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**Economics and Economic Policy in the Third Quarter of 1932.**(Down to October 27<sup>th</sup>, 1932.)

By E. VARGA

**I. End of Stabilisation, Continuation of the Crisis.****Bourgeois Illusions of a Termination of the Crisis.**

Once again, bourgeois scientists and "leaders of economy" are announcing the end of the crisis.

Now we might easily content ourselves with ignoring such utterances, seeing that in the course of the crisis similar prophecies have been made innumerable times and have as often proved wrong. We need but call to mind the utterances of Hoover, who throughout the crisis has been foretelling its imminent termination every three months. But this would be a mistake, since these optimistic opinions are accompanied by references to facts which would appear to lend them a certain amount of foundation. Therefore it is necessary to investigate critically both these facts and the inferences which are drawn from them.

The assertion that the crisis has passed its deepest point, is substantiated by the following line of argument:

1. The active credit crisis which broke out in the middle of 1931, is said to have been overcome. Bankruptcies are decreasing in number. The wholesale withdrawals of money, which threatened the currency and credit system first of Germany, then of Great Britain, and in the first half of 1932 even of the United States, are over. The movements of gold have returned to normal. The danger of currency depreciation in the United States is a thing of the past. The embarrassment caused by the abundance on the money and capital markets is beginning to yield, as is proved by the great success attending the conversions in Great Britain and France. The road to new investments of capital is opened up.

2. Production has been adapted to diminished consumption, so that the stocks of raw materials are not, in general, increasing any more, while those of finished and semi-finished goods are in many instances abnormally small.

3. Consequently, the prices of raw materials show an upward trend.

**I. End of Stabilisation, Continuation of the Crisis.***Bourgeois Illusions of a Termination of the Crisis.**Development of Industrial Output.**Results of the Speculative Cotton Boom.**No End to the Financial Crisis.**No Decrease of the World's Raw Material Stocks.**No Change in the Development of Prices.**No Improvement in the Exploitation of Capital.**Commercial Warfare on All Sides.**Change in the Character of the Periodic, by Reason, of the General Crisis.**Outlook for the Future.***II. Special Section.***Germany.**France.**Italy.**Great Britain.**United States.*

4. By means of wage cuts, reductions of interest (as a result of the super-abundance of capital in Great Britain, France, and the United States; in obedience to government decrees in Germany and Italy), and the adaptation of productional technics to decreased consumption, the costs of production are said greatly to have receded; this, together with rising prices, tends greatly to augment the number of profit-realising enterprises. Hence the rise in share quotations.

**Development of Industrial Output.**

Before starting critically to analyse the arguments outlined above, we should like in the first place to point out that in the productional sphere, which is of the most decisive importance, there can so far be no question of a change for the better. This fact is, perforce, admitted even by such optimists as confidently assert that the worst of the crisis will immediately be, if it has not indeed already been, overcome.

Comparative and comprehensive data as to the development of production are available only for the first six or seven months of the year<sup>1)</sup>.

### Index of Industrial Output.

(100 representing 1928.)

	United States	Canada	Germany	France	Great Britain	Poland	Sweden
June 1931 . . .	74.8	77.5	71.9	99.2	78.6 <sup>2)</sup>	72.4	85.2
March 1932 . . .	60.4	71.7	56.5	77.2	90.0 <sup>3)</sup>	52.9	88.0
April 1932 . . .	57.7	72.0	54.1	74.8	—	54.5	85.2
May 1932 . . .	55.0	68.4	58.1	74.0	81.2 <sup>4)</sup>	54.6	78.7
June 1932 . . .	53.2	68.1	54.7	73.2	—	54.4	73.1
July 1932 . . .	52.3	62.9	52.3	72.4	—	54.1	—
August 1932 . . .	54.1	—	51.6	73.2	—	54.6	—

Until the end of July, the development is most pronouncedly that of a continuously increasing crisis. Uninterrupted retrogression in the United States, France, Germany, Canada, and Sweden; in Great Britain after the improvement of the first quarter a sharp set-back in the second three months. In Poland, stagnation at an unusually low level. Nowhere any increase in production<sup>5)</sup>.

Not only did the decrease in output last until July; in the most decisive capitalist country, the United States, the economic weight of which represents about half that of all capitalist economy and whence the incentive for an improvement is generally expected, since any possible beginnings of an improvement in the smaller capitalist countries can hardly hope to survive so long as this most important of all countries is immersed in the crisis—in the United States the aggravation of the crisis not only continued until the end of June, but the rate of aggravation of the crisis further increased during the last twelvemonth.

### Rate of Aggravation of Crisis.

Measured by the Industrial Output in the U.S.

	1929	1930	1931	1932
Official Index of the Federal Reserve Board in June (100 repr. 1923/25) . . .	125	99	83	59
Recession in One Year, Points . . . . .	—	26	16	24
Percentage Recession . . . . .	—	21	16	29

To expect such a rate of aggravation to be immediately followed by an improvement contradicts not only the theory of Marx but also all experience hitherto made. Even in the period when capitalism was on the upgrade the depth of the crisis was always followed by a longer or shorter phase of depression. All the more so must this be the case in the present period of a general crisis of capitalism in view of the termination of capitalist stabilisation.

### Results of the Speculative Cotton Boom.

Now this conception seems to be in contradiction to the fact that the production index of the Federal Reserve Board and that of the "Annalist" both show a pronounced increase in August and September:

#### Index of the "Annalist".

1932	April	May	June	July	August	September
	56.5	52.9	52.9	52.1	55.5	59.2

This increase in output, meanwhile is not the outcome of a general improvement in the economic position but is based solely on a sudden increase in production in the textile industry. The cause of this sudden increase lay in the marked rise in cotton prices (of the reasons of which we shall be speaking later on), which caused buyers to cover their textile requirements speedily. That the larger output is really only

<sup>1)</sup> "Bulletin of the League of Nations", August, P. 344.

<sup>2)</sup> First Quarter of 1931.

<sup>3)</sup> First Quarter of 1932.

<sup>4)</sup> Second Quarter of 1932.

<sup>5)</sup> The returns from Japan, which in any case appear to be not very reliable, show very pronounced vacillation, in keeping with the peculiar situation of that country, but upon the whole also a downward tendency:

July 1931	January 1932	March 1932	May 1932
111.8	97.4	107.5	102.9

due to the textile industry, is most forcibly shown by the detailed index of the "Annalist":

	September	August	July	June
Crude Iron Output . . . . .	19.7	16.7	18.0	19.7
Crude Steel Output . . . . .	22.5	18.3	19.3	20.2
Loaded Freight Cars . . . . .	52.4	48.9	48.8	50.1
Electricity Output . . . . .	68.0*	67.5	67.3	68.4
Hard Coal Output . . . . .	56.0	49.8	45.1	44.5
Automobile Output . . . . .	22.8*	24.6	32.2	47.3
Cotton Consumption . . . . .	84.6*	75.3	57.4	57.5
Wool Consumption . . . . .	—	87.1	65.1	45.3
Production of Footwear . . . . .	—	91.0	83.4	86.1
Zinc Production . . . . .	27.6	27.8	31.2	34.7
Total Index . . . . .	59.2*	55.5	52.0	52.9

\* Provisionally.

The best criterions for the general development of output, the number of loaded freight-cars and the output of electric energy, show no improvement at all in August. (It is only in September that the number of loaded freight-cars appears to have increased somewhat.) Now it is apparent that the upward movement in the textile industry cannot be expected to last either, since in view of the present degree of unemployment and of the misery prevailing among the farmers, large sections of the population can only scantily cover their barest needs.

The fact that the production indices for August and September register a rise is by no means a proof of things having actually changed for the better. Nor is this any more the case in regard to the reports of an increased output of individual industries in various countries. Such phenomena occur in every crisis, all the more so at the present time, when certain government measures for the promotion of output, the purchases effected by the Soviet Union, and the armament purchases of various countries call forth fitful short-lived improvements in individual industries.

Let us now investigate whether there is any justification for the most important arguments advanced in support of the theory that the worst of the crisis is already over.

### No End to the Financial Crisis.

1. Is it true that the financial crisis, in all its different forms of a credit crisis, a banking crisis, a currency crisis, and a crisis of government finances, has been overcome?

By no means. All that can be established is a certain mitigation of the financial crisis in the capital-exporting countries, in the first place the provisional stabilisation of the sterling rate, the elimination, for the time being, of the prospect of the United States going off the gold standard (in his election speech at Des Moines, Hoover for the first time openly declared that this prospect had existed six months ago), and the success attending the conversions in Great Britain and France.

All this, however, by no means signifies the termination of the financial crisis. We should like to underline the following important facts:

The mitigation of the credit crisis in the United States is not the outcome of a natural development but is based on the elaborate propping measures accorded by the Reconstruction Finance Corporation to the big capitalist enterprises threatened with insolvency. Nevertheless, the bankruptcy of gigantic concerns such as the Insull Trust<sup>6)</sup> and certain big railway companies, could not be prevented. There is no guarantee that this great expansion of credit will not lead to a catastrophe.

In the capital importing countries, an absolute lack of capital and high rates of interest continue to obtain, notwithstanding the reduction of the official bank rates, which can now serve in a far lesser degree than before the war as a criterion for the actual rates of interest in operation. In the debtor countries, it is only privileged big capitalists that obtain credit immediately from the note banks; in spite of

<sup>6)</sup> Besides numerous secondary enterprises, S. Insull controlled 6,000 power works, which were comprised in some 80 joint-stock companies presided over by Insull himself and having a share-quotations value of 4,000 million dollars and, allegedly, 600,000 shareholders. His private fortune was estimated at 100 million dollars. ("Literary Digest" of October 15th, 1932.)

this, the difference in the bank-rate levels is symptomatic of the dismemberment of the international capital market. At the beginning of October, the bank rates figured as follows:

Capital-Exporting Countries		Capital-Importing Countries	
London, Zurich	2 per cent	Athens . . . .	10 per cent.
New York, Paris,		Sofia . . . . .	8½ per cent.
Amsterdam	2½ per cent.	Warsaw,	
Brussels . . . .	3½ per cent.	Belgrade . . .	7½ per cent.
		Bucharest,	
		Kovno . . . . .	7 per cent.

In spite of this huge difference between the discount rates in the capital-exporting and the capital-importing countries, respectively, there is not only a total standstill in capital exportation, but—in so far as is possible at all—capital is still being withdrawn from the debtor countries. The decay of the international capital market is complete. Here are some figures in illustration of this fact:

In the first eight months of 1932, not a single foreign emission was placed in the United States (with the sole exception of 20 million dollars for the Government of Canada), while in the first eight months of 1930 the corresponding total was nearly 1,000 millions and even in the first eight months of 1931 it reached 164 millions.

In the first nine months the capital emission in Great Britain for foreign countries and colonies totalled 43 million pounds sterling, though in the last three months of this period there was no emission at all.

As regards the currency problem, there can be no question of a general improvement. Conditions are by no means consolidated. The depreciation of the Japanese currency continues. Many currencies, especially those of the Central and East European countries, are only nominally stable, for in the open market, on the secret, unofficial exchanges, there is generally a discount of anything between 3 and 10 per cent. In Yugoslavia, under the influence of the virtual state of civil war, even the apparent official stability of the currency could not be maintained any longer; even officially there is already a discount of 12 per cent. The unexpected renewed drop in the rate of sterling in the middle of October proves how unreliable existing conditions are. The slightest concussion can cause a resumption of currency depreciation.

As regards the crisis of government finances, it is a matter of general knowledge that almost all states record serious deficits, e. g. the United States, France, Germany, and quite particularly Japan.

## No Decrease of the World's Raw Material Stocks.

2. Is it true that output has already so far adapted itself to decreased consumption, as to cause stocks to diminish?

All available statistical returns speak to the contrary.

In the August number of the statistical monthly publication of the Bank of England, we find the following interesting figures regarding the world stocks of the most important raw materials<sup>7)</sup>:

### World Stocks in January.

	1928	1929	1930	1931	1932	July 1932
Cotton (Thou. Bales)	7421	7819	8098	9897	10 193	7793 <sup>8)</sup>
Silk (Thou. Bales)	145	144	190	237	278	191
Rubber (Thou. Tons)	312	297	383	506	644	644 <sup>9)</sup>
Wheat (Mill. Bushels)	400	565	584	583	609	445
Sugar (Thou. Tons)	4700	5134	6486	8275	8 577	8069
Tea (Mill. Lbs.)	239	341	286	288	269	202
Coffee (Thou. Bags)	18160	18818	25048	32619	37619	33456 <sup>9)</sup>
Tin (Thou. Tons)	24.0	31.4	37.4	52.6	61.7	61.0
Copper (Thou. Tons)	—	—	48	100	148	177
Zinc (Thou. Tons)	38	43	72	140	137	140
Silver (Mill. Oz.)	488	505	572	635	637	699 <sup>8)</sup>
Oil (Mill. Barrels)	543	570	624	603	556	552 <sup>9)</sup>

<sup>7)</sup> The returns for individual categories of goods cover the most important geographic regions; thus they are not "world" stocks in the most literal sense of the word. As we are here interested solely in the development of the stocks, we have not indicated the separate regions.

<sup>8)</sup> Month of June.

<sup>9)</sup> Month of August.

The table clearly shows stocks to have increased, with few exceptions, until July or August. The diminution of the stocks of wheat, sugar, tea, and coffee since the beginning of 1932 is naturally due to seasonal fluctuations.

Now it is asserted that the stocks of textiles have very markedly dwindled, especially in wholesale and retail trade. There are no returns available in this regard, save in the United States<sup>10)</sup>. We consider these statements to be correct. In view of the constant drop of prices and of the serious credit crisis, the stocks in the hands of dealers are probably very small in general. This, however, is no new development; it may be assumed to have ensued somewhere around the middle of 1930<sup>11)</sup>. It by no means permits of the inference that an improvement is therefore bound to take place.

## No Change in the Development of Prices.

3. Is it true that the rise of raw-material prices already points to an incipient improvement?

We do not believe this to be the case.

The following table gives a survey of price developments in regard to the most important raw materials<sup>12)</sup>:

	Average	Peak	Bottom	Peak	Price on	Price on
	1913	1932	1932	during	Oct. 11th	Oct. 26th
				Autumn	1932	1932
				Boom		
Wheat, Chicago						
Cents per Bushel . . . .	90.25	60.87	44.50	55.87 <sup>1)</sup>	49.50	44.87
Maize, Chicago						
Cents per Bushel . . . .	64.50	40.25	25.—	33.37 <sup>2)</sup>	27.—	24.50
Lard, Chicago						
Cents per Lb. . . . .	10.67	5.35	3.65	5.25 <sup>3)</sup>	4.30	4.17
Cotton, New York						
Cents per Lb. . . . .	12.83	9.20	5.—	9.20 <sup>4)</sup>	6.80	6.40
Hemp, London						
Lstrl. per Ton . . . . .	31.3.6	20.5.0	17.0.0	19.5.0 <sup>5)</sup>	18.15.0	18.15.0
Jute, London						
Lstrl. per Ton . . . . .	30.8.6	20.2.6	14.7.6	20.2.6 <sup>6)</sup>	16.0.0	16.0.0
Rubber, London						
Shillings per Lb. . . . .	3.1½	0.3½ <sup>1/16</sup>	0.2¾	0.3¾ <sup>7)</sup>	0.2¾	0.2¾ <sup>1/16</sup>
Copper, New York						
Cents per Lb. . . . .	15.56	7.50	5.25	6.25 <sup>8)</sup>	6.25	5.50
Zinc, London						
Lstrl. per Ton . . . . .	22½ <sup>1/16</sup>	16½	10 <sup>9/16</sup>	15 <sup>1/16</sup> <sup>9)</sup>	14 <sup>1/8</sup>	15 <sup>1/16</sup>
Lead, London						
Lstrl. per Ton . . . . .	20½	15½	9 <sup>9/16</sup>	14 <sup>1/16</sup> <sup>10)</sup>	11½ <sup>1/16</sup>	11½

<sup>1)</sup> August 6th; <sup>2)</sup> August 8th; <sup>3)</sup> August 24th; <sup>4)</sup> August 27th; <sup>5)</sup> August 18th; <sup>6)</sup> September 6th; <sup>7)</sup> August 20th; <sup>8)</sup> September 25th; <sup>9)</sup> September 23rd; <sup>10)</sup> September 7th.

An analysis of this table shows us the following important facts:

a) The wave of higher price which set in in the middle of July was of short duration. In regard to agricultural products, the relapse ensued already in August, in regard to metals in September.

b) By the middle of October, more than half of the price increases had already disappeared. Certain raw materials, such as rubber, wheat, and maize, have already receded to their lowest price level, or near it.

c) The prices quoted in the middle of October are considerably lower than the highest prices attained during the year.

Taken together with the returns before mentioned regarding the development of visible stocks of these commodities, this points to the pronouncedly speculative character of the price rise.

d) Prices in the middle of October were roughly the half of those of 1913. It is obvious that—in spite of the decrease which has meantime taken place in the cost of output—these prices must represent a loss for the great majority of producers.

<sup>10)</sup> The index of stocks of finished goods in the United States, is as follows (on the basis of 100 to represent 1923/25):

August 1931	August 1932
112	102

The recession is 9 per cent. in one year. Stocks are not yet at all below "normal". ("Survey of Current Business", Oct. P. 23.)

<sup>11)</sup> This is proved indirectly by the spasmodic ups and downs in the output of textiles, shoes, etc., according to the requirements of the moment, as also by reports from various lines of trade, according to which dealers order only very small quantities, but for immediate delivery.

<sup>12)</sup> Culled from various issues of "Der deutsche Volkswirt".

We can thus not accept the movements on the raw-material market as indicating the commencement of an improvement in the economic situation.

## No Improvement in the Exploitation of Capital.

4. Is it true that the rise in the quotations of shares means an improvement in the utilisation of capital and therefore—as seen from the standpoint of the bourgeoisie—the passing of the worst period of the crisis?

We do not believe it does.

Although the gigantic destruction of nominal capital (and in a smaller degree also of real capital) through bankruptcies, the writing-off of share capital, etc., has greatly diminished the sum total of social capital upon which the entire appropriated surplus-value total is divided up, and although the rate of exploitation is constantly being increased by wage reductions, the number of exploited workers has so seriously dwindled and the turnover of capital has so slowed down by reason of the very slight exploitation of productive capacity<sup>13)</sup>, that, despite the greater degree of exploitation, the rate of profit has so far continued to drop lower and lower. This also appears from the balance-sheets of the joint-stock companies<sup>14)</sup>, whose profits have been declining from one quarter-year to the other.

What then are the reasons of the boom on the stock-exchanges?

The prime reason lies in the tremendous difference between the interest on short-term loan capital<sup>15)</sup>, which has sunk almost to nil, the very moderate interest on investments in fixed-interest-bearing government securities, and the very high rates of interest yielded (in spite of small dividends) by the shares of "sound" enterprises in view of their abnormally diminished quotations. According to the calculations of the "Standard Statistic Company", such United States shares as paid dividends at all, represented in the first half of 1932, if acquired at the quotations then obtaining, an average rate of interest on capital of no less than 10 per cent. Such a state of affairs must necessarily lead to speculative business in shares; for—so the capitalists argue—even in case of a further duration of the crisis and a halving of the dividend hitherto paid, there still remains a rate of interest of 5 per cent., whereas long-term government bonds yield no more than from 2 to 4 per cent.; in the eventuality of an improvement in economic conditions, meanwhile, there is a prospect of very big profits.

This gigantic difference, respectively, in the rates of interest on short-term capital, capital invested in government securities, and capital invested in shares, is the main incentive for the boom on the share market. The truth of this assertion is proved by the fact that, in individual countries,

<sup>13)</sup> The degree of exploitation of productive capacity throughout the industry of the capitalist world may be assumed to amount in the year 1932 to no more than 40 per cent. This results from the fact that in the decisive countries industrial output has dropped to less than half its latest peak total. But even at the best business junctures, a great portion of the productive apparatus remained unexploited, a fact which is characteristic of the entire period of the general crisis of capitalism.

<sup>14)</sup> It may be argued that the capitalists purposely veil the extent of their profits from motives of tax evasion. Such instances undoubtedly occur at present. They are, however, greatly outnumbered by those cases in which enterprises threatened with ruin falsify their balance-sheets by recording profits instead of actual losses so as to prove themselves to be deserving of credit. The systematic balance-sheet forgeries of Krueger, Lahusen, and the like, are no isolated instances.

<sup>15)</sup> Early in October, the United States Government issued 75 million dollars' worth of bank bills running for three months. They were taken up by the public at an average rate of 99.951 per cent., representing a yearly rate of interest of 0.19 per cent. In the open market, these bills frequently attain parity, so that there is no interest at all in favour of the investor. They are thus merely a circulating medium. V. "Financial and Commercial Chronicle" of October 8th, 1932, p. 2373.

the extent of the rise in share quotations runs parallel with the extent of this divergence.

The increase in the share index over the low level of September 15th figures as follows<sup>16)</sup>:

### Countries with a Super-Abundance of Loan Capital<sup>17)</sup>.

United States	Switzerland	Netherlands	Sweden
72 per cent.	74 per cent.	51 per cent.	40 per cent.

### Countries with a Lack of Loan Capital.

Italy	Germany	Austria
29 per cent.	23 per cent.	16 per cent.

The fact that since the middle of September there have been serious relapses on all stock-exchanges, likewise proves that the increase in share quotations is not based on greater prospects of profit in consequence of an improvement of the business position, but is of a purely speculative character. In the United States, from which country the share boom emanated, it was purposely fostered by such groups of financiers as were interested in the election of Hoover, with a view to furthering his chances.

## Commercial Warfare on All Sides.

That the reason of the higher share quotations does not lie in any improvement in the exploitation of capital, is to be seen indirectly by the strenuous efforts made by the ruling classes of all countries to increase sales by the aid of economic political measures, to exclude foreign goods from the respective home markets, and to promote national industries by all possible means. In those countries the currencies of which are endangered, or in which inflation has already commenced, these measures at the same time serve the purpose of propping the currency.

All these measures, which frequently contradict one another and which are changed at short intervals again and again, have brought about:

a) that a "world market" in the strict sense of the word, no longer exists;

b) that the sum total of international trade was 34 per cent. lower in the first half of 1932 than in the first half of 1931;

c) that at a certain point the exaggerated protection of the home markets comes, dialectically, to have just the opposite effect (as we shall have occasion to demonstrate by examples);

d) that the more and more bitter economic warfare carried on by all against all is in itself already a kind of preliminary to the coming imperialist world-war.

Generally, no very clear conception prevails as to the furious rate at which the system of commercial restrictions has developed of late; reports in this regard are only to be found sporadically in official publications and trade journals. The German Institute for Business Research recently published a list of the import-restricting measures introduced abroad between December 1931 and the end of September 1932<sup>18)</sup>. The mere enumeration thereof occupied ten closely printed columns. In 9 countries the importation of various goods was prohibited; in 7 countries government import monopolies had been newly created or prolonged for 12 categories of goods; 21 states had established quotas for some 70 groups of commodities; 10 states had introduced a compulsory employment of home products in regard to various goods; 52 states (i. e. practically all the countries in the world) had effected customs increases in about 200 different cases, and so on.

This concise enumeration naturally conveys no impression of the irregularity, the chaos, which has resulted in international trade by reason of these hastily enacted measures, and which is still increasing from week to week.

<sup>16)</sup> Weekly report of the German Institution for Business Research, dated September 21st.

<sup>17)</sup> The sole exception is France, with an increase of no more than 23 per cent. in spite of a great super-abundance of capital. This is sufficiently explained by the preparations for a conversion and by the fact that, by reason of a later inception of the crisis, it is only now that French dividends are experiencing a decline.

<sup>18)</sup> Weekly Report of October 12th, 1932.

All these measures naturally do nothing at all to alter the consumptive capacity of capitalist society in its entirety; they do not expand the total of sales in the least but only alter their distribution. What the bourgeoisie of one country possibly gains, the bourgeoisie of another country is bound to lose. The case is similar in regard to each individual state. Each economic-political measure alters the distribution of the surplus value among the capitalists. That which benefits one monopoly, one section of the ruling class, or one group of financial capitalists, harms other sections of the ruling bourgeoisie, and naturally the oppressed classes into the bargain. Hence, too, the accentuated struggle of the ruling classes in each country against each other, which is politically manifest in the frequent change of government, re-grouping of parties, and general uncertainty of all conditions. The tremendous confusion created by the economic-political measures forms conditions in which corruption, dishonesty, and oppression thrive in every capitalist country in which foreign trade is made dependent on government officials.

### Change in the Character of the Periodic, by Reason of the General, Crisis.

In summing up, we may assert that those facts which appear to the bourgeoisie, on the strength of the simple analogy of former trade cycles, as elements of an incipient change for the better, prove upon a closer analysis to be anything but convincing. The fundamental mistake in all bourgeois estimates lies in the fact that they regard the present crisis as an ordinary periodic crisis and completely ignore the general crisis of capitalism.

In so far and inasmuch as the present crisis has a cyclical character, it represents, in the sense of the Marxian teaching, not only the violent outbreak of all contradictions of the capitalist system, but also, dialectically, a process of their violent solution. But under the influence of the general crisis of capitalism, this process is no longer capable of fulfilling its functions, the forcible, temporary solution of the contradictions. The mechanism of an "ordinary", "peaceful" way out of the crisis has been disturbed, as is pointed out in the theses of the 12th plenary session of the E.C.C.I. The interlocking of the general crisis of capitalism (the fight between the two systems, the chronic unutilisation of a great part of productive capital, the chronic unemployment of great masses, and the chronic crisis in agriculture) with the periodic crisis gives the present crisis a new character, widely divergent from that of ordinary periodic crises. The universality, long duration, depth and virulence of the crisis, far surpassing those of all former ordinary periodic crises, has led to a far-reaching, unprecedented undermining of the capitalist system itself.

This is to be seen economically in the decay of the world market, in the standstill of international movements of capital, in the wave of inflation, in the deliberate destruction of production forces, in the degradation of agriculture in extensive regions, and the like. From an economic-political standpoint it is manifest in the unreasonableness and chaos of economic measures and in the general economic warfare on all hands. Politically, again, it is to be seen in the extreme aggravation of the class struggle, in revolutions in China, Spain, South America, and elsewhere, in the accentuation of the anti-imperialist attitude of the colonies, in the fierce fight put up by the working class in general, in the speedy maturing of a revolutionary crisis in important countries, and above all in the incipient decay of the system, born of the war, of a distribution of the capitalist world (Versailles, Colonial Agreements, Washington Agreement in regard to China) in consequence of the aggravation of inter-imperialist antagonisms.

This all-round undermining of the capitalist system, caused by the crisis, reacts upon the crisis itself in the sense of enhancing, deepening, and prolonging it, and prevents the ordinary function of the periodic crisis, the temporary solution of differences, from achieving its effect. The decisive sections of the bourgeoisie therefore more and more deliberately and decisively prepare for an attempt at a forcible way out of the crisis, by means of an armed suppression of the revolutionary forces in each country, of war and intervention.

The commercial warfare waged on all sides is a step in the direction of an actual war. Actual warfare, meanwhile, for the redistribution of the world has already begun. It was started by Japan in Manchuria, where, at the cost of Chinese lives, a struggle between Japan and the United States is already in progress. If the Federal Farm Board cedes tremendous quantities of wheat to Chang-Kai-Shek's government on a "credit" of many years<sup>19)</sup>, what else does it mean but a provision of the Chinese army against Japan? Similarly, war is being waged by Great Britain against China by the equipment of an army of 100,000 men in Tibet. It is being waged, too, between Great Britain and the United States in the form of a war between Paraguay and Bolivia.

In this way, the economic war has concluded the process, commenced in the third period, of undermining relative stability. All the economic, foreign-political, and class foundations of this stabilisation have been liquidated, and thus relative stability is a thing of the past.

### Outlook for the Future.

It is on this basis that the outlook for further developments must be sought. There can be no question of overcoming the crisis in the old way, i. e. by returning to the regular alternation of phases in an industrial cycle, characteristic of the "normal" capitalism of pre-war times. Even if the decisive clash of the hostile forces, intervention, open imperialist warfare (in place of the veiled hostilities of the present time), and proletarian revolution, does not ensue in the very near future, the bourgeoisie can at best hope that the crisis will attain its greatest depth and, passing over into a state of depression, will remain there.

This would mean stagnation more or less at the present extremely low level of output, with small fluctuations up or down. There can be no question of a "change for the better" in the sense of a general revival, nor yet of a "solution" in the old sense of the word. Even if certain tendencies immanent in capitalism act at present in the direction of a termination of the crisis, in so far as the latter possesses a cyclical character<sup>20)</sup>, the counter-forces—on the basis of the general crisis of capitalism at the present stage of the end of relative stabilisation, and in view of the advanced disintegration of the entire capitalist system—are undoubtedly predominant.

Stagnation at something like the present level, however, signifies that the position of the proletariat and of the broad peasant and petty-bourgeois masses must continue to be as catastrophic as it is at present and that the process of decay in the capitalist order of society will continue and by its very continuation gain ever greater force. The revolutionary effect of the fourth winter of extreme unemployment, of the fourth harvest-year closing with a loss for the bulk of the peasantry, is naturally bound to be much greater than that of the first. The possibility of passing beyond the greatest depth of the crisis and over into a state of depression (with its catastrophically low level of output and consumption, practically corresponding to that of the crisis at its worst), would not check the aggravation of class antagonisms and the development of a revolutionary crisis. These hopes of the bourgeoisie are vain illusions.

<sup>19)</sup> The Reconstruction Finance Corporation advances 8 million dollars to the Farm Board, against which the latter sells the Chang-Kai-Shek government 15 million bushels of wheat and flour on credit for three years with 4 per cent. interest. Delivery is to begin in October. ("Times" of September 27th, 1932). Naturally the Chinese government will never pay either capital or interest.

<sup>20)</sup> It would be theoretically wrong and un-Marxian to overlook the cyclical elements in the present crisis, or to find the economic crisis as a phase of the cycle with the general crisis of capitalism. "The cyclical fluctuations will accompany capitalism until its downfall", say the theses of the Third Congress of the Communist International.

Stalin strictly distinguishes between the general, and the economic crisis:

"The present crisis is developing on the basis of the general crisis of capitalism, which began during the period of the great war and has facilitated the outbreak of the economic crisis." (Report at the 17th Party Congress of the Communist Party of the Soviet Union.)

## II. Special Section.

### Germany.

The economic policy of the Papen Government is based on the presumption that there is an incipient improvement in German economic life, which can be accelerated by government measures.

Even the Institution for Business Research, however, (the director of which, Wagemann, is apparently the "theoretic" adviser of Papen), must admit that there is not the least sign of an improvement in the economic position of Germany. At the end of August the Institution published the following description of the economic state of affairs<sup>21</sup>):

"On the goods side of economy, the retrogressive tendency continues to prevail. Output, occupation, and turnover of goods remain pronouncedly on the down grade, though the rate of decline has in part grown noticeable slower. The signs of revival in certain lines of industry, to which great expectations have been attached in many quarters, are the outcome of seasonal and Russian orders; they have therefore also proved to be transient.

"The presumptions for an all-round economic improvement according to the rules of the old automatic business development, cannot yet be said to exist in Germany, though in some branches of economy they are no longer far off. An increase in capital investments on private initiative, such as "normally" provides the incentive for an upward movement in business, cannot be expected under present-day circumstances, while the sales of articles of consumption and exportation are more likely to decline in view of Germany's shrunken national income and diminished international competitive capacity. If economy is left to its own devices, we can for the time being at best look for a gradual slowing down of the rate of decline in sales, output, and occupation."

Papen's guiding principle is not to "leave economy to its own "devices" but artificially to "set it going". In keeping with the entire character of the new government, this "starting" process has been directed in the main towards helping the capitalists. The restoration of a satisfactory utilisation of capital was to lead to an expansion of output, a revival of investment activity, and a renewed upward movement.

We presume our readers to be acquainted with the Papen decrees for "restarting" economy. Essentially, they purported a reduction of the employers' wage burdens at the expense of the workers, directly by means of wage cuts and indirectly by government subsidies for the capitalists. The decrees in question distinguish between ordinary and "jeopardised" enterprises. In the case of enterprises whose existence appears to be endangered by the payment of tariff wages, the arbitrator may, at the request of the enterprise, order a 20 per cent. cut in wages. In the case of enterprises, not thus endangered, the wage reduction is conditional on the employment of additional workers and the extension of work to at least 40 hours a week. For any working-time in excess of 30 hours a week, wages may be paid below tariff rates, the reduction being graded at from 10 to 15 per cent. according to the number of the additional workers engaged. Calculated for a 40 hour week, this actually represents a wage cut of 12½ per cent., affecting, naturally, not only the newly engaged workers, but all the workers of the enterprise.

Besides this, the employer is entitled to a government subsidy of 400 marks a year for each additional worker he has engaged.

Now most undertakings, however, lack the capital which would be necessary in order for them to increase production. Therefore Papen gives the capitalists, out of the taxes paid by them, 1,500 marks (in addition to the 700 million marks subventions for the engagement of fresh workers) in the form of interest-bearing tax vouchers. The vouchers will be redeemed by being accepted in payment of taxation during the years 1934-38, but they can also be immediately discounted at the banks!

The 700 million marks subvention granted for the engagement of additional labour was intended—on paper—to

diminish the unemployment total by 1,750,000. The big bourgeoisie, however, is in a position to appropriate these subsidies without virtually employing a single additional worker. Since the individual "independent" enterprises are interwoven and interdependent in all manner of ways in cartels and holding concerns, there is nothing more simple than to discharge the workers in one enterprise and "re-engage" them in another enterprise belonging to the same big-bourgeois group of interests, and in this way to acquire the annual subvention of 400 marks per worker, without the total number of employed workers having to increase at all.

Whether this restarting of economy succeeds or not, it is obvious that the big bourgeoisie will be able to transfer 2200 million marks from the State Treasury into its own pockets, quite apart from the profit it hopes to derive from wage reductions.

#### The Prospects of Restarting Economy.

The bourgeoisie attaches great expectations to Papen's economic programme. We naturally do not share this optimistic opinion.

The great reduction of the wage expenses is undoubtedly an incentive to increased production. The decisive question, however, is: How will it be possible to dispose of the cheaply produced goods? Certainly not to the proletariat. The entire scheme is based on the calculation that with the same expenditure on wages the enterprises will be able to furnish a 25 per cent. larger output.

Not to the peasantry. The agrarian crisis continues to spread. The economic "restarting" merely benefits the big agrarian circles and big farmers at the expense of the middle and small farmers and the agricultural workers.

To foreign countries only in a very small degree. German exports continue to show a regressive tendency, partly by reason of the general shrinkage of international trade and partly in view of the special retaliation against Germany's measures to shut out agrarian products from abroad. In this connection, the reduction of the cost of output will not entail any alteration.

Certainly not for investment purposes. In view of the very small exploitation of the existing productive apparatus, there can be few business men that will in the near future take steps in the direction of an extension of their fixed capital. The construction of dwelling houses is out of the question at the present high rate of interest for loan capital and in view of the many empty dwellings. Owing to lack of capital, the building activity of the Reich, the individual State governments, and the municipalities and the investments of the German State Railways must necessarily remain within very narrow limits.

"Replenishment of Stocks!" It is probable the stocks of finished industrial products are "below normal", especially in wholesale and retail trade. A certain market might be found in the replenishment of these stocks. But this is naturally not a market in the actual sense of the word, for as long as the consumptive capacity of the final consumers is not increased, the replenishment of stocks is nothing but a short-lived expedient.

The prospects of "restarting" economy are therefore by no means so bright as the bourgeois press seeks to make out. The entire action, moreover, is fraught with two serious risks:

(1) Inflation: The 2200 millions of tax vouchers will to a very great part find their way to the Reichsbank and lead to a corresponding increase in the fiduciary circulation.

(2) Increase of the Government deficit as from 1934 onwards, when every year more than 400 million marks of taxes are paid in the form of tax vouchers instead of ready money.

#### Renewed Attempts to Salvage the Banks.

In our successive surveys we have repeatedly pointed out that the rescue of the leading banks, effected at a tremendous sacrifice of public funds, by no means represents a lasting restoration of these financial institutions. The banks' need of restoration is based on the same need (i.e. on the latent insolvency) on the part of numerous industrial enterprises, whose debts and shares continue to figure, the former to their full extent, the latter at deceptive rates, in the balance-sheets of the banks. A publication by the Dresdner Bank, "The Economic Forces of the World in the Changing Development of Business", admits this state of affairs, albeit in a less straightforward and generally comprehensible way.

"If in the balance-sheets of December 31st, 1931, the "debtors" figures show a sudden and rapid decline, it is

<sup>21</sup>) Quarterly Issue, Year 7, No. 2a, P. 60.

to be attributed less to a decrease of the volume of credit by reason of a liquidational process in economy, than to copious writings-off, which to a certain extent take the place of the normal process of reduction in regard to the debtors. In the fact that, in spite of the very considerable shrinkage of economy, the banks' debtors have not materially declined in a natural way and have therefore finally had to be quite substantially reduced on the books, there is clearly reflected the unprofitable condition of German economy."

These writings-off and reductions on the books have, however, so far been effected in an altogether insufficient measure. A number of big concerns, such as the United Steel Works, the leading shipping enterprises, and the A.E.G. (General Electricity Company), have already announced their imminent "restoration".

The most difficult and insoluble problem is that of the United Steel Works. The necessity, and at the same time the difficulty, of a restoration in this regard is apparent from the proportion of the debt liabilities of 483 million marks to the share capital of 800 millions. The extent of share capital and indebtedness is quite out of proportion to the decreased consumption. The German consumption of iron per head of the population, as shown by the "Statistical Year-Book" of the iron and steel industry, figures as follows in kilogrammes:

1925	1926	1927	1928	1929	1930	1931
182.0	139.0	245.4	200.7	199.5	126.0	69.0

(For the year 1932, the figure will probably be still considerably smaller.)

The banks do not desire to carry forward the onus of wholly depreciated claims any longer, but rather to shift it—albeit indirectly—onto the shoulders of the State. For this purpose, following an example set by Italy, two institutions are to be founded, to which the banks can transfer their weak or tardy debtors, thus improving their own liquidity. One of these is to be the Industrial Finance Institution ("I.F.I."), the other the Amortisation Fund ("Amor").

"The I.F.I. is to facilitate the conversion of bank debtors into shares and participations by acquiring, from the banks and bankers participating in these restoration measures, shares of, and secured claims on, restored enterprises. Up to 75 per cent. of the equivalent may be paid by the I.F.I. to the banks in the form of sole-bills, which, according to their requirements, the banks may retain in their bill portfolio or else dispose of on the open money market or to the Reichsbank." ("Deutscher Volkswirt" of September 23rd, 1932.)

What is essentially intended is thus a mobilisation of unsalable shares by the establishment of a new banking institution, the bills of which will be discounted by the Reichsbank. This is undoubtedly a new source of danger of inflation. To the Amortisation Fund, the banks are to surrender their bad debts, compensating it with an amount which is to figure at 1 per cent. in the first year and rise in the course of years (the total period of redemption is fixed at 25 years) to 6 per cent. The banks are hereby only saved the trouble of writing off their debtors. The new institution virtually represents a possibility of veiling the banks' balance sheets, organised and legalised by the government. Instead of simply writing off the irredeemable claims and correspondingly diminishing their capital, the banks will enter in their balance-sheets a claim upon the Amortisation Fund.

#### Increased Struggle over Economic Policy.

All circles of the ruling classes agree to Papen's policy of reviving economy, seeing that it undoubtedly stands for a great increase in the total of surplus value appropriated by the bourgeoisie in its entirety. But the appropriated surplus value must also be realised and distributed among the individual circles of the bourgeoisie in the form of profits on enterprises, ground rents, or house rents. The struggles over this distribution and the struggle for the control of economic policy are more pronounced than ever in present-day Germany; they are waged not only among the organisations of the individual circles of the bourgeoisie, but also quite openly among the Ministers of the Papen Cabinet.

The agrarians, who predominate in the Papen Government, develop marked activity. The agrarian policy hitherto pursued, primarily directed towards increasing the price of the grain produced by the big landowners, has got into a blind alley. The peasants are to an ever increasing degree abandoning

cattle-breeding, dairy-farming, and vegetable-growing in favour of the cultivation of grain.

Germany threatens soon to have an excessive output of grain, which would mean the collapse of the entire artificial system of maintaining the price of grain at a high level, figuring even at present at no less than three times the world-market price. The chairman of the Central Agrarian Union, therefore, announced the principle of higher prices for the products of other branches of agriculture, so that grain cultivation should not continue to increase inordinately<sup>23</sup>).

This principle has been followed by the Papen Government. In his Munich speech on September 26th, Braun, Minister of Food, declared himself almost unreservedly in favour of an autarchy and made the following announcement:

"For the protection of home products, the Government is determined to keep out of this country the excess importation from abroad which we cannot cope with by customs duties, and has resolved to introduce a system of quotas for the following agricultural products: Various sorts of cabbages, tomatoes, onions, cut flowers, grapes for the table, the most important categories of fruit, fir and pine timber in laths and timber for paper-making, cattle for slaughter, bacon and lard, butter (with reservation of the special agreements with certain countries), cheese, carps, peas, rice husks."

The announced introduction of quotas aroused the most vehement protests in the neighbouring countries, Holland, Denmark, Sweden, Italy, and so on, which are among the most important buyers of German industrial products. Retaliatory measures were threatened on all sides. All industrial and trade organisations of Germany are sending expressions of protest to the Government. The day after Braun's speech, Warmbold, whose duty it is, as Minister of Economy, to defend the interests of industry, delivered at Cologne, a sharp speech against Braun's autarchic policy.

Warmbold's attack and the protests of the industrialists were equally without result. The Government had resolved on a quota system for the imports above mentioned and delegated a committee to the most important European capitals for the purpose of discussing the extent of the quotas. The outcome of these discussions will be:

- A fresh increase in the prices of foodstuffs, i. e. a deterioration of the position of the working class;
- A renewed restriction of the exporting possibilities of German industry;
- Higher ground rents at the expense of the profit of the bourgeoisie in general.

But the struggle for the distribution of the surplus value is waged with similar vehemence along other lines. A struggle between ground rents and productive capital on the one hand and loan capital on the other; a struggle between the iron-producing industry and the iron-consuming industry, and so on. The intensified agrarian protective-tariff policy is diametrically opposed to the object of restarting industry.

#### Germany's Economic Position and the "Revival" of Economy.

The hopes of reviving economy by the decrees of the Papen Government have so far not been fulfilled in any direction; they are bound to fail in view of the problem of markets. If in the last few weeks certain isolated symptoms of improvement have been observable, they are, in our opinion, collateral effects of events in international economy and not achievements of the Papen Government.

The entire situation of economy has, in so far as statistics are available, apparently continued to decline. The index of industrial production figured as follows (100 representing 1928):

May	June	July
60	56.7	54.5

There are no more recent returns to hand.

According to trade-union statistics, unemployment developed as follows:

	Unemployed Workers				Short-Time Workers			
	(Percentage Proportion of Reporting Members)							
	June	July	August	Sept.	June	July	August	Sept.
1932	43.6	44.4	44.5	44.1	21.1	22.3	22.5	22.0
1931	30.2	31.6	34.1	35.5	17.4	18.9	20.9	21.6

<sup>23</sup>) „Kölnische Zeitung“ of August 24th, 1932.

September brought a quite trifling diminution in unemployment, owing in the first place to a temporary improvement in the clothing industries by reason of the boom in cotton, now already terminated. The general situation continues to be catastrophic.

Of 100 workers there are:

44 wholly unemployed
22 on short-time
34 fully employed.

The fluctuation of the absolute number of registered unemployed has lost all its value as a criterion of the business position in view of the vast number of workers who have been deprived of benefit. Workers no longer have any reason to register, since they neither receive benefit nor can obtain any work<sup>23</sup>). The registered number of fully unemployed was as follows.

End of the Month, in Thousands				
June	July	August	September	October 15th
5476	5392	5337	5100	5230

Thus, while according to trade-union statistics there was an increase of unemployment between June and September, the official statistics show a decrease of 376,00. The worthlessness of these statistics, to which we have frequently had occasion to refer, is at length also admitted by the Institute for Business Research, which now puts the total of unemployed at the end of July at 7,190,000, or 1,770,000 more than the official figure.

The returns of output in individual lines of industry also demonstrate the unaltered continuation of the crisis.

#### Output of the Heavy Industries.

	Hard Coal	Iron	Steel
	(in Thousands of Tons)		
July . . . . .	8260	294	429
August . . . . .	8560	268	416
September . . . . .	8500	273	392

The number of furnaces in operation at the end of September was 32 as against 44 at the end of August. No change has occurred in the bad position of the engineering industry, which shows from 30 to 32 per cent. of the normal degree of occupation. In the textile industry, the higher raw-material prices entailed slightly larger sales to dealers, but the amount sold to the final consumers is as small as ever.

In summing up we may say that there is no sign of economy really being "restarted", and that an improvement of the economic position in Germany with the aid of measures of economic policy is, and is also bound to remain, an impossibility. The economic position of Germany can only improve following an improvement of the entire economic situation throughout the world.

### France.

The crisis of French capitalism continues to grow and has in the last two months assumed particularly acute forms in two directions: in agriculture and in regard to the budget, whereas industrial production has remained at its former low level.

#### Index of Industrial Output<sup>24</sup>).

(100 representing 1928)							
Monthly	Average	August	May	June	July	August	
1930	1931	1931	1932	1932	1932	1932	
110.2	97.6	95.3	74.0	73.2	72.4	73.2	

Between August 1931 and August 1932, the decline was 22.1 points, or 20 per cent. The small rise of the index in August, represents, as elsewhere, a revival of the textile in-

<sup>23</sup>) The bourgeois press has been paying much attention of late to what is known as "black work", that is to say the employment of unemployed workers, who are known by their temporary employers to be in receipt of some sort of unemployment relief and are therefore paid wages below the tariff rates.

"The employment of 'black workers' or even of 'double earners' at sub-tariff rates" says one newspaper, "is tolerated by the trade unions to an ever greater degree."

<sup>24</sup>) Bulletin of the League of Nations, September 1932.

dustry in connection with the speculative boom on the world cotton market.

Foreign trade is rapidly shrinking, imports in consequence of the system of quotas to which practically all goods are subject, and exports by reason of the higher home prices, the diminished capacity of the world market to absorb French luxury products, and the retaliatory measures undertaken abroad in answer to the French quota system.

#### Foreign Trade in the First 9 Months.

(In Millions of French Francs.)

Imports:	1932	1931	Decline
Foodstuffs . . . . .	8,100	10,800	2,600
Raw Materials . . . . .	9,800	15,500	5,700
Finished Articles . . . . .	4,300	7,000	2,700
<b>Total:</b>	<b>22,200</b>	<b>33,400</b>	<b>11,200</b>
Exports:			
Foodstuffs . . . . .	2,100	3,200	1,100
Raw Materials . . . . .	3,400	5,200	2,100
Finished Articles . . . . .	9,100	14,700	5,600
<b>Total:</b>	<b>14,600</b>	<b>23,400</b>	<b>8,800</b>

The net exports of finished industrial goods, which in 1931 still amounted to 7,700 millions, have dwindled to 4,800 millions. Although the absolute total of the deficit has diminished through the general shrinkage of foreign trade, the decline of exports shows a larger percentage than that of imports, viz., 38 against 33 per cent.

The reasons why exports have diminished are in part to be found in the high level of prices in France, which have developed behind the high walls of the protective quota system, especially in the high prices of agricultural products and the high cost of living resulting therefrom.

The main result of the economic policy hitherto pursued was, contrary to practically all other countries of the world, a reversed prevalence of the "scissors" with high prices for agricultural products in comparison with industrial goods. This means that the ground rent monopolised a still greater portion of the surplus value than in other countries, at the expense of the profit on capital, which in its turn shifted the burden as far as possible onto the workers.

This system could not continue for any length of time under the crisis. The consumptive capacity of the broad masses diminished with the increase of unemployment, short-time work, and wage reductions. Agricultural output in general, and the cultivation of grain by the landowners and wealthier peasant farmers in particular, increased in view of the high prices attained; this year the wheat harvest is put at 90.2 million double centals, private estimates going as far as 105 million double centals. In any case, the harvest is far in excess of home requirements. This means that the price must adapt itself to the world-market price if it is not found possible to remove the surplus stocks from the market. A price drop of wheat has set in. To the chronic crisis of vine-cultivation there is thus added a crisis of wheat-cultivation.

The "scissors" in favour of agriculture have certainly diminished somewhat of late, but they are still very considerable.

#### Official Wholesale Index.

(100 representing 1913)

	Goods	End of Sept.	End of Aug.	End of July
Total Index . . . . .	(125)	413	415	430
Foodstuffs . . . . .	(39)	445	453	498
Veget. Raw Materials . . . . .	(24)	410	433	506
Anim. Raw Materials . . . . .	(15)	503	487	485
Industrial Goods . . . . .	(87)	386	382	370
Minerals & Metals . . . . .	(17)	389	388	392
Textiles . . . . .	(19)	351	344	319

Added to this it should be remarked that the middlemen's profits keep up the level of retail prices, that the disparity between wholesale and retail prices is particularly great in France, and that retail prices take a long time to follow the downward movement of wholesale prices.

Simultaneously with the breakdown of the policy of agrarian protection hitherto in operation, the second pillar of French commercial policy, the all-round system of quotas, has been shaken. 38 associations of the exporting industries have combined to form the "Society for Economic Expansion" and addressed an open letter to Herriot, demanding "public



condemnation of the exaggerated and abnormal commercial restrictions" and "a progressive programme of customs reductions on the condition of reciprocity".

The crisis has also rendered the French balance of payments unfavourable. Meynial, the well-known expert in this respect, publishes in the "Revue d'Economie Politique" the following survey of the

#### French Balance of Payments in 1931

(Millions of Francs)

	Credit 1931	Debit 1931	Credit 1930	Debit 1930
Goods Traffic . . . . .	—	13,260	—	12,980
Services . . . . .	2,700	—	3,100	—
Interest . . . . .	4,000	—	5,100	—
Tourist Traffic . . . . .	6,000	—	8,500	—
Reparations Balance . . . .	1,320	—	4,850	—
Government Payments . . . .	—	660	—	920
Remittances of Immigrants . .	—	1,800	—	2,500
	14,020	15,720	21,550	16,400

The deficit on the balance of payments in 1931 thus amounts to 1,700 million francs, as against a surplus of 5,150 millions in 1930, and roughly 9,000 millions in 1929. In the current year, the deficit is likely to be yet greater. The receipts of interest will continue to decline substantially in view of the withdrawal of the short-term holdings abroad and the hoarding thereof in the form of gold in the Bank of France; the Reparation payments are altogether suspended; the tourist traffic is markedly on the decrease since France is now one of the most expensive countries. (The money spent in France by American tourists, e.g., declined this year by 80 per cent. in comparison with last year.)

This means that France, having in the years 1931 and 1932 withdrawn from abroad and hoarded in the form of gold roughly 20,000 millions of capital per annum, will now have to reverse this procedure, by parting with gold to cover the deficit on its balance of payments.

In spite of the gigantic stock of gold, which led in the middle of October to a cover of more than 100 per cent. of the fiduciary circulation in gold alone (without foreign bills), the stock of gold standing at 82,650 million francs and the note circulation at 81,100 millions, so that the privilege of note emission on the part of the Bank of France yields no profit at all; and although there are constantly from 25,000 to 30,000 millions of non-interest-bearing holdings of the leading banks in the hands of the note-bank; in spite, finally of an unprecedented abundance of loan capital, there is a revival neither of capital exportation nor yet of the conversion of loan capital into productive capital by means of an emission of securities; on the contrary, a marked decline is noticeable in both respects.

The monthly average of the entire emission of securities figured as follows in millions of francs<sup>25)</sup>:

1930	1931	1932 first 8 months)
1,823	1,370	569

The French Government has succeeded, it is true, in converting a substantial part of the internal government debt, i. e. 80,000 million francs, but it has had to accord 4½ per cent. interest on the conversion loan, a relatively very high rate of interest.

Capital exportation is quite insignificant, being limited to the vassal states. The 300 million francs Poland was still to have received, were annulled. The special feature of the credit crisis which is particularly characteristic of the present general crisis, the super-abundance of loan capital and the impossibility of converting it into productive capital, is most pronouncedly apparent in France.

The most urgent problem of France's economic policy is at present the tremendous deficit of the state budget. The crisis has upset all calculations. The tax receipts fall far short of the amount estimated, direct taxes being to a very great extent evaded by the bourgeoisie.

In the first six months of the current budgetary year, which, it will be remembered, comprises no more than nine months, direct taxation yielded 3,284 million francs, which was 1,545 less than in the corresponding period of 1931<sup>26)</sup>. The

entire tax revenue in six months fall short of the estimate by more than 200 millions.

How great the deficit will actually be, no one can tell. It is estimated for the current year at 4,000 million francs and for the year 1933 at anything between 8,000 and 12,000 millions. (The great conversion merely results in a saving of roughly 1,500 million francs.)

The task of balancing the budget is encountering great difficulties. A reduction of expenditure is possible only to a very limited extent. Roughly one half of the expenditure represents interest on the government debt, which is not to be diminished. About one fourth is the "sacred" military expenditure, which must not be tampered with. Economy can therefore only be exercised in regard to the last quarter, which represents the payment of government employees, pensioners, and the like. A diminution of their incomes meets with the resistance of one million officials organised in associations, who are at the same time electors, and to a great part electors of the Radical Party.

An increase of direct taxation meets with fierce resistance on the part of the bourgeoisie and the peasantry. An augmentation of customs duties threatens to result in a smaller total yield from this source. An expedient will be sought in the first place in the direction of new general taxes, at the expense of the workers. The demand for a reduction in the cost of living of the entire nation as a means of overcoming the crisis, is constantly gaining in popularity in bourgeois circles.

Meanwhile, the workers of France are suffering to a similar extent under the effects of unemployment as are their fellow-workers in other countries. According to the indications of factory inspectors, covering the 8,829 enterprises with more than 100 workers each, which are subject to inspection and employ roughly 2½ million workers, the number of workers has decreased between September 1931 and September 1932 by 12.73 per cent. (or, in actual figures by 328,000). At the same time, the official number of unemployed in all branches of occupation is put at less than 300,000!

The percentage of short-time workers was no less than 48.7 per cent. (28 per cent. being unoccupied for one whole day or more per week<sup>27)</sup>).

The Government is attempting to shift the burden of unemployment onto the foreign workers. A law decrees that in all public enterprises, constructions for the State, the municipalities, the railways, and the like, only a limited number of foreign workers (5 per cent.) may be employed. Infringement of this law is punished by fines of from 5 to 15 francs per day and worker employed. The restriction is to be extended by further decrees to private economy as well. These measures are approved of and encouraged by the French Social-Fascists.

## Italy.

The tenth anniversary of the Fascist "revolution" is just being celebrated in Italy with an abundance of high-sounding phrases. It would be most enlightening to compare the ten-years balance-sheet of Fascism drawn up in this connection with a Marx-Lenin balance-sheet of Soviet activity, a task, it is true, which would meet with great difficulty, since the material published by the Fascists is extremely scanty and to a great extent forged.

One thing, however, may be established and that is that economically Italy does no occupy an "exceptional position" among the capitalist countries. The former bombastic assurances of Mussolini that, as a result of the Fascist regime, Italian capitalism would be spared by the crisis, have naturally proved incorrect.

Nor is there anything special in Italy about the manner in which the crisis is being "combated"; as in all other countries, the home market has as far as possible been barred while exports are vigorously promoted; as in the United States and Germany, the bankruptcies of big enterprises have been alleviated at the expense of the State. In Italy, too, the attempt has been made to restore the degree of capital exploitation by a reduction of wages and a deterioration of working conditions. In no direction can any essential difference be remarked.

<sup>25)</sup> "Le Temps" of September 12th, 1932.

<sup>26)</sup> "Le Temps" of October 22nd, 1932.

<sup>27)</sup> "Le Temps" of October 2nd, 1932.

Price Index in August<sup>28)</sup>

	1930	1931	1932
Agrarian Index . . . .	413	330	322
General Index . . . .	403	331	300

Italy, meanwhile, is also threatened with a danger that has already materialised in France, this being that the increase of wheat cultivation and the decrease of consumption in view of the impoverishment of great masses of the population, will cause the home output of wheat to cover all requirements, thereby rendering futile the system of protective duties and obligatory milling of native wheat hitherto in operation. (Home requirements figure at about 80 million double centals, while the last crop amounted to 75 million double centals.)

On September 1st, the Italian duties on cattle were very greatly increased.

The meat consumption of the Italian workers and the poorer peasantry was at all times very small; the higher duties on cattle, figuring at from four to six times their former level, will put a stop altogether to the meat consumption of the indigent classes of the population.

This state of affairs has enabled monopoly capital to shift the burdens of the crisis onto the proletariat and poorer peasantry. This is the advantage reaped by the financial oligarchy of Italy from the Fascist regime. The dynamics of the crisis are not essentially altered thereby. The yet greater restriction of the home market through the reduction of the income of the working classes inevitably tends to prolong the crisis, since the bourgeoisie cannot for the time being employ the additional surplus value wrung from the workers with the help of Mussolini, for the expansion of fixed capital.

**Agriculture.**

As regards Italian agriculture, Mussolini is boasting of the success of his "grain campaign". As a matter of fact, the average yield per hectare of wheat has risen from 10.4 double centals before the war to 12.2 double centals in 1926 and 15.2 double centals in 1932, the latter figure being 19 per cent. in advance of the average of the five-year period from 1926 to 1930. The increased output was gained by a better cultivation of the soil, by a better regulation of seed-times, and by the sowing of pure and early-ripening kinds of grain. This, however, benefits none but the landowners and big peasant farmers, while the costs are borne by the consumers in general and the proletariat in particular. The high duties have kept the wheat price at double and three times the world market level, and this in the face of wages which are far below those of other capitalist countries.

In Italy, as in France, there has for years been a reversion of the "scissors", which here act in favour of agriculture.

Those branches of Italian agriculture which are dependent on export trade (wine, southern fruits, and early vegetables) are in a position which is little short of catastrophic. The restrictive measures for the protection of the currency and the decrease in the cumulative capacity of the northern and central European countries, Germany, Austria, Hungary, and the like which are the main purchasers of these products, have led to a marked diminution of exports and to a very material price drop. The exportation of Italian wines has become a practical impossibility.

**Industry.**

The industrial crisis continues unchanged. In Italy there is no such thing as an index of the volume of output, so that a calculation in this regard must be based on individual returns, the publication of which, moreover, is greatly retarded.

**Output of Iron and Steel<sup>29)</sup>.**  
(In Thousands of Tons.)

	1929	1930	1931	1932
Monthly Average				
1929 . . . . .	188	148	121	94
1930 . . . . .	45	43	37	120
1931 . . . . .	42	40	38	112
1932 . . . . .	40	43	37	38
January 1932 . . . . .	40	43	37	38
April 1932 . . . . .	40	43	37	38
July 1932 . . . . .	40	43	37	38
August 1932 . . . . .	40	43	37	38

<sup>28)</sup> Bulletin of the Roman Agrarian Institution, September 1932, P. 672.

<sup>29)</sup> "Bulletin Mensuel de Statistique", September 1932.

The iron and steel output is far less important for Italy than for other industrial countries. We can observe that the steel output has dropped to little more than half that of 1929. The improvement in June and July was no more than transient. Such increases of output during the crisis are all the more easily possible in Italy, seeing that the steel works are to a great extent employed for armament purposes.

Armaments are likewise the reason why there is a certain exception in Italian economy in favour of shipbuilding. With the aid of gigantic government subventions, shipbuilding and shipping are fostered by all possible means. In the budgetary year 1932/33, 251 million lire figure as subventions for shipping and shipbuilding. In the distribution of these subventions, military aims are the first consideration. Shipping subsidies are increased in proportion to the speed of the newly constructed ships.

But the vessels built must also be employed. Therefore the "Italia" shipping company, which embraces a number of formerly independent concerns, is accorded a subvention of 500,000 lire for each voyage to Chile or Australia. Besides this, the income obtained from newly-constructed vessels remains untaxed for a period of ten years.

So far as can be gathered from separate reports, the other branches of industry are still involved in a severe crisis. This applies particularly to automobile construction, which is of great importance to Italy.

The textile industry participated moderately in the improvement occasioned by the cotton boom and noticeable all the world over. The very important artificial-silk industry is in a very bad way.

"The perceptible decline in demand has of late entailed a restriction of output. The production of the Snia Viscosa is 4,000 kilogrammes a day, which is about 10 per cent. of its capacity. The Chatillon has likewise closed down some of its departments. Italy's artificial-silk exports declined in the first half of 1932 from 12,060,000 to 10,030,000 kilogrammes and from 229 to 181 million lire"<sup>30)</sup>.

A particularly difficult position is that of the sulphur mines. Thirty years ago sulphur mining was concentrated in an obligatory cartel, which in 1923 concluded an agreement with the corresponding American trust as to the division of markets. The crisis has upset this formation completely. The Sicilian stocks increased from 5,000 tons in 1928 to 200,000 tons at present, so that the cartel, which was obliged to take over the output from the producers and pay for it, accumulated debts of 60 million lire and was threatened with bankruptcy. On August 1st, the cartel was therefore dissolved and the stocks were taken over by the Bank of Sicily. The prospective losses of the latter, amounting to dozens of millions, will in their turn naturally be taken over by the Treasury.

The aggravation of the crisis is reflected even in the official unemployment returns, which embrace only a fraction of the actual unemployment total.

**Official Unemployment Total.**

	(In Thousands)			
	1929	1930	1931	1932
January	462	466	723	1051
July	202	342	638	931

The percentage of unemployed workers is very high. A publication of the Trade-Union Department, putting the number of occupied workers in September 1926 at 100, arrives at the following results:

**Degree of Occupation<sup>31)</sup>.**

	1929	1930	1931	1932
May	94.6	88.6	74.9	65.4

According to trade-union reports, there are thus 34.6 per cent. of unemployed plus those already out of work in September 1926, which makes at least 40 per cent. in all.

How ruthlessly the working class is subjected to the requirements of capital, may be seen from the fact that, in spite of the great degree of unemployment at the end of March, about 10 per cent. of the employed workers were officially reported as doing overtime work, while at the same time about one third of the total number was working short-time.

<sup>30)</sup> "Frankfurter Zeitung" of September 7th, 1932.

<sup>31)</sup> From the "Economist" of September 12th, 1932.

**Foreign Trade.**

Italy's foreign trade shows the same characteristic features as that of other countries.

**Foreign Trade in Millions of Lire.**

	Monthly Imports	Average Exports
1929 . . . . .	1805	1270
1930 . . . . .	1444	1010
1931 . . . . .	969	836
1932 (1st 8 Months) . . . . .	724	557

Both exports and imports have dwindled to about 40 per cent. of the year 1929. The constantly increasing customs protection—especially for agrarian products—continues to undermine foreign trade. Like all other countries, Italy is involved in an all-round commercial war, while on the other hand it attempts to expand its political influence in the East of Europe by means of preferential treaties, as e. g. in favour of Hungary.

**The Financial Crisis.**

Though the foreign trade deficit of Italy has decreased as regards actual figures, the Italian balance of payments has become very adverse. The number of foreign tourists and their expenditure in Italy, which form one of the most important sources of the national income, have greatly diminished. So have the remittances of Italian workers in the United States, South America, and France. It is only by the most drastic measures and by a considerable disposal of foreign bills, that it has been possible to keep the depreciation of the lira so far in relatively narrow limits.

The disagio of the lira in relation to the dollar figured as follows on a percentage basis:

September 1931	January 1932	July 1932	August 1932	September 1932	October 1931
1.77	4.16	3.08	2.83	2.60	2.74

Since the open outbreak of the credit crisis in Germany, there has been a permanent disagio in Italy, although great amounts of foreign bills have been disposed of.

**Gold & Foreign Bill Holdings of the Bank of Italy<sup>32)</sup>.**

	Millions of Lire			Together
	Gold at Home	Gold Abroad	Foreign Bills	
July 1931	5372	1773	3545	10,690
January 1932	5626	1773	1935	9,334
August 1932	5789	1773	1400	8,962

Nearly 2,000 millions' worth of foreign bills had to be sacrificed so as to keep the depreciation of the lira within the same limits as hitherto.

The depreciation of the currency is in no small degree due to the bad position of the government finances. The budgetary year closing on June 3rd, ended with a deficit of 4,274 million lire.

At the same time, Italy's imperialistic foreign policy calls, despite the depreciated currency, for a certain minimum capital exportation. Thus Italy participated in the Austrian loan to the extent of 150 million lire.

The bad position of state finances is reflected in the very low rates of government loans. The 5 per cent. consolidated government loan figured at the end of August at 80.27, yielding a rate of interest of six and a quarter per cent.

The attempts made to limit the currency depreciation entail a restriction of the fiduciary circulation and of credit. This forces up the rates of interest, lowers the rates of the government securities, and increase the share of loan capital in the surplus value at the expense of productive capital and the ground rent. So as to raise the rate of the government loans and to disencumber the landowners and industry, a reduction of the interest rates was decreed as from October 1st. The rate on deposits with the banks was reduced to 2½—3 per cent., the rate of interest at the Post-Office Savings Bank from 5 to 4 per cent., the rates for hypothecary loans and mortgage bonds to 5 per cent.

**The Exploitation of the Working Class.**

The deterioration in the position of the working class during the Fascist regime in general and during the crisis in particular has been very considerable. We have already furnished some data regarding unemployment. Reliable wage-statistics do not exist. According to such separate returns as have found publication, the wage reduction during the crisis appears to have totalled about 15 to 25 per cent. In September, the wages of the textile workers were once more reduced by 10 per cent. The present wages are so small as not to cover the simplest requirements. The difference between wholesale and retail prices is particularly marked.

**Price Index (Milan).**

	Wholesale Trade (100 for 1913)	Retail Trade (100 for 1914)
1929 . . . . .	121.5	149
1930 . . . . .	104.5	145
1931 . . . . .	89.6	132
1932 (August) . . . . .	80.7	124

In spite of the fetters which the Fascist regime has forged for the Italian working class in the interest of the agrarians and the bourgeoisie, it has not succeeded in suppressing the movement of the workers and poor peasants.

**Great Britain.**

Consistently and uninterruptedly, Great Britain is going over from free-trade to tariff protection. The Ottawa agreements, which have already passed the first reading in Parliament with a tremendous majority of 451 to 84, are another great step forwards in the direction of protection.

How far Great Britain has already become a tariff protected country, may be seen from the following figures:

In the September issue of the "Statistical Summary" of the Bank of England, there is a survey of the British duties in force prior to the Ottawa agreement. They are based on the foreign-trade returns of 1930. After the introduction of the Import Duties Act of 1932, only 233.2 million pounds sterling, or 30.6 per cent. of the total imports of 739.9 million pounds, remained on the free list; the goods formerly subject to duty figure at 130 million pounds sterling, while the Import Duties Act imposed new duties on goods to the value of 386.7 million pounds sterling, or 52.3 per cent. of the total imports. This was the state of affairs before Ottawa. Subsequent to the Ottawa Conference, the goods on the free list would, according to the calculations of the "Economist" of October 1st, on the basis of the 1930 returns, represent less than 187 million pounds sterling out of total imports aggregating 739.9 million pounds.

All statistical returns show that the share of the Dominions, and of the entire British Empire outside Great Britain, have of late years been consistently on the decline. This appears plainly from the following figures, which are culled from the special Ottawa number of the "Economist", dated October 22nd:

**Share in Imports into Great Britain.**

	From the whole Empire	From the Dominions (excluding Irish Free State)
1925 . . . . .	32.5	22.9
1927 . . . . .	30.0	20.2
1929 . . . . .	29.4	19.7
1930 . . . . .	29.2	19.6
1931 . . . . .	28.8	19.7

**Share in Exports from Great Britain.**

	To Empire	To Dominions (excluding Irish Free State)
1925 . . . . .	43.4	29.8
1927 . . . . .	46.0	32.2
1929 . . . . .	44.5	30.9
1930 . . . . .	43.5	28.4
1931 . . . . .	43.8	26.6

The Ottawa agreements constitute an attempt to check this development, to enhance the exchange of goods between Great Britain and the Dominions, to repel the growing competition of the United States<sup>33)</sup>, particularly in Canada and

<sup>33)</sup> The Washington correspondent of the "Times" reported, on August 23rd, that the decrease of exports to Canada by reason of this agreement is estimated in the United States at 60 million pounds sterling a year.

<sup>32)</sup> "Bulletin Mensuel de Statistique", September 1932, P. 418.

India, and at the same time to force up ground rents in Great Britain by the introduction of duties on wheat and the increase of duties on other agrarian products<sup>34</sup>).

The immediate political outcome of the Ottawa agreements, it will be remembered, was the cancellation of the trade agreement between Great Britain and the Soviet Union. The motive advanced in the notice of this cancellation was that, in its agreement with Canada, Great Britain had incurred the obligation

"to prohibit the entry from a foreign country of any particular class of commodities directly or indirectly, by official measures create prices which render ineffectual the preferences accorded by the Government."

To what extent the Canadian Government had actually brought pressure to bear on the British Government, and in what measure the Conservative Government of Great Britain desired to lessen the resistance of those sections of British industry which are interested in exporting to the Soviet Union, and of broad masses of the British working population, by depicting this cancellation as a necessary presumption for the consolidation of the Empire, is a moot point<sup>35</sup>).

But it is not only the export trade to the Soviet Union (which has been rapidly increasing in the course of the last twelvemonth) that is endangered in connection with the Ottawa Conference. The relations with such countries as have hitherto been supplying the British market with foodstuffs to an ever greater degree, that is to say, Argentina and Uruguay on the one hand, Denmark, Holland, and Sweden on the other hand, must also be newly regulated on the basis of the present state of affairs.

In the year 1930, Argentina, Uruguay, and Brazil placed six times as much chilled and frozen meat on the world market as all the British Dominions together. Of the Argentinian exports, which were alone greater than those of all other countries together, Great Britain absorbed 90 per cent.; of the exports of Uruguay, the second-in-order among the exporting countries as regards chilled and frozen meat, it took more than the half. The Empire as a whole, imported between 400,000 and 500,000 tons of chilled and frozen meat. From these returns it is apparent that the quota system for the importation of meat is far from being compatible with the interests of Argentina and Uruguay. At the same time, these countries, in which tremendous amounts of British capital have been invested, constitute the actual backbone of that British influence in South America which for the last ten years has been so successfully repressed by the United States.

No less difficulty will be experienced with the question of pork and ham imports, which have hitherto come mainly from Denmark. If we add to this the fierce tariff war being waged between Great Britain and the immediately neighbouring Irish Free State, which completely excluded itself from the Ottawa agreement, we can judge of the tremendous difficulties with which Great Britain's commercial policy is faced by reason of the Ottawa Conference. Far from mitigat-

<sup>34</sup>) The new duties on foodstuffs and the increase in the former duties, respectively, are calculated by the "Economist" to amount to the following percentage rates for the most important items: Wheat, 8 per cent.; butter, cheese, condensed milk, and eggs, increase from 10 to 15 per cent.; Apples, oranges, etc., from 10 per cent. to between 22 and 30 per cent. For rice, an increase from 10 to 70 per cent. ad valorem on the price basis of the first half of 1932. How greatly the prices of meat will increase in consequence of the quota system, can hardly be ascertained for the moment. The tendency will certainly be in an upward direction.

<sup>35</sup>) According to the data of the Roman Agrarian Institution, the total exports of wheat—which are what is here principally concerned—amounted in the harvest years 1930/31 and 1931/32 pretty equally to somewhere round 192 million double centals. Of this total, the Soviet exports are put by the same authority at 22.7 and 17 million double centals, respectively, which is from 8 to 12 per cent. of the world's exports (September Bulletin, P. 655). How incorrect it is to ascribe the drop in grain prices to the exports of the Soviet Union, may be seen from the fact that the wheat price in Chicago dropped to the lowest level yet recorded, i. e. 44.8 cents a bushel, on October 27th, that is to say, at a time when there were no offers of wheat at all on the part of the Soviet Union.

ing the general chaos in commercial politics and the economic warfare of all against all, the Ottawa agreement has aggravated and complicated them.

### A Year of Inflation in England.

The British periodical press is engaged in summing up the effects of the departure from the gold standard a year ago. The various summaries that have appeared during the last few weeks consider the success of this departure to lie principally in the restoration of Great Britain's balance of payments, due especially to the diminished trade-balance deficit.

That no inflation boom should have ensued in Great Britain, is owing to the fact that prices within the country have not risen: the price increase occasioned by sterling depreciation having been counter-balanced by the parallel drop of prices on the world market.

The price development since the abandonment of the gold standard has been as follows:

Wholesale Price Index  
(100 representing 1913)

	Board of Trade	Economist	Times	Retail Price Index (Ministry of Labour) 100 f. July 1914	Prof. Bowley's Index o. Av. Wages per Week (full Occupation) 100 f. July 1914
August 1931	99,5	85,7	94,7	145	188,5
Peak Prices	106,4	92,2	100,0	147	187,4
August 1932	99,5	85,2	96,0	141	186,0

These indices, which are naturally not comparable with one another, as representing different groups of goods, show that the inflationary price rise plus the price-appreciating effect of the newly introduced duties on the one hand and the drop in the international trade prices on the other hand have counter-balanced each other in the course of a twelvemonth.

If, therefore, there has been no price increase and thus no inflation boom in the actual sense of the word, the British bourgeoisie was yet spared the burden of the constant price drop on the world market, which makes it so difficult to realise the appropriated surplus value. Within the country itself, the bourgeoisie enjoyed a more or less stable price level, which facilitated the utilisation of capital and at the same time—the depreciation of sterling, expressed in gold, being greater than the drop of gold prices on the world market—ensured them a certain advantage over their competitors in the United States, France, and Germany, all of which countries clung to the gold standard.

In spite of these advantageous circumstances, the first twelvemonth of inflation closes, albeit with an improvement in the trade balance, without any improvement in the production sphere, a fact which points to the pronounced weakness of British capitalism. This is recognised in all relative surveys.

Our estimate of a year ago, according to which there would be no inflation boom in Great Britain, has thus proved absolutely correct.

The process of ousting the workers from the production process continued throughout the last twelvemonth. In face of a practically undiminished volume of output, the percentage of unemployed is at present, even officially, 0.4 per cent. higher than a year ago, this corresponding to an actual increase of at least 2 per cent.

In the second half of October, there was unexpectedly a further marked drop in the rate of sterling. The British press explains it as resulting from heavy purchases of raw materials in the autumn season. German papers put it down to the influence of French withdrawals of capital from Great Britain with a view to bringing political pressure to bear on Germany. From the scanty reports so far to hand, it is impossible as yet to say definitely just what is going on. A further decline of sterling is certainly possible, though we are still of opinion that there cannot be a rapid depreciation.

The big conversion has not inconsiderably diminished the share of rentier capital in profits, but the parasitical character of British capitalism, with its powerful rentier capital, still continues to obtain.

### The Business Position in the Last Few Months.

In general, the last few months continue to show all elements of the crisis.

"The statistics of industry in August are not encouraging. The output of coal, iron and steel has decreased, unemployment has slightly increased, and exports show no improvement", writes the universally respected "London and Cambridge Economic Service" in its "Monthly Bulletin" of September 23rd.

For the month of September, it is true, the above source records a certain increase in output, though it adds that no general improvement can be looked for before the spring<sup>36</sup>).

The index of the "Economist" gives an even more gloomy picture:

**Index of the „Economist”.**  
(100 representing 1924.)

	Imports:					Sept. 1931
	May	June	July	August	Sept.	
Raw Materials . . . .	99	93	88	86	86	78
Non-ferrous Metals . .	99	103	107	102	100	103
Finished Goods Exports	69	68	64	62.5	60	66
	Consumption:					
Iron & Steel . . . . .	75	73	72	70	69	77
Coal . . . . .	101	93	90	88	89	90
Cotton . . . . .	97	87	82	80	78	75
Rubber . . . . .	306	318	317	315	300	365
Electric Energy . . . .	121	111	103	97	100	98

The consumption of coal, iron and steel, cotton, and electric energy shows a continuously downward tendency. Compared with September 1931, all indices are lower. To judge by newspaper reports, a slight increase of output appears to have taken place in October.

## United States.

During the last few months, the economy of the United States has been very greatly under the influence of the elections, which has affected it in part advantageously and in part obstructingly.

Not that any fundamental alteration in economic policy is expected to result from the change from a Republican to a Democratic government in America. The difference of class basis between the two parties has almost entirely disappeared. The pronounced industrialisation of the South, which has always been the stronghold of the Democratic Party, has deprived the latter to a great extent of the character of an agrarian party, such as it formerly had. The financial oligarchy now governs both parties equally, as is openly admitted by various press organs of financial capital.

Although both parties are thus undoubtedly representatives of financial capital interests and their policies differ from one another only by a few shades, it is nevertheless true that the election campaign has exercised great influence on the economic life of the United States. Those groups of financial capital which are most closely connected with the Republican Party and through the Government with the State apparatus, have been able most directly to profit by all such advantages as the said official machinery affords<sup>37</sup>). (As is well known, the passing of the Presidential office from the one party to the other means not only a change of Ministers but an exchange of all the higher government officials and therefore an alteration throughout the machinery of the State.)

The most liberally accorded credits of the Reconstruction Finance Corporation and the pressure exercised on the enterprises receiving them to ensure part of the credits being used for investment purposes, were intended to have brought about an enhancement of the output of means of production and greater contentment among the workers. On the other hand, the placing in storage of a further 3 million bales of cotton with financial aid from the Government and the reports of a bad cotton crop should have forced up the cotton prices and thereby have stimulated the cotton industry, a manoeuvre which succeeded fairly well but had not any lasting consequences by reason of more deeply-rooted causes, to which we shall still have occasion to return.

<sup>36</sup>) „Monthly Bulletin” of October 23rd.

<sup>37</sup>) The more complex and varied the economic policy is, the greater is the interference of the government and the more important the command of "good connections".

Meanwhile, in his first election speech at Des Moines, Hoover made a serious blunder. So as to emphasise his merits in the interest of preventing a financial and currency catastrophe, he was imprudent enough to admit—as we have frequently reported before—that the gold standard was actually in danger in the United States during the past spring.

"At a certain moment, the removals of gold had so greatly diminished the amount of gold we had at our disposal for current payments, that the Secretary of the Treasury informed me that, if we could find no remedy to apply, we should not be able to maintain the gold standard for more than two weeks longer in view of our incapability to satisfy the claims for gold made by foreigners and by our own citizens."

This utterance of Hoover caused great consternation not only in America, but in Europe too. The European exchanges reacted to it with a perceptible drop in the dollar rate. Every one reflected: If in the spring there was danger of the United States being obliged to abandon the gold standard, the same danger can also occur again at present, since there has been no essential change in the economic position of the United States. (The change from gold exports to gold imports in the last few months is to a great part due to the participation of European speculators in stock-exchange operations in the United States.) To this there is to be added the tremendous deficit of government economy, once more estimated at 850 million dollars in the current year. Hence great consternation at Hoover's utterances. The well-known Senator Glas, chairman of the Senate Committee, immediately issued a denial, declaring that the gold standard was never in danger in the United States. The big economic papers likewise deny this assertion of Hoover. That, for the purpose of improving his electioneering chances, Hoover should so openly have disclosed the weakness of the United States currency, aroused the displeasures of the financial oligarchy and undoubtedly did much to aggravate the general discontent.

### The Business Position in the Last Few Months.

As we already pointed out in the First Section, the level of production rose not inconsiderably during the months of August and September. For August, the index of the "Annalist" shows a rise to 55.5, as against 52 in July, while the provisional index for September, in which, it is true, two items are still missing while several others have only been temporarily established, registers an advance to 59.2.

This is, since April 1931, the first increase in the volume of production, and that at a rate unprecedented throughout the duration of the crisis. Parallel to it, there is an increase, albeit far smaller, in the degree of occupation, which is likewise the first since the beginning of 1931.

Part of the bourgeois press infers from this that the corner has now been turned. If we investigate the elements making up the increase in output, this opinion will prove to be fallacious. By far the greatest part of the rise in the production index is due to the greater output of cotton goods. The "Annalist" index figure for cotton consumption rose from 57.4 in July to 84.6 in September. The causes of this rise are pretty obvious: the government announcement that a further 3 million bales of cotton were to be removed from the open market and stored for a year, and the reports regarding the bad outcome of the cotton harvest, proved an incentive to cotton speculators. They were supported by the fact that substantial amounts of short-term loan capital remain almost entirely without interest, thus promoting a short-termed speculative investment on the cotton exchange.

Owing to the coincidence of these circumstances, the cotton price, it will be remembered, soared to as much as 10 cents a pound. This occasioned active efforts to cover requirements in materials and clothing, on the part both of final consumers and of wholesale and retail dealers, all the more so as last year's sales of clothing had obviously not been covered by new purchases. Thus there was a rush to cover requirements as early as possible, a sudden "wave" of purchasing, exceeding any hitherto experienced, even in times of a business boom. In August, the sales of cotton stuffs figured at 511 million yards, which was about as much as in the three preceding months together. The output of August was only 181 million yards, so that by the end of the month the volume of orders had risen to 486 million yards, more than twice as much as one month earlier.

This purchasing activity, however, proved short-lived. When the most urgent requirements were covered and the price of cotton had again begun to decline, sales rapidly decreased, the amount sold in September being no more than 292 million yards. The present position is such that, owing to the great purchases, the factories are supplied with orders until over the close of the year, so that the output still shows a tendency to increase while sales already fall short of production. In a matter of two months or so, the entire speculative advance will probably have been liquidated, all the more so seeing that the position of the international cotton market has during the last few weeks afforded no basis for a rise in prices. As a matter of fact, cotton prices have during the last few weeks receded just as rapidly as they formerly advanced. The speculative character of the entire movement is clearly apparent.

If we eliminate the cotton industry, there remains an increase in the output of the heavy industries, iron, steel, and coal, partly—as already remarked above—in consequence of the orders of the railroads and other big enterprises, specially arranged for the electioneering campaign by the Reconstruction Finance Corporation. How deeply the crisis has affected the broad classes of the population in the United States, may be seen in the uninterrupted decline of the automobile output, which with 12,000 cars for the first week in October, has attained its very lowest ebb throughout the period of crisis.

It would, therefore, be a great mistake to infer from the fact of increased output in August and September (arranged to a great extent by the Government for the election campaign) that a turning point has been arrived at in the business development of the United States. Such an improvement is denied even by some of the serious bourgeois newspapers.

The marked rise in share quotations in July and August, the reasons for which we discussed in Section One, is not illustrative of any increased profitability on the part of the respective enterprises. The contrary might, indeed, rather be asserted. The longer the crisis lasts, the more markedly does the profit of those enterprises which have so far best held their ground, continue to dwindle. In particular, the position of the various holding companies, such as was the Insull concern, grows increasingly precarious. The collapse of the Insull enterprise most drastically reveals the weak basis on which such holding companies stand.

Failures and bankruptcies would be yet far more numerous in the United States, if the banks were to call upon their "sound" customers to pay at maturity the sums advanced them on securities. This they seldom do, although they are devoid of security in a banking sense in view of the stock-exchange decline of all hypothecary deeds. This constant prolongation of credits in the face of depreciated securities, represents a constant danger to the banks themselves, for which reason they have made use of the boom in the share market in order to improve their position. They brought pressure to bear on their clients, so that the latter should realise part of their shareholdings at the higher quotations and employ the proceeds for diminishing their debts to the banks. Thus it came about that the share boom on the American stock exchanges ensued without any extension of the bank credits accorded on securities. On the other hand, this procedure on the part of the banks tended to bring the boom movement to a premature end. The bulk of the profit on quotations has thus again been forfeited.

That the profitability of the United States industry so far shows no sign of improvement, is proved indirectly by the fact that, in spite of the unprecedented abundance of loan capital, capital exportation, i. e. the transformation of loan capital into productive capital, is almost completely at a standstill. The whole emission for joint-stock companies figured in September at no more than 6½ million dollars, while the total emission (including the 18 millions advanced to municipalities by the Reconstruction Finance Corporation) did not exceed 93 millions, as compared with 271 millions in September 1931 and 378 millions in September 1930. Capital exportation likewise remains at a standstill, only 20 million dollars having been placed at the disposal of the Canadian Government. In the first nine months, capital emission fell short of one million dollars, which was one third of last year's figure <sup>38)</sup>.

<sup>38)</sup> "Financial and Commercial Chronicle" of October 8th, 1932.

### Catastrophic Position of the Farmers.

The importance of agriculture for the greatly industrialised United States is often underrated, especially when the production value of agriculture is placed side by side with that of industry. Such an opinion is, however, incorrect. The fact remains that, according to the census of 1930, 10½ million persons are engaged in agriculture, this being almost one quarter of the total number of earners. So far, no mitigation of the agricultural crisis has occurred in the United States; rather on the contrary, perhaps. The position gets worse from year to year and from month to month.

As regards the prices of grain, that of wheat is generally known to have declined again to its very lowest level after the speculative rise in the autumn. During the last few weeks, the wheat price in Chicago has remained consistently below 50 cents a bushel. Transitional stocks of wheat have not declined. Disposal on the world market will this year meet with greater difficulties than ever in view of the particularly good harvests in the Continental European countries (France, Germany, Italy) and of the far-reaching reservation of the British market for the Dominions.

The only remaining way of getting rid of the surplus is to deliver it on credit to the Kuomintang Government, thus assisting the latter in its struggle against Japan. The first operation of this kind (obviously a veiled subvention of the war against Japan) has already been concluded. With the aid of the Reconstruction Finance Corporation, 15 million bushels were delivered to China on the basis of a four-years credit.

But a gift of the surplus wheat output to China (which will never pay for it) is naturally also no more than a momentary forcible alleviation of the crisis.

Even worse, if possible, than in regard to wheat, is the position of the other, cheaper, varieties of grain. According to a telegram of the "New York Times" from Chicago on October 9th, it has been established that the price of oats, at the time only from 7 to 10 cents a bushel, spelt ruin for the farmer. The present price level is the lowest in the entire history of the United States.

Nor is the situation any better in regard to maize, of which there has been a very good crop this year. In Iowa the question is once more being seriously considered whether it is better to use the maize as fuel or to sell it.

Meanwhile, the price increase for cotton has speedily given way since it was devoid of any tangible basis. According to the reports of the New York cotton exchange, the following are the

#### World's Stock of Cotton at End of Harvest Year. (In Millions of Bales)

1929	1930	1931	1932
9.4	11.1	13.9	17.3

If to these transitional stocks of 17 million bales, we add the output of the year 1932, we shall get for the beginning of the current harvest year stocks of 43.6 million bales. In the last two years, the cotton consumption fell short of 23 million bales which means that the transitional stocks and this year's crop together are the double of last year's world consumption.

Since for years past the prices of the most important agricultural products have been below the costs of production (including the rent), it is obvious that the indebtedness of United States agriculture should grow year by year. While in 1910 the debts figured on an average at 27.3 per cent. of the price of the soil, they rose in 1925 to 41.9 per cent., in 1928 to 46 per cent., and in 1932 to 48 per cent.

Sales under duress are growing more and more frequent. There were 45,000 in 1929, 54,000 in 1930, and 100,000 in 1931. The official disposal of farms would be still much greater, if the banks, insurance companies and the like, which accord the relative credits, had some prospect of realising their claims, which is not the case at present.

#### Position of the Working Class.

The long duration of the crisis causes the position of the American working class to grow worse and worse. The seasonal decline of unemployment during the summer was very small, seeing that the building activity was only about half that of the year before. Now unemployment again begins to rise. The aggregate number of unemployed is still estimated

at from 10 to 14 millions. The wage total paid in the manufacturing industry sank continuously down to August. In August and September, the transient improvement in the textile industry led to a very slight increase. The wage sum paid is less than 40 per cent. of what it was before the crisis began.

This marked decline is not only the consequence of the tremendous amount of unemployment and short-time work, but also that of the repeated wage cuts the workers are obliged to put up with, albeit with an ever growing resistance.

There is an ever-increasing impoverishment of the working class and especially of the unemployed, who, having long ago consumed their savings and sold all the things they can possibly spare, now vegetate on the alms of the municipal welfare department. It is reflected in the growth of

vagrancy, crimes, and suicides. According to a report in the "Times"<sup>39)</sup> on the relative investigations of a Wayne, McMullen Professor at Chicago University, there exists in the United States an army of 200,000 juvenile vagrants between 16 and 18 years of age.

Theft and robbery have assumed tremendous dimensions. In Chicago, far more automobiles were stolen in the street during September than were sold by the dealers.

The misery of the unemployed in the cities is so great that an exodus has set in to the country, where at least they are not so likely to starve, since in many districts grain is almost unsaleable.

Such are the conditions prevailing at present in the richest country of capitalism, a country from which, according to Hoover's declaration, poverty was soon to be definitely abolished.

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<sup>39)</sup> "Times" (London) of August 18th, 1932.