such a bad influence on the trend of business that it was decided to abstain from such a measure. The Governor of the Bank of England went to America early in July, obviously for the purpose of negotiating with the Federal Reserve banks as to a co-operation for the relief of the Bank of England.

³⁹⁾ "Kölnische Zeitung" of June 9th, 1929.

The problem is all the more difficult, seeing that seasonally sterling shows a regular tendency every autumn to fall off in relation to the dollar, as a consequence of the big autumn purchases of American raw materials, especially cotton and wheat. It is generally feared that if some arrangement is not arrived at — a loan in America or the merely temporary loan of gold to the Bank of England — the Bank will be obliged in the autumn to raise its rate again, so as to protect its gold holdings, a step which would naturally counteract the improvement in the business position.

The strained situation on the money market has also affected the capital market. The sum total of emissions in the first half-year has dropped to 174 million pounds, as against 245 in 1928. The loss falls mainly to the share of British Government loans, which figure at 1,600,000 for this half-year, against 85,000,000 in the last half-year. Eliminating all Government loans, both British and foreign, the total of private emissions in the present half-year is 23 millions above what it was in the preceding six months.

If we compare the second quarter with the first, the sum total of emissions will appear to have dropped by almost 20 millions, while the item of emissions for British industry would be seen to have risen by 15 millions, a circumstance which shows that in connection with rationalisation an increased influx of foreign capital has set in in favour of British industry.

Foreign Trade.

Foreign trade developed quite satisfactorily in the first five months. The deficit of the trade balance, it is true, is just as great as it was last year, but both import and export values have risen.

British Foreign Trade in the First Five Months (Millions of Pounds)

	Imports	Exports	Import Surplus
1st 5 Months 1928	450.0	295.7	154.3
1st 5 Months 1929	462.7	208.8	153.3
Increase over 1928	12.7	13.1	—

Exports are rising slowly but surely.

Exports (In Millions of Pounds)

Monthly Average 1927	59.1
Monthly Average 1928	60.3
Mly. Av. 5 Months 1928	59.1
Mly. Av. 5 Months 1929	61.7

If we assume that the prices of export goods have risen by an average of 40 per cent., exports will be seen to have regained their pre-war value (but not their pre-war quantity, seeing that the exportation of coal has greatly receded). The deficit of the trade balance is much greater than it was before the war; this, however, is due to the increase in imports.

The increase in exports falls mainly to the share of finished goods.

Increase in Exports in First Five Months as against 1928 (in Millions of Pounds)

Increase of Total Exports	13.1
Increase of Raw Mat. Exports	3.8
Hereof: Increase of Coal Exports	2.6
Increase of Fin. Gds. Exports	7.1
Hereof: Ships	4.1
Iron and Steel Goods	1.7
Automobiles and Other Vehicles	1.4

British export trade is more and more affected by American competition, especially on the South American market. British exporters are making great efforts to maintain their position, at any rate in Argentina and Brazil. The Board of Trade appointed in May an economic mission to visit these two countries under the lead of Viscount d'Abernon, so as to study the commercial and financial relations of Great Britain in this connection. This is the response of Great Britain to Hoover's visit to South America⁴⁰⁾.

⁴⁰⁾ Since the above lines were written, we have received the foreign trade returns for the month of June. They show an unexpected relapse:

Unemployment.

The improvement of the business position has hardly had any effect on unemployment. The number of unemployed, it is true, has decreased as regards those who are covered by the insurance statistics, for whom the percentage figures were as follows:

January	February	March	April	May
12.3	12.2	10.1	9.4	9.4

This decrease, however, is purely seasonal and the percentage in May, it will be seen, has remained unchanged. In the course of June a certain further improvement appears to have ensued, and the number of unemployed, as covered by official statistics, seems to have sunk somewhat under that of last year. The absolute number of unemployed in receipt of benefit was 1,100,000; together with those who receive no relief, with the hundreds of thousands living on Poor Law relief, and with all who are dependent on the above, we get a total of about 5 millions, one ninth of the entire population, who are outside the economic process of production and living on relief or charity.

It will be remembered that the problem of unemployment was one of the main questions in the election campaign. The parties vied with one another in their promises to reduce unemployment to normal. After the accession to office of Mac Donald, a special Ministry was instituted to deal with unemployment, under the guidance of Thomas, Lansbury, and Mosley. During the election campaign Thomas had made the following suggestions: That the school-leaving age should be raised from 14 to 15 years, which would at one stroke diminish the number of those seeking employment by 40,000. Furthermore, that old-age pensions should be increased to include 350,000 workers of more than 65 years of age, in which way the number of unemployed could be decreased by 600,000; the rest being absorbed by road buildings, bridge building, railway-equipment-work, and partly by organised emigration.

So far very little has been done in the unemployment question. In this respect Thomas is following altogether in the footsteps of his Conservative and Liberal predecessors, as has been acknowledged by the entire capitalist press. There is no further mention of a nationalisation of railways and mines. Under such circumstances it is to be foreseen that in spite of the improvement in business there will not be any material reduction of employment.

The United States.

The improvement which has been in progress for more than a year in the American business position has developed in the last few months into a regular business boom. The output figures month by month show fresh records for post-war times. Since 1923, or, according to other estimates, since 1919, there has been no similar boom in the United States.

In this connection the question arises again and again whether the cyclic movement characteristic of American economy before the war, also obtains in post-war times. The greatest authority in regard to business research, W. C. Mitchell of Columbia University, recently published part of the second volume of the great work on business cycles which he is now engaged in writing. He here explains that if an industrial cycle is taken to mean a "boom", a "crisis", or a serious "depression", the last such cycle ended in 1921. If, however, it is only taken to mean a period of greater or lesser business activity, there have been four industrial cycles in post-war times, viz:

1. From May 1919 till September 1921.
2. From October 1921 till July 1924.
3. From August 1924 till December 1927.
4. The present cycle, still in progress.

Mitchell is of opinion that the depressions in the last few business cycles were so slight that they should rather be termed "contractions". This optimistic estimate coincides in general with

	Millions of Pounds
British Exports	49.9
Imports	91.5

The value of exports was 17 million pounds smaller than in May and 10 million pounds smaller than in June 1928.

the tone adopted by the great collective work recently published on the subject of the latest economic changes in the United States⁴¹). The present business boom is naturally calculated to confirm this optimism.

The following index figures show the development of economy in general in comparison with recent years:

Index Figures of the Federal Reserve Board.

	Index of Ind. Output (100 = 1923-25)	Index of Emp. of Lab. (100 = 1919)	Index of Laden Riv. Trucks (100 = 1923-2)	Bldg. Index (100 = 1923-25)
Monthly Av. 1927	106	92	—	128
Monthly Av. 1928	110	89	103	135
April 1928	109	89.3	104	157
January 1929	117	91	104	100
February 1929	117	93	107	88
March 1929	119	93.8	103	118
April 1929	122	94.2	111	156

The volume of output appears to be higher in April by about 9 per cent. compared with April 1928. The degree of occupation of the workers, on the other hand, has increased by no more than 3½ per cent. in keeping with the general tendency of an increased working output in American industry.

The following index figures of the "Annalist" show the increase of output in the individual most important branches of industry:

Business Index Figures of the "Annalist".

	June 1929	May 1929	April 1929	March 1929	February 1929	May 1928
Iron Output	122.5	116.3	110.4	108.4	108.7	100.8
Steel Output	131.6	121.7	115.6	111.4	107.0	106.6
Laden Trucks	101.9	102.8	103.9	98.0	101.3	99.2
Output of El. Energy	—	105.3	103.8	100.4	102.1	101.7
Coal Output	93.0	94.8	92.6	82.5	105.3	86.3
Automobile Output	141.3	145.9	148.0	147.4	145.7	103.6
Cotton Consumption	104.8	113.5	110.7	107.9	107.7	101.1
Wool Consumption	—	105.5	107.9	100.7	101.7	96.0
Output of Footwear	—	105.1	104.4	103.4	103.0	104.4
Output of Zinc	100.2	99.3	97.4	93.8	89.9	95.7
C. o. m. b. Index	107.2	108.5	107.4	103.0	104.9	100.4

In judging this table it must be remembered that the index figures have taken the trend of production and the seasonal changes into consideration. The increase of production by 8 per cent. as shown by the combined index, thus stands for a real business improvement.

In comparison with the preceding year, it is the automobile and the iron and steel industry which show the greatest progress. The latter had a record output in May, the works of the Steel Trust producing more than would correspond to their theoretic capacity. In spite of this tremendous output the volume of orders in the hands of the Steel Trust has of late remained practically stationary.

Unfulfilled Orders of Steel (Thousands of Tons)

	1928	1929
January	4,276	4,109
February	4,398	4,144
March	4,335	4,411
April	3,872	4,428
May	3,417	4,304

The "Iron Age" of July 10th reports that a fresh lot of orders has been received and that there is a practical certainty of the works operating to full capacity throughout July and probably also in August. On the other hand, there has been a certain falling-off in regard to pig iron.

Even the industries which experienced relatively bad business during the last few years can record an advance. The output of soft coal to July 8th figured at 225 million tons against 207 million tons in the corresponding part of last year. The

⁴¹) "Recent Economic Changes in the United States", compiled under the auspices of Herbert Hoover, 2 vols., New York 1929.

output per working day is about 10 per cent. higher than last year⁴²⁾.

The cotton industry too, after a long depression, is taking part in the general upward movement. The consumption of cotton in May was 668,000 tons or almost 100,000 tons more than in May 1928. The number of spindles in operation is two millions more than a year ago. It is interesting that it is mainly the spinning mills of the New England States that profit by this advance; while the spinning mills in the Southern States, which were also fairly well occupied a year ago, recorded for May a bare 200,000 operating spindles, the number in operation in New England had risen by 1.8 millions or roughly 20 per cent.

The business boom spells gigantic profits for the big enterprises. According to a computation of the Federal Reserve Bank of New York, the profit of 235 industrial enterprises which publish their balance sheets in the first quarter year was 33 per cent. above 1928 or 42 per cent. above 1927. It is obvious that if there is no pronounced crisis in the autumn, the year 1929 will yield record profits to the big capitalist enterprises.

In spite of all efforts on the part of the Federal Reserve Board, the great profits anticipated are causing an uninterrupted rise in share quotations.

What gigantic, though naturally only apparent, increases of capital result from this rise in share quotations may be seen by the following example: The fortune of the Mellon family was increased in the month of May by nearly 300 million dollars. The total nominal value of Gulf Oil shares has risen since the beginning of the year by 210 million dollars, the Mellon family possessing 90 per cent. of these shares. The shares of the Aluminium Company of America have risen since the beginning of the year by 191 million dollars; 60 per cent. of these shares belong to Mellon and his wife. On these two gigantic enterprises the Mellon family has profited more than 300 million dollars.

A finding of the Supreme Court in the matter of the railway companies' claim against the State recently accorded the companies a sum of at issue of roughly 200 million dollars. It was a question as to whether the value of the railways, on which profits are to be reckoned, was to be computed according to the original cost of construction or to the price they would fetch at present. The profit on the capital would in the former case be double as great and the tax due by the companies would be multiplied accordingly. The Supreme Court has now decided in favour of the companies, the Stock Exchange responding with a sharp rise in railway shares.

The legend of the 15,000,000 Shareholders.

So as to calm the feelings of the masses in regard to the tremendous profits which a very small group of magnates, such as Rockefeller, Morgan, Ford and Mellon, are constantly netting, a story has been spread abroad of late years to the effect that there are 15 million shareholders in the United States. This is part of the teaching of Professor Carver, who declares that the differences between capitalists and workers in America are disappearing, seeing that the American workers are all becoming capitalists.

A closer investigation will show that this total has been derived from the data of 108 joint-stock companies, the resulting proportion between shareholders and share-capital being applied to the total share-capital of all American companies on the presumption that every shareholder possesses shares of no more than one company. This is naturally an altogether incorrect assumption, seeing that every capitalist invests his capital, whether big or small, in different enterprises for the purpose of lessening the risk of loss.

According to a more recent estimate made by a government clerk, there are no more than 3 million shareholders in the United States⁴³⁾. This number is certainly also greatly exaggerated if it is to represent the number of capitalists, for it is sure to include hundreds of thousands of people who have been pressed to accept single shares in urban telephone or water-supply companies, workers who have been forced to purchase shares of the enterprises employing them, and the like.

The story of the 15 million American shareholders, has now also been unmasked in the bourgeois press. As regards the alleged three million shareholders, the lion's share of the ra-

pidly increasing exploitation of the American workers falls to a small group of, at the most, a few thousand capitalists, while the other 2,990,000 shareholders possess — with a few exceptions — no more than a dividend approximately equalling the interest on loan-capital.

The Labour Market during the Business Boom.

In spite of the boom in business the American press contains no complaints of a shortage of labour. This is one of the most important facts of the present position on the labour market. It shows that by reason of rationalisation the industrial reserves of labour have grown so great that they can even satisfy the requirements of a business boom.

The boom has obviously drawn several hundred thousand additional workers into the productive process. That no shortage of labour should have resulted, is — apart from the tremendous extent of "organic" unemployment — due to a great extent to the fact that the number of skilled workers is constantly decreasing by reason of the conveyor system, so that no shortage of expert workers, such as was experienced before the war, can result.

According to the calculations of the Department of Labour, which are based on the data of 31,109 enterprises with a total of, roughly, 5 million workers, we have the following:

Index Figures and Total Wages of Occupied Workers.

(For May of each respective Year)

	1923	1924	1925	1926	1927	1928	1929
Number of Occ. Workers	110.8	98.8	98.9	99.8	96.6	93.0	99.2
Wage Total	104.4	96.5	98.5	99.8	99.8	94.1	104.8

The number of workers is thus about equal to that of the 1924—26 period, although the volume of output is far greater. It must be expressly pointed out, however, that the index indicates the number of workers occupied at any time in the course of the month. Therefore the increase of the index for the loan total in relation to the number of workers does not necessarily mean that the wages paid in cash were increased; the rise may just as well have been occasioned by the fact that the workers were occupied longer during the month in question by reason of less short-time work, more overtime, etc. The wage total gives an idea of the business boom but not of the individual wage level.

Nevertheless, some hundred thousand workers may have been newly employed, while the extent of short-time work was probably reduced. This means the short-time work of the workers and not of the factories, for it is characteristic of the latest development in the United States that in many cases the factory will keep working full-time while the workers do no more than 3 or 4 days' work per week. The gigantic increase in labour struggles in the present year shows how futile are the assertions in regard to the elimination of differences between capitalists and workers, in regard to the 15 million shareholders, and so on.

No Important Price Increase.

It is a peculiarity of the present prosperous business phase that it is connected with no rise of prices.

Wholesale-Price Index Figures of the "Analyst".

(On the Basis of 100 for 1913.)

		Farm Prod.	Textile Prod.	Fuel	Metals	Bldg. Mat.	Chemicals	Total Index
January	1928	151.7	153.7	159.8	120.7	155.0	134.9	149.4
January	1929	147.0	155.6	166.3	125.3	153.7	134.6	147.0
February	1929	145.8	154.4	161.9	126.9	154.0	134.6	146.6
March	1929	145.4	153.7	161.3	131.1	154.0	134.9	146.5
April	1929	142.7	152.0	161.7	130.3	154.3	135.2	145.3
May	1929	137.7	149.4	161.8	128.3	153.6	135.2	143.1
June 25th	1929	140.1	148.2	163.6	128.4	153.1	134.6	145.3

With the exception of metals and fuel, all these groups, including the total index, are lower than a year ago.

⁴²⁾ "Financial Chronicle" of June 22nd, page 4078.

⁴³⁾ "New York Times" of May 29th 1929.

Foreign Trade.

America's foreign trade shows a formation symptomatic of a business boom, viz: an increase of imports and a decrease of exports:

Foreign Trade in the First Five Months.
(Millions of Dollars.)

	1928			1929		
	Imports	Exports	Surplus	Imports	Exports	Imp. S. Exp. S.
January	338	411	73	369	488	— 119
February	351	371	20	369	442	— 73
March	380	421	41	384	490	— 116
April	345	364	20	409	427	— 18
May	354	423	69	401	387	14 —
5 Mths. together:	1768	1990	223	1932	2234	14 326

The great export surplus of the first three months declined considerably in April; in May there was, for the first time since April 1926, a deficit on the commercial balance, in which connection the slump in grain prices obviously played a great role. The import figure for May was the biggest in that month since 1920.

Capital Emission and Capital Exportation.

As a result of the tension on the money market, capital emission in general and the foreign emission in particular, were smaller than was the case in the last few years.

The following table shows figures from the compilation by the "Journal of Commerce", which do not quite coincide with those of the "Financial Chronicle", which we generally cite^(*).

New Emission of Capital in the First Half-Year.

	Millions of Dollars			
	1926	1927	1928	1929
Foreign:				
State Loans	311	383	590	49
Joint-Stock Cos.	314	144	574	194
Together	625	527	1164	243
Native:				
Municipalities	711	1090	564	466
Railroads	209	538	511	354
Communal Services	1014	1143	1436	975
Industry	604	1095	1203	1638
Others	345	675	802	1379
Together	2883	4541	4516	4596
Total	3509	5067	5681	4839

We see a vigorous increase of capital investments in industry and shrinkage of foreign emission to one fifth of last year's figure, a phenomenon which is an important factor in the international credit crisis.

Naturally the foreign emission must not be placed on the same level as an actual capital exportation. The newly revised balance of payments of the United States for 1928 furnishes detailed material in this regard. The following are the most interesting items of this

Balance of Payments
Millions of Dollars

	1922	1923	1924	1925	1926	1927	1928
Corrected Surplus of Trade Balance	+589	+206	+882	+633	+278	+583	+837
Surplus of Trade Balance plus In-Visible Items	+444	+208	+802	+513	+205	+588	+730
Hereof:							
Interest on Priv. Investm. Abroad.	+555	+594	+635	+689	+740	+800	+882
Interest on For. Credits to U. S. A.	-144	-180	-192	-229	-268	-281	-359
Net Capital Export (long & short-termd.) w. Deduction of Return of Commissions etc.	-310	+33	-517	-621	-181	-695	-962

^(*) The "Financial Chronicle" puts the foreign emission of the first 5 months at 392 million dollars.

The calculations of the balance of payments are very unreliable, containing many combinations; the possible errors may amount to as much as 100 millions. Nevertheless we can establish:

a) That there is no direct rise of the net exports but considerable ups and downs of a line with a general rising direction;

b) That the average new Exportation of the last seven years totalled barely 500 million dollars on an average, which — taking monetary depreciation into account — is less than the capital exportation of Great Britain before the war;

c) That the significance of Great Britain's capital exports is relatively on the rise in comparison with the United States;

d) That the revenue of the United States from their foreign capital investments is very small in comparison with their home revenue, this fact naturally not decreasing extraordinarily the great significance of foreign capital investments;

e) That never so much foreign capital (long and short-termed) was invested in the United States as at present.

Economic-Political Problems.

In regard to the most important economic-political problems, we have already reported on the new Farmers' Relief Bill, and on the policy of the Federal Reserve Board. Apart from these measures, the new customs tariff amendment is of particular importance. The new suggestions contained considerable increases with regard to a number of agricultural products, such as sugar, wool, butter, potatoes, milk, eggs, bacon, and meat. In many cases — bacon, tomatoes — the duty has been trebled. The duties on building materials, which were hitherto mostly exempt from duty (cement, bricks, tiles, slates, timber), as also on hides, leather and footwear, hitherto free of duty, have been fixed at between 10 and 20 or 12 and 30 per cent. The textile duties have been raised from 35 to 37 per cent.

These very considerable increases have led to sharp protests at home and abroad. About 40 States have protested at Washington against the intended measures. In America itself, there are many opponents of the new increase in the customs tariff. Thus the "Financial and Commercial Chronicle", an organ of the financiers writes as follows on June 22nd:

"This tariff, innocent as it may appear, is a thorn in the flesh to the whole world. Are not these new tariffs with their limitations and penalties the breeders of distrust and hostility? We laud peace, but we construct tariff walls. All nations act similarly. If wars are struggles for existence, tariff walls are incentives to war. There are invisible wars, and customs tariffs constitute a manner of war prevailing all over the world at the present time."

These eloquently advanced truths, however, do not remove the fact that in view of the radical monopolisation of American capital every per cent. of customs increase spells millions of increased profits, which form the basis for a successful fight for world markets.

A further much-disputed question is the antiquated banking legislation. Capital increases and fusions cause banking crises which exercise a decisive influence on all economic life; but each of the 48 States has its own banking laws, and in most States the foundation of branch banks is prohibited. Through the mouth of Senator MacFadden, Chairman of the Finance Committee in the Senate, the bankers are energetically demanding new banking laws which will not put obstacles in the way of their free development.

The Business Outlook.

The present business boom is likely to experience a certain diminution in the summer. There are indications of such a probability. The boom itself, however, will probably last till well into the autumn, if not till the end of the year. At the same time, there are already indications of a coming crisis, an over-production of oil (the conference to curtail output led to no result), of automobiles, and in building, as well as a new agricultural crisis if the harvest in the big exporting countries does not turn out very bad. Judging from experience it seems likely that the boom will be followed by a serious crisis. When this will be, cannot be definitely stated, but it will probably not be later than in one year's time at the most.