

Fourth International

Boom, Bust and War

● **America Nears the Crisis** *By Harry Frankel*

● **Inflation and the Arms Economy**

By Arne Swabeck

●

Class Struggles in Bolivia *By Guillermo Lora*

Wall Street's Japanese Riddle *By V. Grey*

Editorials: **Germany: The Turning Point**
A Case of Daydreaming

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Manager's Column

Shhh! Conspiracy!

Back in the month of May, the pipelines of the *N.Y. Herald Tribune* groaned with a great discovery about us, and we awoke of a Sunday morning to find it in black and white in a column run by two of their super-sleuths called "The Red Underground." It concerned a deep-dyed conspiracy which probably shook the Republic to its foundations. Nothing less was involved than a plan to make some changes and improvements in our magazine.

Caught red-handed, the staff summoned a hurried meeting and decided, that even though our plans were not yet completed, we had better make a clean breast of the whole matter. So here in a nutshell is our confession:

For some time, we have been discussing the contents of the magazine and the form in which material is presented. We believe that in substance and analysis, *Fourth International*, takes second place to none in its treatment of the problems of our times from the point of view of Marxism. In fact, there is no other magazine in this field which even begins to approach it.

But we have come to the conclusion, after examining reader opinion and circulation figures, that the magazine is probably pitched on too high a theoretical level, that many of the concepts treated are too obscure or too un-

familiar to the reading public or at least are not presented with sufficient simplicity, that the articles tend to be too long.

The problem can be stated in another way also: Nowhere in the world has Marxism been subject to as sweeping and systematic attack, with the probable exception of Hitler's Germany, as in the U.S. Yet the unfamiliarity and even ignorance of the reading public with Marxism is almost as universal as the attack. That puts our task clearly before us.

We want to get to these people whose interest in Marxism has been stirred by the organs of official opinion but who can see through the obvious lies, distortions, stupidities and superficiality of this anti-Marxist tirade. We want to nail every one of their important arguments. We want to demonstrate how Marxism alone approaches the problems of the world, and especially of America, scientifically. Especially America! because while the apologists of capitalism are sometimes ready to grant that Marxism may be valid for the one-third of the world that has broken out of its domination, America, they stoutly insist, is the exception that disproves the rule.

We think just the contrary! Despite temporary phenomena and superficial appearance, it is in America, the classic country of capitalism, that Marxism will have its greatest vindication. We want to do all this in a way that will be fully comprehensible to the reader whose intellectual fare has been no deeper than that of the *Nation* or *New Republic*. In addition, we want to change the name of the magazine so it will be more suitable to this task.

Now that you are fully privy to this conspiracy, we invite you to join it. How? By sending us your criticisms, ideas and suggestions, so that the work of improvement and change, when actually begun, becomes a collective project. That will insure the most fruitful of changes, the one likely to be most beneficial in results. So sit down and write us what you think — and what you want.

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FOURTH INTERNATIONAL

VOLUME XIII

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NUMBER 3

World In Review

Germany: Turning Point

On the morning of May 26 at Bonn, Germany the "cold war" entered its final phase. With the signature of the German treaty, the period of diplomatic jockeying is coming to an end, the last doors for compromise are being closed. Now begins the feverish production of weapons, the marshalling of armies. The counter-revolutionary war against the anti-imperialist bloc of nations and the revolutionary workers movement is now fast approaching the shooting stage -- and that awaits only the most favorable moment.

This is not to say that the atom bombs will begin falling tomorrow. Nor even that the new Wehrmacht, officered by Nazi generals under American overall command, will spring up overnight. Obviously a period of intense struggle is in view on all levels. The Kremlin, as is already plain, will move heaven and earth to spike the guns of the anti-Soviet coalition now pointed at the USSR. The mass opposition of the German workers to the permanent dismemberment of their country and to its rearmament has yet to be thrown into the scales. In these struggles will be determined how effective a bastion western Germany will be for imperialism in the coming war.

But it is equally certain that American imperialism will not easily be turned back. Its answer to those in Europe who are alarmed at the dire consequences this policy may have and to the opposition of great masses in Britain and in Germany, officially expressed by the Labor Party and the Social Democracy, is most bluntly stated by the authoritative Tory London *Observer*: "*The creation of enforceable world law and order demands more, not less, exertion of power on the part of the people united in a Roman determination to pacify the world.*"

There are dangers, to be sure, on this path of Roman conquest, and they are frankly acknowledged by the *N.Y. Times* which greeted the treaty by saying that "*we all embark today on a perilous road, but one that must be followed. In reality there is no other choice.*" They are right. There is no other choice than war for world imperialism except chronic weakening and eventual destruction by the encroaching forces of revolution on a global scale.

Behind them is the frightening lesson of Munich. The failure then to consolidate the anti-Soviet bloc, to turn eastward in concert toward Moscow and the Urals has

fatal results for capitalism in one-third of Europe, in China and throughout the colonial world. Thus far Acheson has succeeded where Chamberlain and Laval failed not because of the strength but because of the weakness of the powers to be "integrated" into the anti-Soviet coalition. And therein lies the basic difference in the relationship of forces between the world of the latter 'thirties and the world of today. Economic rivalry and conflict of interest between the European capitalist nations has not become less acute. But their decline has been so precipitate, so enfeebling that the State Department could set the terms for the alliance by diplomatic and economic pressure while Hitler had to resort to warfare against his intended allies.

All of the important European nations have been obliged to act contrary to their most immediate interests. German capitalism had the most to gain from unification and neutrality which would have permitted it to direct its trade to Eastern Europe and China instead of being hemmed into the narrow confines of the present world market in competition with all the others. Neither England nor France desired the rise of a strong militarized Western Germany with which they would have to compete economically and to which they would have to make ever greater concessions to keep its eyes turned eastward. But they had no power to make an independent decision. And as is always the case with vassals, it is the master who decides what is good for them, whether it is good for them or not.

Failure of Compromises

It is precisely for this reason that all of the Kremlin's efforts to achieve some sort of *modus vivendi* with western capitalism have failed. The differences between the various powers, on which the Kremlin had played before the World War II and which made possible the "collective security" compromise, have since been subordinated in a common subservience to American imperialism. Germany was the decisive test. It remained the main area for bargaining. Even after the "cold war" began, Stalin deliberately refrained from pursuing the same course in Germany he had in the "peoples' democracies." Obviously he had no intention of assisting in the creation of a socialist Germany: that would have sealed the fate of European capitalism and would have had grave internal consequences for the Soviet bureaucracy. The Kremlin followed the same course of diplomacy *vis a vis* Germany

as before World War II. It began with generous offers to France and England at the expense of Germany; it ended, at the last moment before the signature of the Bonn accord, by offering major concessions to the German bourgeoisie which nevertheless were not completely unattractive to France and England because they provided for German neutrality. Both policies were buried at Bonn by the colossus from overseas who demands far greater concessions than these, far greater than the Kremlin is willing or able to give.

It might be assumed that under such conditions, faced with a major threat to its existence, the Soviet Union would act decisively and without further delay while the military advantages are still in its favor. While such a possibility cannot be excluded, it is more likely that the Soviet bureaucracy, like all workers' bureaucracies, conservative, cautious, fearful of a final showdown with capitalism, will wait until the last moment, hoping all the time for "something to turn up." In any case, that question will be more definitely answered after the voting on the ratification of the Bonn treaty occurs in the parliaments of Great Britain, France and particularly that of western Germany, i.e. after the Kremlin has made its last efforts to dissuade European capitalism from following Wall Street's "Roman" road.

Scene of Conflict Shifts

Meanwhile the struggle over Germany is already shifting from the plane of diplomacy to that of class conflict. Trotsky long ago pointed out that faced with a death struggle with capitalism, where its own privileges are jeopardized along with those of the USSR, the bureaucracy is capable of giving an initial revolutionary impulse to the masses. This is already apparent in a series of events, heightening the class tensions and conflicts in Europe, on the very morrow of the signing of the Germany treaty: Outstanding is the speech by Walter Ulbricht to a quarter million East German youth at Leipsig where he urged them to follow the example of the North Koreans and the Chinese volunteers in the struggle to overthrow the Adenauer government. Hard on its heels followed an attempt of 6,000 of these youth to cross the zone line into western Berlin, then the transformation of a trade union rally in Munich into a protest demonstration against the treaty, and then the clashes with the police growing out of the anti-Ridgway demonstrations on the streets of Paris.

The Kremlin probably has no other aim in these actions than to intimidate the ruling circles of western Europe into rejecting the German treaty. But it is setting a train of events in motion that cannot be easily controlled. Not the least of these is the repressive measures this appeal to the masses calls forth from the capitalist governments which are prodded and pushed by American imperialism to bring down the mailed fist. The very presence of Ridgway, of "Operation Killer" and "Kojima Island" fame, should leave no doubt as to what is demanded. Duclos' arrest and the attack on the French CP head-

quarters signals the beginning of this struggle in France. The CP is then obliged to summon the masses to action in defense of their leaders and their organizations, to organize its ranks for remorseless combat. A situation of civil war is thus created, regardless of the outcome of the first skirmishes, between reaction and the French workers.

More and more Germany will take on the appearance of another Korea prior to the outbreak of the civil war. Instead of a divided country ruled by agreement of the occupation powers, the foreign armies of the now mortally antagonistic powers will either be supplanted or supplemented by the creation of native military establishments on either side of the Elbe parallel. But the division of Germany along horizontal or class lines is even more important than the vertical i.e. the territorial or state division.

The two German states are divided by a deep social chasm. Western Germany is dominated by the old Nazi gang of Rhur industrialists and cartelists and ruled by a governing personnel which is not substantially different from that of the Hitler regime. In Eastern Germany, on the other hand, the economic power of capitalism has been largely undermined, the Junkers expropriated, the old organs of power shattered and replaced by new institutions which although run by an iron-bureaucratic hand are no longer dominated by capitalist interests and time-servers.

It is this east German government which is now leading the fight for the Soviet proposals for the withdrawal of the occupation troops and the creation of a united neutral Germany, a proposal which cuts through western Germany like a knife. Without benefit of formal agreement, it aligns the mass of social democratic workers and trade unionists, despite their well-known hostility to Stalinism, in the same camp with eastern Germany and the USSR and against their own class enemies who are committed to the perpetuation of the partition to serve the war aims of American imperialism. The spur to struggle given by the Kremlin must find an echo among the west German working class even though the movement thus aroused is far less likely to be under Stalinist domination than it was in North Korea.

In the struggle over Germany, which will eventually widen to include all of Europe in its scope, is to be seen the nature of the coming war and the direct link between the war and the conflict of the classes. As the pace to war is quickened so also is the class conflict sharpened to the point of civil war. And as in Korea, the conflict between the states is quickly revealed to be a conflict between the classes. The Soviet bureaucracy feared this situation like the plague, it despised the very thought of being involved in such a cataclysmic revolutionary struggle. But now that

Coming in the Next Issue
**The Economic Evolution of Eastern
 Europe Since 1950**
 by Ernest Germain

the doors of compromise are being bolted, now that direct betrayal means suicide it has no alternative for self-preservation than to unleash vast proletarian forces against the imperialist enemy. It can no more control these forces than imperialism can defeat them.

Hastened by the Bonn treaty, the conflict will probably go through many detours and zigzags before it approaches the final showdown. But its course and direction is now clearly defined.

G. C.

A Case of Day Dreaming

Like other serious political people, the editors of *Monthly Review* (which they describe as an "independent socialist magazine") are gravely concerned with the "outlook for American socialists." We find this to be quite understandable. Faced for a number of years with an unrelieved growth of reaction combined with a steady drift to war, in which the forces of opposition, intimidated, persecuted and isolated have been reduced to the courageous handful, American socialists are naturally asking: What is the perspective in view? When and how will this all end?

The answer to such questions as these is a test for Marxists who, while never claiming scientific precision for their predictions, have always prided themselves in being able to foresee the general line of developments. This quality is even more important in a time when the workers' movement is in a blind alley. The first need is to look the facts, no matter how grim, straight in the face. After that, by analyzing all the factors in their totality and in their evolution, it is possible to get a perspective of what lies ahead. You won't get better answers — not in life anyway — by disregarding unpleasant facts or by inventing your own.

But this is just what the editors of *Modern Monthly* (May 1952) do, and what emerges is one of the most fantastic daydreams since The Life and Times of Walter Mitty. They begin by saying in one paragraph that there is no outlook whatever for American socialists if there is a World War III. At any rate, anything that might be said about it "would be in the realm of pure speculation." However, they in effect admit this to be the most likely course of development. For in the remaining five pages of the editorial they proceed to discuss a variant which is acknowledged time and again to be "possible" but not "probable," and one which "might sound unrealistic, perhaps wildly optimistic."

The whole matter could be dismissed as a self-avowed flight into fancy if the authors had not made it the basis for a program of "main tasks and responsibilities of American socialists." But before entering the conclusions let us briefly recapitulate the daydream from whence they flow:

The "cold war," they say, will soon reach a climax. The Acheson-Truman foreign policy — of "peace through strength" — will prove to bankrupt because the rifts will grow in the American camp and the Soviet Union will not accommodate them, by quietly capitulating. Then will ensue

a crisis in the American ruling class which will be divided into two factions — a "preventive war" faction and the followers of Hoover's program for a retreat into the Western Hemisphere. Since neither will be strong enough on its own to command the support of the bourgeoisie as a whole, a third Rooseveltian-type force supported by workers, farmers and large sections of the middle class will come to the helm in the midst of the confusion and crisis. The new administration would inaugurate a "New New Deal." In the field of foreign policy, it would pursue a policy based on the "coexistence of capitalism and socialism." It would naturally call a halt to the cold war, come to an agreement for disarmament, admit China into the UN, neutralize Germany and Japan, expand east-west trade, initiate an elaborate program of Point Four investments. And at home, it would naturally undertake a new round of social reform measures.

Don't rub your eyes! All of this, in more expanded form, is actually in print. What makes it all the more fantastic is that all past experience and especially the events which have transpired since the "cold war" began some five years ago have proved the direct opposite. Far from backing down in the face of innumerable obstacles such as the strengthening of the Soviet bloc of nations, the rise of the colonial revolutions, the hesitations and weakness of its capitalist allies, American imperialism has proceeded undaunted step by step with its war program: first, the Marshall Plan, then the North Atlantic Alliance, then the virtual closing down of East-West trade, then the war in Korea, then the separate treaty with Japan and now the treaty with western Germany and the moves to speed up the creation of North Atlantic army. And all the while it has been building a globe-encircling ring of military bases from Formosa and Okinawa to the Middle East and North Africa. Is it conceivable then that this monster military power will flinch and run at the decisive moment? Not very "probable," to borrow an expression from *Monthly Review*.

Certainly a crisis may arise at this point in ruling circles. But it would be an error to exaggerate its magnitude, because it would be a continuation and the last flicker of an old crisis. Differences on foreign policy have existed among the capitalist rulers for some time but they are being eliminated less by debate than by the force of economic facts. The dominant weight of the arms program in the economy has led to a shifting of the center of political power to that group of heavy industry monopolists, in alliance with the swollen military machine, who profit the most from the war drive and hence favor the most aggressive foreign policy. Judging from all past experience, it is this powerful combination which will cast the die.

Who can alter this trend, change this balance of power? Not any other section of the ruling class — only the organized masses of workers, poor farmers and Negro people. In that case, what need is there for a "New New Deal" coalition? But that is another matter, to which we will return later.

But even granting the strange premise that American's rulers will voluntarily commit hara-kiri as the dominant

world imperialist power, that they will permit the eruption of a far worse economic and social crisis than that of 1929 which will also shake the rest of the capitalist world to its foundations, what fabulous nonsense it is to draw the idyllic conclusion of the emergence of a "New New Deal." Just the contrary. Faced with a precipitate and absolute decline in its profits, the ruling class, far from being in the mood for new social reforms, would begin a savage onslaught against the living conditions of the people, against the trade unions and to eliminate all-existing social legislation. It would turn not to Rooseveltianism but to fascism.

The New Deal -- Old and New

The faulty analysis of the *Monthly Review* editors could be shrugged off as a poor job of thinking, if it were not also a wish-projection of theirs. They *want* this Alice-in-Wonderland "New New Deal." And although they consider it only "possible" and not "probable," they urge American socialists to adopt it as a perspective, to fight for it and to support it when it comes into being. But here history rears up its ugly head. What happened to the old New Deal. Did it not lead from reforms to war to reaction and now to war again? Our editors cannot but recognize this. They say correctly:

"The paradoxical quality of reform movements as a response to the crisis of capitalism is that their very success undermines their social and political foundations. The ruling class soon recovers from the fright and paralysis of the crisis and returns to the political struggle. The reform movement, on the other hand, tends to fall apart. The situation soon reverts to normal, that is, to a state of affairs in which the ruling class knows what it wants and manipulates all the essential levers of control."

Recognizing this danger, our editors tell us that socialists cannot become "New New Dealers" and still remain loyal to their principles but yet they must support the "New New Deal" because the American people are not yet ready for socialism. Hold on: we're about to square the circle! "... The only way," they tell us, "to keep the New New Deal from suffering the fate of the old New Deal is to turn it into a socialist movement in good time." Implicitly, we have here a criticism of the Stalinist policy of complete subordination of the workers' movement to New Dealism during the Roosevelt era and at least up to 1947. But the remedy turns out to be a conscience balm not a corrective to a false and criminal course.

How can a 'reform' movement be turned into a socialist movement if the masses are not yet ready to take that step? If they are ready, why waste your time with a "New New Deal" coalition in the first place? But what is "good time" for such a transformation? Is it at the beginning of the enterprise when it seems to be making progress and the socialists are expected to submerge their own program so as not to obstruct the movement from realizing limited aims? Or is it at the wind-up when the movement begins "to fall apart" but the "socialists" are still expected to keep their peace in order to maintain the common front when the blows of reaction are the worst?

Truly there is no way out of the trap which the editors have sprung for themselves. Their trouble is that they stand the problem, which is one of *policy* not of propaganda, on its head. Or to put it differently: it is not the general question of socialists advocating socialism but the specific one of socialists *acting* like socialists under given objective conditions. The organized workers may not be ready to accept socialism but they are prepared to advance in the political field. This means that the first task of socialists is the struggle for the political independence of the labor movement, to break up its alliance and subservience to the capitalist parties and to form a labor party. This first step, as Engels repeated again and again to the sectarian American socialists of the last century, is more important than a hundred programs. In a country where the workers have not achieved a socialist consciousness, independent workingclass politics is the most fertile soil for the development of an independent class i.e., a socialist program. Witness the striking contrast between the British and the American labor movements today. Naturally, socialists will continue all the time to agitate for socialism — and not for "progressive" or any other kind of capitalism.

Any other course would be reckless and even criminal for socialists in view of the palpably clear experiences of the past. Let us accept the hypothesis of our editors — and we grant it is not impossible — that there will be a crisis of the ruling class on the very eve of the war and that concomitant with it there will grow up a big movement of resistance to the reduction in the standard of living caused by the war program. In that eventuality their proposals for a doomed-to-defeat "New New Deal" is doubly dangerous because in the best case the workingclass, possessing inadequate means of defense, will be dragged into the war demoralized, its organizations shattered — as in France before the last war—or the "New New Deal" will be supplanted by fascism as the preliminary to entry into the war — as in Germany.

"Coexistence" and Socialism

Monthly Review is right when it says that American socialists "must do everything they can to prevent World War III." But everything does not mean anything, and it especially does not mean a program of "coexistence" which translated into practical terms means the organization of class collaboration movements which "fall apart" at the decisive moment. The "coexistence" movement didn't stop the Second World War and it isn't stopping the approaching one. All the Stalinists have succeeded in achieving through their "coexistence" program has been to demoralize and disorient the workers' movement at the very point it should be the strongest i.e., on the eve of war.

The real problem for American socialists is less one of how "to combine immediate and long-run goals" — as *Monthly Review* poses it — but of organizing an independent struggle of the masses against the reduction in their living standards, against the witchhunt, against the war in Korea, for a people's referendum on war and for the organization of their own party. Such a movement will be

bound in the course of its struggle to gravitate toward the long range goals of socialism — *but only on the condition that it steers clear of the quicksands of Peoples Frontism, coexistence, New Dealism, etc.*

A second prerequisite, not basically less important is that socialists adopt a Marxist and revolutionary outlook on the war. If they are paralyzed by fear then they are certain to drown and no straws or daydreams will save them. They must recognize, as Lenin long ago pointed out in his polemics with Kautsky, that war and peace are not in hermetically sealed compartments so far as the struggle for socialism is concerned. They must recognize from the world reality today that war and the revolution are not two arbitrarily distinct categories but tend to be part of one and the same process; in fact the war of imperialism is directed against this world revolutionary development in all its forms, as organized state power,

colonial rebellion, revolutionary workers' movements. From this, and especially considering their fiasco in Korea, flow the extreme unlikelihood that the American monopolists and brass hats can vanquish this movement on a global scale. But their attempt to do so can only bankrupt the country, impoverish the people and subject them to such terrible sacrifices as to produce a vast movement of social discontent.

We commend this analysis, based on all the trends and facts of contemporary world politics, for the consideration of the editors and readers of *Monthly Review*. An effective struggle against war today, in fact the very maintainance of socialist activity is possible only on the basis of such a perspective. Otherwise, one can only dream of "co-existence" and/or seek a place to hide. . .

G. C.

The Structure of U.S. Imperialism

America Nears the Crisis

By HARRY FRANKEL

The great pivot upon which all modern world history turns is the future of American capitalism. The naked and hopeless crisis of European and Asiatic capitalism contrasts sharply with the apparent stability of American capitalism. History teaches, however, that apparent stability can cloak grave contradictions and imminent crisis. The future of America lies beneath the glossy surface of the present.

To understand America and where it is going, we must understand the course of worldwide capitalist development over the past century.* Such an understanding reveals the

* World capitalist development of the past hundred years is set forth in a new book by Fritz Sternberg "Capitalism and Socialism on Trial" (John Day, 1952, 603 pp., \$6.50), which was briefly reviewed in *The Militant* of Feb. 18. Sternberg's criticism of Leninist working class politics is left-Social Democratic, his present political views very unclear, but his review of the economic crisis of capitalism and its roots is very capable and important for all Marxists.

The present article is written in place of the review of Sternberg's new book promised in the *Militant* for a forthcoming issue of *Fourth International*. It takes the line of economic analysis of Sternberg's book as its starting point. However, Sternberg's material has been supplemented at many points with additional factual data. In order not to burden the article with footnotes and references, I will give the additional sources in a single group:

The Balance of Payments and the Standard of Living, by R. G. Hawtrey (London and New York, 1950); International Capital Movements During the Inter-war Period, United Nations Dep't of Economic Affairs (New York, 1949); America's Stake in International Investments, by Cleona Lewis (Brookings Institute, Washington, 1938); World Trade and Investment, by Donald Bailey Marsh (New York, 1951); Statistical Abstract of the United States (Dep't of Commerce, 1950);

nature of the crisis of capitalism and the conditions for capitalist stability.

The chief historic example of capitalist stability was Europe prior to the first World War, which exhibited these characteristics: a virtually uninterrupted rise of production, constant expansion of international trade, growing accumulation of capital, rising real wages for the working class (at least until 1895-1900), rapid recovery from crises, and the minor role of international warfare. This last trait expressed itself in the tiny sector of world economy devoted to military production as compared with the present, and the small percentage of the world's population involved in warfare. Possibly no period of modern European history was so free of large scale warfare, on the whole, as the 99 years from Waterloo to Sarajevo.

The 38 years from Sarajevo to the present show a completely altered picture. Two gigantic and immensely destructive world wars bracket the period, and intermittent warfare of greater or lesser dimensions fills the inter-war decades. The interval between the wars is marked by the stagnation or decline of world trade and capitalist production. Capping the inter-war period, the great depression

1951 National Income Supplement to the Survey of Current Business (Dep't of Commerce, 1952); The Budget of the United States for the Fiscal Year Ending June 30, 1953 (Bureau of the Budget); Imperialism, the Highest Stage of Capitalism, by V. I. Lenin (New York, 1939); Imperialism, A Study, by J. A. Hobson (New York, 1902); New Data for Lenin's Imperialism, by E. Varga and L. Mendelsohn (New York, 1940); and American Imperialism, by Victor Perlo (New York, 1951). — H. F.

exhibited an "unprecedented breakdown of economic life. Fascist political forms appeared and grew strong, taking possession of important sectors of the capitalist world, and thus reversing the previous bourgeois-democratic trend. The relative stability of the pre-World War I years had obviously come to an end with the start of that war.

The Fires of Revolt

Not only was stability ended, but, with the Russian Revolution of 1917, collapse set in. Almost one-quarter of the earth's area, more than one-third of the world's population, and close to one-fourth of the total of world production have been torn out of the orbit of capitalism by the revolutionary developments of the three and one-half decades since the Russian October. The tide of revolt has spread to the colonial world. Most parts of Asia and Africa are in more or less advanced stages of rebellion against capitalism, and the symptoms of impending colonial-proletarian revolt have appeared in Latin America.

Thus American capitalism seeks the Holy Grail of security in a world which is hopelessly insecure for capitalism. And if, as medieval mythology tells us, the Grail flees from the unclean and can be possessed only by the virtuous, then the search of the modern imperialist crusaders will be vain indeed.

American capitalism, like European, is in crisis. However, the American crisis differs from the European in two respects. While the European impasse dates from 1914, the American dates from 1929. And while the European catastrophe is open and apparent, the American still lies beneath the surface, and must be revealed by analysis.

What Is the Crisis?

To comprehend the nature of the crisis of modern capitalism, that is, the economic crisis, from which flow the manifold social, political and ideological crises, we must begin with fundamental considerations. Almost a century ago, Karl Marx, after having delineated the logic of the capitalist mode of production, found its chief structural characteristic to be a necessity to expand at an accelerated rate. A sum of capital produces as its chief product new aggregations of capital. In order to continue to function as capital, the newly created mass of value must bring new qualities of labor power and means of production under the control of the capitalist class.

Marx's prophetic analysis was fully borne out by the course of capitalist development. When Marx and Engels wrote the Communist Manifesto, an estimated 10% of the world population was producing under the capitalist mode of production. By 1914, this percentage had been tripled. When the first world war began, some 30% of the population of the world was producing under capitalist conditions, and another percentage, difficult to estimate but large, was indirectly exploited by the capitalist world masters, even while still retaining old pre-capitalist forms of production.

This vast expansion at first took the form of the growth of the capitalist mode of production within the boundaries of the chief capitalist nations. In its second phase, this expansion turned outward. Internal expansion did not cease

at the start of this second phase, but it became increasingly less profitable and inadequate to handle the growing aggregations of capital. The foreign rate of profit stood above the internal rate, drawing capital ever outward. For example, from 1919 to 1929, the period of greatest United States imperialist expansion, the yield from foreign bonds was on the average 32% greater than the yield from high-grade domestic bonds. As Marx had predicted, the rate of profit had a tendency to decline, and expansion turned more and more beyond national borders.

Great Britain was the first of the great capitalist powers to complete its phase of primarily internal expansion and begin the imperialist phase. The United States, with Japan, was the last.

The main trait of imperialism, the phase of outward capitalist expansion, is the export of capital. The export of capital means the export of the capitalist social relation, or it means subjugation of older social relations to the capitalist class. Thus the export of capital is the specifically imperialist mode of exploitation of foreign countries.

Commodity trade, while also greatly expanded in the imperialist period, was widespread as a means of exploitation long before imperialism. Further, the export of capital has a far greater specific weight in a developed imperialist system as a source of profit to the capitalist class. British export-import trade at the turn of the century, amounting to about 4 billion dollars annually, brought in perhaps 90-100 million dollars of profit. However, British foreign investments, at that time already totalling about 10 billion dollars, brought in almost half a billion dollars annually in profits, or five times the amount derived from commodity trade.

At the time Marx was working on *Capital*, Great Britain's career as the world's greatest capital exporter was just beginning. In 1862, her foreign investments totalled about 3/4 billion dollars. By 1872 France was a capital exporter, and by 1900, Germany as well. In 1914 these three nations owned between them capital investments abroad that have been estimated as high as between 35 and 40 billion dollars. This was the solid basis of European imperialism, and the foundation of capitalist stability.

Buying the World

The essential meaning of this capital export on a gigantic scale is that the three biggest capitalist nations of Europe were buying pieces of the economies of the rest of the world. They were putting an ever-increasing portion of the world population to work for them.

During 40 years, from 1874 to 1914, the foreign investments of Britain, Germany and France rose (according to a United Nations estimate, slightly lower than that accepted by J. A. Hobson, the English liberal economist who pioneered the investigation of imperialism) from 6 billion dollars to 33 billions. This was an annual rate of growth of less than 5%, or well under the return on the investment each year.

In other words, the three leading imperialist nations were buying a bigger piece of the world each year with the profits they made on their investment of the previous year.

With original investments of 6 billion dollars in 1874, they owned six times as much by 1914, and they got that ownership without adding a single penny to their outlay, and were still able to withdraw a good deal of money each year. They were buying the world with the profits made out of the labor of the world's people.

These figures may be viewed in still another way; in terms of the commodities produced in Europe and exchanged for products from the rest of the world. Before the first world war, Europe had to pay for only about 2/3 of its imports with exports. It could import a value of *three* and export in return a value of *two*, and the difference was made up by what the world owed to the European capitalist class on its foreign investments!

That is why the riches of the world piled up in Europe, and the culture of the world centered there, while in the colonial nations of Asia, Africa and Latin America, nothing accumulated but debts and poverty.

With the first world war, European capitalist expansion came to a standstill and began to retreat. European capital exports declined to only a fraction of their former annual magnitude. Of the three great imperialist powers, only Great Britain was able to continue foreign investment at a very sharply reduced rate. During the first world war, Britain was forced to liquidate about one-fourth of her 1914 foreign investments, so that, up to 1938, the last pre-World War II year, she was occupied with the effort to restore her 1914 investment balance, a goal she never attained. Germany lost just about all her 1914 investments in the war, and France about half of her 9 billion dollars of foreign investment. All in all, the foreign investment position of European capitalism in the period between the two wars fell back to a pre-1900 level.

The Effect of Declining Empire

The consequences of this empire loss were to be seen immediately in the post-World War I years. For example, unemployment among German workers, which in the pre-war period had averaged 2.3% of the labor force, was 9% to 14% during 1927-29. This was during the German "prosperity," after the galloping inflation had been subdued, but before the crash.

In Britain a similar symptom was evident. Before the war, British unemployment had never exceeded 10% of the labor force, even during the worst depressions. After the war and before the depression, unemployment in Britain was *never below 10%*. In other words, when the decline of imperialist empire set in, unemployment in times of prosperity was higher than the unemployment of the worst depressions in British history during the period when she was expanding her imperialist grasp.

These symptoms of decline did not give way to complete collapse so long as the colossus of the west stood firm. But when the U.S. crisis, presaged significantly by a decline in foreign investment in the latter part of 1928, struck in 1929, the whole capitalist world fell along with American capitalism. Stockbrokers falling from top-floor Wall Street and Park Avenue windows symbolized the end of an epoch.

How had America fared during this time? U.S. capitalism, in the period of the great imperialist expansion of Europe, was still primarily concerned with its own inward expansion. The capitalist class exploited a continent immeasurably rich in natural resources; it exploited a population the size of which was swollen each year by a new river of immigrants. This labor force and these raw materials supplied American capitalism with the subjective and objective elements of the productive process: the two essential elements for the expansion of capital.

Seeds of empire had been sown in South and Central America before the first world war, but U.S. foreign investments were small, and were outweighed by foreign indebtedness. It was only during the war that the U. S. became a creditor nation, and only after the war that U. S. capitalism embarked upon its large phase of outward expansion.

Enter: American Imperialism

This expansion was quite great in absolute figures. Starting almost from scratch in 1914, by 1929 U.S. imperialist investment abroad had reached the sum of over 17 billion dollars, or slightly less than the imperialist stake of Britain in its pre-war heyday.

This capital export seems great, but how great was it in proportional terms? British pre-World War I foreign investments were so huge a sector of the national economy that the total of investments abroad was a good deal larger than the entire British national income for one year. The American total, while almost equal to the British, was far smaller in proportion. It represented only about 20% of one year's national income.

The picture for export trade, the second most important sector of an imperialist empire, is very similar. Where Britain's export trade at her imperialist peak was equal to possibly one-fifth of her national income, America's foreign sales never exceeded 10% of the national income in the very best trade years, and was more normally about 5%.

Thus the American imperialist empire would have had to be multiplied possibly five times over as a proportion of its total economy if the U. S. were to achieve an imperialist economic sector proportionally as great as that attained by pre-1914 Europe. This never happened, as we shall see. The very opposite happened.

European and American capitalist development, proceeding by different routes and at different tempos, came to the same point. In Europe, outward capitalist expansion either stagnated or retreated, and in the U. S. the phase of outward expansion, starting in a declining capitalist world, could never attain full development. Europe's empire shrank to dangerous levels, and America's empire couldn't possibly grow fast enough to keep up with the tempo of American capitalist development.

These two lines of development crossed in 1929. The great collapse of world capitalism was the result. The crisis that followed was not the "ordinary" cyclical crisis that characterized capitalism prior to the first world war. It was something new under the sun. By 1932, the depression

touched bottom. In that year can be seen the naked picture of world capitalism, shorn of expanding empire and not yet bolstered by a war economy. Production in the capitalist world fell off by almost 40%; world trade dropped more than 60%; unemployment soared to the fantastic level of over 40 million in the capitalist countries that kept statistics.

The Crisis That Turned Into Collapse

These figures were absolutely unprecedented. Prior to World War I, crisis-cuts in production were small and soon recouped. The pre-World War I rising tendency of world trade had never really been reversed, even in the worst depressions. Never had a decline of more than 9% been recorded, and these were mostly paper declines reflecting a currency deflation, only partly an actual dropping off of physical volume. The 1929-32 drop of over 60% is measured in gold dollars, and reflects a tremendous decline of the volume of world trade.

The worst sufferers from the crisis were Germany and the United States, the two most important capitalist nations and the very ones where the pre-crisis investment boom was the greatest. In both these nations, production fell far more than the world average, dropping to almost half the 1929 level. The U. S. suffered a bigger decline in foreign trade than most of the world.

The crisis of 1929 was marked by still another great difference. Previous crises had seen a return to pre-depression levels of production within a very few years. Redoubled efforts at capital exporting usually played a significant part in the recovery. However, in this crisis, capital exports did not enlarge in the post-1932 period; on the contrary, more and more of the existing foreign investments were withdrawn. Nor did production ever recover its 1929 level until a new mode of capitalist expansion was found. This took, for most of the capitalist nations, over a decade. What that new mode was we shall soon see. The crisis, at any rate, proves conclusively that the old mode of expansion was in decline; its decline produced the crisis and prevented recovery in the old way.

European capitalism has never been able to surmount the collapse-tendency stemming from the decline of its imperialist mode of expansion. This tendency, plus the drain of the second world war, has served to further liquidate the old empires. In addition, the swell of colonial revolt since the war has cut European imperialism to ribbons. Germany once more lost all she had been able to build in the field of foreign investment. France, whose foreign investments were slashed by half in the first world war, lost most of the rest during the second. Great Britain has been reduced from her former situation of power, when her foreign investments exceeded her annual national income by almost 1/3, to her present situation where her foreign investment total is below 20% of her annual national income. Even while this article is being written, England is with cries of anguish surrendering about one-fourth of her remaining investment total to the revolutionary government of the New China.

The crisis of Europe's international investment position

is compounded by the fact that while foreign credits decline, foreign debts mount. This has brought Europe to the state where the continent as a whole, including England, is a debtor area, an absolutely unprecedented situation in modern history.

The New Mode of Capitalist Expansion

The crisis of Europe is, as we have said, open and apparent, the American crisis is concealed. The concealment of the American crisis results from great structural changes in the American economy since the beginning of World War II. Capitalism has found a new mode of expansion in place of the old. As imperialism is driven back to its lair like a wounded beast, the arms economy emerges. It is war economy, formerly no more than a tool for imperialist expansion, that has become the substitute for imperialist expansion. In the United States, thanks to a combination of circumstances favorable to the capitalist class, the arms economy has worked out the most successfully, and since 1941 has provided approximately the same results for American capitalism that imperialist expansion formerly provided for European.

From 1929 to the present, not one important capitalist nation reached 1929 production levels in any single year without an armaments economy. This is the measure of the decline of imperialism and the rise of war expenditure as a mode of life for capitalism.

Japan was the first capitalist country to exceed 1929 levels. The Japanese invasion of Manchuria began in 1931, and every year from then on was a war or big arms year. By 1933, Japan had exceeded 1929 levels, but she was alone in the capitalist world in this respect.

Germany was next. German arms economy began in 1933, with Hitler's accession to power, and by 1936, Germany had restored its 1929 production level.

On a world scale, production in the capitalist nations taken as a whole was still 7% below 1929 in the last pre-World War II year, 1938, despite the arms economies that had already developed in Japan and Germany. World capitalist production only exceeded 1929 levels in the war years, and since the war, only the U. S. and other capitalist nations with a substantial arms program or with substantial U. S. war-preparation aid have hit 1929 levels.

The Failure of U.S. Imperialism

A closer look at the postwar U. S. will show what we mean by an "arms economy" and the manner in which this has supplanted the imperialist mode of expansion. The U. S. capitalist class has had even less success in building an imperialist empire in the post-war period than it had in the inter-war period. It is true that, politically and militarily, the U. S. has become the overwhelmingly dominant power of the capitalist world. But it dominates a capitalist world that has been barred, to an unprecedented extent, from the former colonial world by a wall of revolutionary fire. Even in the parts of the world still controlled by imperialism, investment prospects are very poor. The mere possibility of loss is sufficient to dampen the most enthusiastic investor's ardor. Owners of capital want a revenue

from it, and they want that capital to be safe while it is producing revenue.

Thus the United States, as monarch of world imperialism, finds that it has not gained a profitable empire. It has merely been forced to incorporate into its own structure all the contradictions of collapsing world imperialism.

The inter-war peak of American foreign investment was reached in 1929, when U. S. capitalists had a little more than 17 billion dollars invested abroad. Today, after rebuilding from low depression levels, U. S. private foreign investments amount to only about \$19½ billion (June 30, 1950). Although this is slightly higher than 1929, when currency inflation is discounted the actual present foreign investments represent a great shrinkage from their '29 high point.

The most important way to judge any one sector of an economy is in terms of its proportion to the entire economy. We have pointed out that British pre-war foreign investments were so large that they far exceeded the annual national income. We showed also that U. S. foreign investments in 1929 were only about 20% of the national income. Today, foreign investments of American capitalists have lagged so badly that they are only about 8% of the present national income. In other words, to reach the position of British imperialism at its height, American foreign investments would have to become about sixteen times their present proportion of the total economy. With each passing year, American imperialism has moved further from this goal. The Commerce Department's 1951 National Income Supplement to the Survey of Current Business comments ruefully: "Net foreign investment. . . is the only principal component of national product to show a decline from 1929 to 1950."

J. A. Hobson calculated that, in 1893, British capital invested abroad represented about 15% of the total wealth of the United Kingdom. A German economist figures that, in 1929, this had risen to 18%. In 1914, the figure was probably above 20%. Yet American foreign capital investments in 1929 were only about 4% of total national wealth, and are today an even lower percentage.

If we consider the second most important component of an imperialist economic sector, the export trade, we find a similar situation. Exports remain between 5% and 8% of the total national product, while the flourishing imperialist nations of the pre-World War I epoch had an export ratio of 20%—25% in most cases.

The Military Fills the Void

Let us now compare the arms sectors of the two economies. In 1898, Great Britain was spending about 2.4% of its national income for arms production. Nor did this situation change materially as the war approached. In 1913, the last pre-war year, Germany, the most active of all the imperialist powers in war preparations, spent less than 4% of her national income on arms.

By comparison, American arms spending of all kinds prior to the Korean war amounted to about 10% of the national income. These military expenditures, even at their lowest point in the post-war period, were about 25 times

as great as American capital exports each year. Britain and Germany before World War I, by contrast, generally exported a larger amount of capital each year than was expended for the military budget. The U. S. arms sector was already so great even before Korea that it took in only one year as much as the total sum of U. S. capital investments abroad.

Another way of seeing the fact that the arms sector and the imperialist sector have changed places is this: Imperialist Britain, Germany and France had export trade and arms sectors which, when added together, provided roughly 25% of the markets needed by the economy. About 4/5 of this combined export-arms market was made up by exports, while no more than 1/5 (usually less) was made up by arms. Today, (mid-1952) imperialist America also finds about 25% of its total markets in exports plus arms. However, the proportion is exactly reversed. Possibly 4/5 of the total is accounted for by war expenditure, while the other 1/5, or little more, is found in the export trade.

Thus far we have only discussed the level of arms expenditures prior to Korea. Despite the war economy, the capitalist mode of production remains true to its basic laws. Just as the imperialist sector had to be continually expanded, in the same way a huge arms sector is insufficient if it remains unchanged. It must expand. Despite the enormous, the absolutely unprecedented peace-time arms sector prior to Korea, the 1949 "recession," which gave every indication of becoming a depression (unemployment rose above the 5% danger line), served notice on the capitalist class that the arms sector must grow.

After Korea, as the arms sector was rapidly expanded, threats of economic disaster were once more subdued. To achieve this end, the arms budget had to grow to more than three times its former size. Today, despite continued growth of the economy, the arms sector has grown so large that it takes almost 20% of the national income. Even with this immense share, threats of "recession" remain. Economists complain that even now the economy lives in a "limbo" between full prosperity and downtrend. When lawmakers proposed to put a 46 billion dollar limit on arms spending in the coming fiscal year (Truman asked 52.5 billion) the Pentagon threatened a frightened Congress with depression! They predicted this fate not because there was a proposal to *lower* arms spending (there was no such proposal), but simply because it was proposed that arms spending rise somewhat more slowly than they wanted!

The arms sector and the imperialist sector have changed places. But the ever-growing arms sector, combined with the revolutionary world situation, can have only one end: war. This is the crisis of American capitalism that lies beneath the surface.

The War Crisis and the Doom of Capital

Through war, American imperialism hopes to find its solution to the insoluble crisis, and find it in a twofold way. Firstly, the war continues and expands the war economy. Without the war, the arms economy would sooner or later have to shrink, particularly when the present phase of capi-

tal goods construction in the arms field draws to a close. Secondly, war offers the possibility (more accurately the demented dream) of bringing the entire globe under capitalist domination, thus making the world safe for the U. S. investor and exporter.

What the war will actually bring cannot be discussed fully within the scope of this article. However, America can learn something here from Europe. In the First World War the vanquished imperialism lost its empire, and France and Britain, the victors, each lost a large portion of theirs. In the Second World War, all European and Asiatic imperialism, victor and vanquished alike, suffered fatal eco-

nomie blows; only the aid of American capitalism saves them from complete collapse at this moment. Can a third world war, fought this time not against rival imperialist powers but against the Soviet bloc of nations and the aroused working classes and colonial people of the entire world, bring anything but final and irrevocable doom to imperialism?

The conclusion reached by Fritz Sternberg is that "it is extremely unlikely that capitalism even in the United States will survive the twentieth century." The crisis will soon be upon us, and generations now living will see the fulfillment of this prophecy.

Inflation and the Arms Economy

By ARNE SWABECK

The Council of Economic Advisers to the President has been engaged for some time in "charting a new path for the economy" of the United States. In its midyear report to the President, July 20, 1951, this "new path" — the armaments economy — is elaborated in great detail. Special emphasis is placed on the problem of inflation. Proposed measures for counter action are grouped together under the subtitle, "The Stabilization Effort," and have one objective: to direct an ever greater share of the purchasing power of the people to financing the armaments program.

"Stated most simply, inflation develops when there is a general excess of demand over supply at current prices." Such is the verdict of the high-placed councilors. It is as simple as it is grotesque.

The councilors do admit, however, that this simple statement "does not penetrate very deeply into the manner in which inflation is generated or how it affects the economic and social structure." Still they persist that "the most fundamental cause of inflation we are facing, is that a rising defense effort leads to the creation of additional income, without a corresponding increase in the supply of civilian goods."

Their explanation is "that while there were two buying waves set off by events in Korea, the inflationary trend resulted from demand, backed by ability to pay, expanding more rapidly than production. As more spendable dollars became available in ratio to the available volume of goods, prices rose; and, in turn, price increases were among the factors producing further increases in other incomes."

Apparently as an afterthought, the councilors indicate a slight recognition of the part played by the credit system in the inflationary process. "The significant rise in the general price level, since the outbreak of hostilities in Korea" they say, "has been accompanied by a rapid expansion in private credit, particularly bank loans. The loans of all commercial banks increased by more than

\$91½ billion in the 9 months period ending March 31, 1951."

Everything here is turned upside down. The manifestations of inflation are singled out and made to appear as its causes. A situation in which the purchasing power of the people is seriously curtailed is presented as one of too much income. Credit expansion is viewed as a mere corollary to a rise in price levels.

By such perversions the distinguished councilors brand themselves as vulgar economists. They are not far removed from the mountebanks who cry out constantly about the "wage-price spiral" of inflation which is a cruder way of saying the same thing and has no other purpose than to conceal the predatory character of the capitalist system of production and distribution. In both instances the real cause and nature of inflation is completely obscured.

Production and Consumption

Moreover, the case presented by the Council of Economic Advisers on inflationary trends since the Korean war began, flies in the face of the facts. Statistics submitted by the Council showed the rate of industrial production in June 1951 to be 12 percent higher than June 1950. During this same year personal consumption expenditures rose by 8.7 percent. But during the period from 1939 up to the beginning of the Korean war, personal consumption expenditures had increased at an average annual rate of 16 percent. In other words, there was an actual decline in the peoples' purchases during the first year of the Korean war. The increase of wholesale prices during the year by 16 percent makes the decline all the more evident. Most assuredly, there is no evidence here of too much income for the broad masses of the people.

However, the real way to measure personal consumption expenditures, not only in the sense of the well being of the people, but also from the point of view of stability of the economy, is to relate these expenditures directly to production. And, following the same official statistics,

we find that in 1929 personal consumption expenditures were 75.9 percent of the gross national product. By 1939 these had dropped to 73.9 percent and by the first half of 1950 there was a further drop to 68.8 percent. But during the first year of the Korean war, from June 1950 to June 1951, personal consumption expenditures were only 66.1 percent of gross national product. Yet corporate profits, after taxes, which had maintained an average annual increase of 25.4 percent from 1939 to the first half of 1950, rose by 28.9 percent during the first year of the Korean war.

These figures tell the sordid story of capitalist exploitation; but they also delineate the shape of the brutal effects of inflation.

In face of a substantial increase in the physical volume of output and of a corresponding rise in corporate profits, the people were able to buy only a constantly diminishing part of the goods they produced. Their wages fell below the rising price level. That wages always fall in relation to output and profits, thus restricting the purchasing power of the people, is here illustrated with compelling bluntness.

Unquestionably a part of this steep rise in the cost of living during the first year of the Korean war can be accounted for by the monopoly practise of forcing prices upward to the very limit of what the traffic will bear. Capitalism always remains true to its rapacious nature.

Armaments appropriations and business credits flow with equal ease into the economic structure. Speculation and gambling, along with reckless business spending, filling the pipelines of inventory in anticipation of extraordinary profits, grow by leaps and bounds. To the extent that wages follow the upward trend, this is a consequence of inflation not its cause. All of these factors become a part of the inflationary spiral, interacting on one another.

However, to understand the real nature of inflation it is necessary to start out from basic objective laws of capitalist economy, finance and credit. Let us turn to Karl Marx, who understood them best:

Marx on Money

"The first chief function of money," he said, "is to supply commodities with the material for the expression of their values as magnitudes of the same denomination, qualitatively equal, and quantitatively comparable. It thus serves as a *universal measure of value*. And only by virtue of this function does gold, the equivalent commodity *par excellence*, become money." (*Capital*, Vol. I, p. 106).

But gold, Marx says further, "serves as an ideal measure of value, only because it has already, in the process of exchange, established itself as the money commodity. Under the ideal measure of value there lurks the hard cash." (*Ibid.* p. 116).

Money is the measure of value inasmuch as it is the socially recognized incarnation of human labor. For example, the value of a ton of steel is expressed by a quantity of money containing the same amount of labor as the steel. In this instance money is employed in its ideal

or abstract form. In its concrete form, however, money performs the function of a socially recognized means of circulation, or medium of exchange. (Including the function of means of deferred payments or credit.)

The circulation of the material products of labor, according to Marx, is brought about by the following changes of form: Commodity — Money — Commodity (C-M-C). It is the transformation of commodities into money, and the change of money back again into commodities that serve as use values, or selling in order to buy. Money here performs a transitory function in the process of exchange: the amount of money required is determined beforehand by the sum of the prices of all these commodities. But in the acts of exchange, money, as the equivalent commodity, is capable of performing its function in repeated succession. After having mediated here, between purchaser and seller, it moves away to repeat its office elsewhere.

"Hence," says Marx, "for a given interval of time during the process of circulation, we have the following relation: the quantity of money functioning as the circulating medium is equal to the sum of the prices of the commodities divided by the number of moves made by coins of the same denomination. This law holds generally." (*Ibid.*, p. 135).

Because of this transitory function, Marx observes that the mere symbolic existence of money suffices: "Its functional existence absorbs, so to say, its material existence. Being a transient and objective reflex of the prices of commodities, it serves only as a symbol of itself, and is therefore capable of being replaced by a token. . . It is capable of being so replaced only insofar as it functions exclusively as coin, or as the circulating medium, and as nothing else." (*Ibid.*, pp. 144-145).

The Circulation of Money

Marx observes further that the circulation of paper money is subject to the laws that regulate the function of money itself. "The issue of paper money must not exceed in amount the gold (or silver as the case may be) which would actually circulate if not replaced by symbols." (*Ibid.*, p. 143). If that limit is exceeded the paper money will in reality represent a lesser quantity of gold. It will represent less money value. Prices move upward accordingly.

As we have seen, the simplest form of circulation of commodities is C-M-C. The circulation of money as capital takes place by the inverted order of succession M-C-M, or buying in order to sell. In the first form the movement is brought about by the intervention of money; in the second form by that of a commodity (labor power). Money is advanced to buy the commodity in order to recover money through the process of reproduction; but to recover money plus an increment in the form of surplus value, i.e. the value created by labor over and above what it receives for its own subsistence. It is this movement that converts money into capital.

"The value of money, or of commodities, employed in the capacity of capital," says Marx, "is not determined by their value as money or commodities, but by the quantity

of surplus value, which they produce for their owner." (*Capital*, Vol. III, p. 418).

The Function of Loan Capital

Capital, therefore, exists only in its actual function, only in the process of reproduction, in the process by which labor power is exploited. When we observe the function of loan capital, or interest-bearing capital, we notice a difference; and it is precisely this difference which constitutes its special character. Loan capital is advanced by a person or by a bank to another person or to an industrial concern to be returned within a stipulated time. But to return as capital, it must return as money plus an increment, in this case interest. It is that portion of the average profit realized in the process of reproduction out of the surplus value produced by labor which falls to the share of the lender or the money capitalist.

Due to the firmly established practice of definite rates of interest, money capital appears in the hands of the **banker as an independent self-expanding value**. This is merely appearance, not the reality. Interest-bearing capital is a derivative form. The individual owner has the choice of lending his capital out for interest or investing it directly in production but insofar as this total money capital is concerned, the interest is derived from surplus value which is created only in the process of reproduction. In the final analysis interest-bearing capital can have no independent existence separate and apart from capital employed in the process of reproduction.

Interest-bearing capital, or rather loan capital and usury, appeared in its primitive form at the very dawn of civilization, following closely upon the heels of the invention of money. A new power had emerged, and the debtor was entirely at the mercy of the creditor. This form of money was condemned by Aristotle.

Commerce he said, is "with justice disapproved (for it is not based on nature, but on mutual cheating) therefore the usurer is most justly hated, because money itself is the source of his gain, and is not used for the purpose for which it was invented. For it originated for the exchange of commodities, but interest makes out of money, more money."

From the primitive brutality of its youth, the power of money has advanced during the intervening centuries to employ the more subtle means of the modern banking business and the credit system. But the more subtle means have proved no less fraudulent.

The Credit System

The credit system, as analyzed by Marx, arose out of the growing volume of values and as an indispensable accompaniment to the increasing distance of the market. By mutual interaction, the development of the process of production expands credit which again leads to an extension of industrial and commercial operations.

The credit system enhances the formation of monopoly combinations and with it the fusion of industrial capital with financial capital. Inordinately large and speculative profits accrue from promotion of stock companies, holding companies, trust companies etc. Developing alongside the

socialized mode of production, credit endows capital directly with the form of social capital as distinguished from private capital. Its enterprises assume the form of social enterprises. But as an inseparable and integral part of the capitalist mode of production, the credit system also serves to magnify and sharpen all of its contradictions.

In the words of Marx, the credit system develops, "the accumulation of wealth by the appropriation and exploitation of the labor of others, to the purest and most colossal form of gambling and swindling, and reduces more and more the number of those who exploit the social wealth." At the same time, however, it "accelerates the violent eruptions of capitalist antagonisms — the crisis —, thereby, the development of the elements of disintegration of its mode of production." (*Ibid.*, p. 522).

Banking capital forms the essential basis of operation within the credit structure. Marx subjected the various components of this capital to a most careful examination and he found that its greater proportion was fictitious. First and foremost in this category are government bonds. The state, of course, pays interest on the money borrowed for which the bonds are deposited. But the creditor cannot call for the principal. He can merely sell the certificate of indebtedness. The capital itself has been spent by the state. It does not exist any longer.

It does not matter for what purpose this capital was spent, whether for public construction or for the manufacture of weapons of destruction; only the bonds remain, gilt-edged bonds to be sure, but still only pieces of paper. Thus the capital — whose progeny, interest, is paid by the state — is illusory, fictitious capital. It consists of certificates of indebtedness. Moreover the interest and principal on these bonds can be paid only by taxing the production of real capital.

"Not only does the amount loaned to the state exist no longer, but it was never intended at all to be invested as capital, and only by investment as capital could it have been transformed into a self-preserving value." (*Ibid.*, p. 547).

Mountain of Fictitious Capital in U.S.

Today the amount of government bonds held by American banks has reached enormous proportions. In fact the constant growth of such fictitious capital has already reached the point at which the quantitative difference has been transformed into a qualitative change. What appears as an accumulation of capital is in reality an accumulation of debt. The heavy fictitious proportion has left its decisive imprint on all banking capital and on the whole money supply and the liquid assets of the nation. All these are debased beyond recognition.

At the end of 1950 the indebtedness of the United States government totaled 256.7 billion dollars. Of the bonds issued in the same amount, the sum of \$61.8 billion were held by commercial banks, \$20.8 billion were held by Federal Reserve banks, and \$60.5 billion were held by non-banking private corporations. The remainder were distributed among individuals, state and local governments and trust funds. These bonds, which are in reality only a shadow of capital already spent, enter the banks as deposits

upon which new loans are made. They become a part of the money supply of the nation. Thus the fictitious capital flows as an element of dissolution into every pore of the financial and economic structure. There it remains as a parasite feeding upon productive capital, drawing value away from all money capital.

Marx made the observation that, "with the development of the credit system and of interest-bearing capital all capital seems to double, or even treble itself by the various modes, in which the same capital, or perhaps the same claim on a debt, appears in different forms in different hands." (Ibid., p. 553).

In the year 1863, about the time when the first volume of Marx's *Capital* appeared, total deposits of all the banks in the United States were \$394 million. By 1929, total deposits and currencies (the money supply of the nation) amounted to \$54,742 million and by the end of 1950 these had reached the stupendous sum of \$180,574 million. Of course it is not savings of workers that are embodied in these figures. They would be only an infinitesimal part of the total sum. These figures reveal both the enormous accumulation of capital due to the fabulous profits extracted out of the exploitation of labor and the extraordinarily bloated portion of fictitious capital — bank-made money — the purest form of gambling and swindling.

Such tremendous sums of money capital could not have accumulated without "pyramiding credit," to use a banker's expression. New credits were piled on substrata of other credits. Long established rules of traditionally conservative banking were thrown to the winds and new forces were then set into motion which have since escaped the control of the ruling class and its financial experts.

Wars Speed the Process

Two world wars accelerated the process. Money was literally manufactured to meet the enormous expenditures of World War II. The government borrowed about one hundred billion dollars from the banks, giving government bonds as security. The transaction took the form of a sale of the bonds, and in "payment" the banks "created deposits" on their books in equal amount, on which the government could draw. These deposits were created out of nothing. The government spent that capital; it does not exist any longer. Not only was that capital created out of nothing, but the government is now paying interest to the bankers on loans spent for bullets and shrapnel fired long ago, for planes shot down long ago, for battleships sunk long ago, for tanks blown to bits long ago, and for a huge remaining war surplus sold to speculators and gamblers for a song.

Leon Trotsky already called attention to this problem after World War I. The following illustration which he gave in 1921 applies with even greater force to the present-day situation:

"When a government issues a loan for productive purposes, say for the Suez Canal, behind the particular government bonds there is a corresponding real value. The Suez Canal supplies passageway for ship, collects tolls, provides revenue and, in general, participates in economic life. But when a government floats war loans, the values mobilized by means of these loans are subjected to de-

struction, and in the process additional values are obliterated. Meanwhile the war bonds remain in the citizens' pockets and portfolios. The state owes hundreds of billions. These hundreds of billions exist as paper wealth in the pockets of those who made loans to the government..." (The First Five Years of the Communist International, Vol. I, p. 185).

Bourgeois economists attempt to find comfort in the fact that the World War II period also witnessed a great expansion of productive facilities. But even they have some difficulty concealing their apprehension of the disproportionate growth of money capital. From 1929 to the end of 1950, gross national product increased by 172.3 percent, while total deposits and currencies (the money supply of the nation) made a leap of 229.9 percent. Thus the ratio of growth of accumulation of money capital, including its fictitious component, proceeds at a pace outstripping the growth of productive forces and outstripping the growth of production. In this is to be found the real cause of inflation, as well as an explanation of its real nature.

We recall the observation made by Marx, that money, in its transient function, is capable of being replaced by a token; but he added emphatically, "only insofar as it functions exclusively as coin, or as the circulating medium, and as nothing else." Gold encounters the commodity as an equivalent. The value of both are measured by the socially necessary labor embodied in them. The value of paper money, on the other hand, owes its existence only to the function it performs in circulation; outside that function it is worthless.

Experiences of currency inflation have clearly demonstrated the fact that, whenever the quantity of its emission exceeds the limit imposed by organic laws of economic development the paper money depreciates accordingly. Let us say that the sum of the prices of all commodities appearing in the process of circulation represent a certain given value, no matter how great the quantity of paper money functioning as the medium of exchange, the sum of the latter will always represent the same total value. Conversely, the actual value of its unit (the dollar) — or its purchasing power — depends upon the quantity of paper money in circulation.

Motor for Inflation

This analysis may appear to apply only to direct currency inflation, but that is not the case. It applies equally to the more indirect method of "creating" money capital as it is practiced in the United States. Whether this capital enters circulation as bank loans to the government for the manufacture of weapons of destruction or as loans to industrial enterprise, whether it enters circulation as subsidy to uphold parity prices or as medium of exchange of every day necessities, it is all part of the general money supply. And the preponderant growth of money capital relative to growth of production, must of necessity have the same disastrous, long range effect as if printing presses were grinding out ever larger volumes of paper currency. The outcome in either case is inflation.

The quantitative increase of the money supply, beyond a certain point, resulted in its qualitative decline. The dollar represented less purchasing power. And the forces

thereby set into motion generate their own internal dynamics. This qualitative decline of the monetary unit compels a further expansion of its total supply at an increasingly accelerated ratio.

There is no other way to evaluate the significance of the recent budget presented by President Truman. For the fiscal two-year period ending June 30, 1953, eighty-five percent of the steeply rising budget expenditures are to be thrown to the molochs of war. These will cover rearmament at home and abroad, veterans' services and interest payments on the national debt. Despite the biggest tax collection in history, the budget anticipates a deficit of \$22,647 million. The inflationary whirl is likely to be moving at a more breath-taking speed.

Capitalism's Universal Disease

Inflation is inherent in, and grows directly out of the development of the credit system and its heavy component of fictitious capital. Doubling and trebling of capital leaves inflation as its residue. Armament expenditures and war production accelerates this process and invests it with an especially acute form. For world capitalism inflation is a universal phenomenon. The rulers of the system have no means of controlling the forces which they have themselves set into motion. Inflation has become a distinguishing characteristic of capitalist economy in its decay. Even the almighty American dollar, the "sovereign" of international finance, has suffered a precipitous decline. In less than twelve years it has lost about half of its value. Inflation is ravaging the workers' living standards in European capitalist nations. The same uncontrollable forces are also on the rampage in the United States.

In real life the superabundance of money capital, which is now available, resolves itself into an accumulation of claims upon future yields of production. In turn this generates an inexorable pressure for new and greater fields of investments, inasmuch as the use value of money capital consists precisely in its being able to serve as capital and thereby produce interest. But money capital can yield interest only by performing a productive function and thus realize surplus value of which interest is but a part. And so, the financial overlords, whose role is speculative, adventurous, and wholly parasitic, were the first line promoters of the current arms program. It embodied their fondest hopes not only as preparations for world conquest but also for the stimulation of production and large scale employment of capital.

But this cannot under any condition reduce the disproportionate growth of accumulation of money capital as compared to the growth of production; nor can it in any way serve to control or check the scourge of inflation. On the contrary, the effect will be the exact opposite. A yet greater preponderance of money capital, including its fictitious component, is the inevitable outcome of the gigantic arms expenditure.

Only an increase of production of use values, serving the needs of the people, and growing up to the same level as the money supply could begin to counteract the inflationary pressures. But that would presuppose a con-

stantly rising standard of living of the people, reflected most directly by an increased purchasing power. Such a change the armaments program prevents. Moreover, such a change is no longer within the realm of possibility under the capitalistic property relations of production.

The transformation of the individual limited means of production of past stages of society into social means of production, and the development of the material forces of production, was the historic mission of capitalism. But the fundamental character of the capitalist mode of production subjects it to the interplay of effects from uncontrolled forces set into motion by its own inherent contradictions. Capitalist property relations, formerly an aid to the development of production, turn into their opposite. During the earlier progressive stage of capitalism the material forces of production advanced with giant strides. The hideous reality now in stage of decay is the transformation of these mighty forces of production into terrible forces of destruction. An advance in one sector of the capitalist world is paid for by destruction in other sectors. Redivision of the world market could take place only by one capitalist sector destroying the productive powers of others. The true physiognomy of capitalist decay is revealed in crises, armaments and wars.

The enormously expanded productive capacity of the United States collides against the limits of a shrunken capitalist world market that no longer includes one-third of Europe—not to speak of the USSR—and is now being pressed back even further by the raging flames of colonial revolution. From this flows the aim of the American imperialist rulers to reconquer the world and again subject it to capitalist exploitation—an aim that can find its full realization only through war. The whole economic structure of the U.S. is therefore being transformed to meet the requirements of the merchants of death. All major economic activity is increasingly geared to the strategic plans of the armaments program.

However, the salient fact here is that the present arms program is superimposed upon an economy carrying already a terrific overhead of the unliquidated great depression and the astronomic costs of the last war which can never be recouped. This economy is saddled with the burden of sustaining alone a declining, decaying and fearfully impoverished world capitalist economy. In turn, this serves as a gigantic drain upon the wealth and the resources of this country. Alongside of this we witness the debasement of the whole capitalist currency system which now also includes the "sovereign" dollar. Due to this colossal undergrowth of capitalist decay, the fearful consequences of the armaments program are infinitely multiplied.

Arms and Economic Activity

The imperialist rulers initiated this program to provide the material resources for their predatory war plans. But it was designed in such a way to fulfill also the purpose of sustaining the economy which would otherwise, once again, run head-on into a crisis of overproduction. Ostensibly, the most immediate aim of the armaments program was to con-

tinue the high level of production and assure full employment of the labor force in order to maintain the hitherto prevailing equilibrium of social relations.

Armaments expenditures now serve as a stimulus to economic activity. Stimulating production, no matter what is produced, helps to provide both profits and wages. And, what is far more important, postponing the crisis of overproduction is of the greatest political concern to the bourgeoisie. It avoids, for a time at least, the possible eruption of social upheavals which otherwise might prove fatal to their system. It is like playing with dynamite.

The outlays together with companion expenditures of world wide capitalist aid for armaments approach ever closer to the financial stratosphere. But these outlays are not transformed into capital employed in the production of commodities serving as use values, either for the needs of the people or for the further accumulation of real wealth of the nation. In essence they are unproductive capital investments which impose a staggering load of overhead expense on the economy. This exerts a terrific pressure for higher taxes, higher prices, and greater exploitation of labor.

The execution of the armaments program presupposes that the floodgates of easy money, credit and deficit financing be left wide open. It could not operate on any other basis. The very fact that the expenditures involved consist of social capital, which is employed by people who do not own it, tends to remove all restraints, all caution in the production of implements of war. At the same time, the elements of inflation grow in direct proportion to the debauchery of the credit system. And the dynamic interplay of the effects of these uncontrolled forces—the terrific pressure for higher taxes, higher prices, and for greater exploitation of labor, on the one hand, and inflation on the other—tend to disrupt the social equilibrium that the armaments economy was expected to maintain.

Such is the process of economic developments today. And from Marx we have learned that the general character of any given historical epoch is determined by the prevailing mode of production. But it is important to remember also, that by "mode of production" Marx did not refer merely to the technical aspect of the operation of the forces of production. He included within this category especially and specifically the "social relations of production." These are the relations into which men enter with one another by reason of the various positions which they occupy in the productive process. In its essence these are the relations of social classes.

Wages, prices, interest and profits, together with taxes and inflation, become ever more crucial elements of contemporary capitalist economy and its world wide arms race. These are capable of final explanation only in terms of the class relations which underlie them, and any decision concerning these questions is subordinated entirely to class interest.

The Giant State

Under the focus of the armaments program existing class relations in the U.S. are more sharply defined; the role of the political state in relation to social classes is more

clearly illuminated. The government has taken over the direction of all major economic activity. It stockpiles and allocates raw materials, and decides industrial and manpower build-up; it decides tax policy, credit policy and investment policy, as well as wage and price policy. Due to this overall direction by the political state, capital, which rests on a socialized mode of production, attains a higher form, that of social capital and the government appears in the all-embracing role of its collector and dispenser.

While this provides conclusive evidence of the decline and decay of the so-called free enterprise system, it should not lead to the mistaken idea that the preponderant power of the dominant capitalist monopoly owners has been replaced. On the contrary, what is taking place is a more complete integration of both function and interests between the latter and the political state, "the ideal collective body of all capitalists." The role of the political state as the manager of social relations on behalf of monopoly capitalism is more openly, more clearly revealed. At the same time corporation agents, financiers and industrialists, who stand to profit the most from the dispensation of social capital, have personally taken over the chief posts in Washington in the growing integration of monopoly capitalism with the government apparatus.

Monopolies Plunder the Nation

Once this relationship is clearly understood, no room for doubt is possible about the important question that will next arise: In the interest of which class is this social capital dispensed? All the "planning", all the measures taken to execute the armaments program serve in intent, as well as in fact, only one end: to increase the share of those who exploit the social wealth at the expense of the producers.

There is no evidence that this program will assure full employment of the available labor force which is ruled out by the growing disproportion between the ever rising productive capacity and the relatively declining purchasing power of the people. The parasitic character of the arms program, which in effect eats up national income, thereby imposing further restrictions on the home market, introduces elements of crisis, that exist alongside of the armaments boom. For the workers the result is growth of unemployment, chronic in its implications, while the super-monopolists enjoy the richest bonanza.

The armaments program assures large scale employment of capital at very profitable rates of return. The government collects the capital from the people, employs it as social capital invested in arms producing industry with huge profits guaranteed in advance for the capitalist monopolies. They in turn, by virtue of their power as the ruling class, use the political state increasingly as a means of plunder of the public domain; they live high on the profits of social capital, profits guaranteed at the expense of the whole nation.

Most notorious is the example of government grants through accelerated tax amortization. Corporations especially favored with armaments contracts may construct and equip plants in return for which, upon the claim of being "vital for defense", they receive a certificate of ac-

celerated tax amortization. This enables them to deduct the cost of the plants from federal taxes over a period of five years, instead of the customary 20-year period. Such certificates have been issued in the sum of almost fourteen billion dollars. And after five years, this total amount must appear on these corporation's books as an outright gift. Indeed, the "Welfare State" is not dead. It now really appears in its true form.

Higher prices, resulting from inflation, presents a qualitative difference of positive advantage to these super monopolists. Each price mark-up adds an extra bonus to the lucrative cost-plus profits of armaments production. "Flexible price controls" do not act as a deterrent because they are, as has been clearly demonstrated, designed to maintain the high profit level rather than to hold prices in line. In this respect also the prime objective is nothing else than to continue the incentive to capital investments and the accumulation of wealth by the exploitation of labor.

How the Workers Are Effected

Thus the armaments economy aids the further concentration of wealth in the hands of the monopoly capitalists while the country as a whole becomes poorer. The diversion of an increasing share of the purchasing power of the people to finance the arms program has become a monstrous reality. The burden of the costs is successfully unloaded on those least able to bear it—the lower income groups.

An ever greater portion of the working class is being drained off through taxation to finance the guaranteed profits of capitalism. Tax levies, of course, follow also the pattern of class relations. Two individual tax increases have been enacted by Congress since the Korean war began. For a family of a man and wife with two dependents the total adds up as follows: An income of \$500,000 gets a modest 14.7 percent increase; but for an income of \$3,000 to \$5,000 the tax increase is 33.7 percent.

What remains for the worker as a take-home pay is mercilessly reduced by the ravages of inflation. Its qualitative effect is the same as a direct lowering of the standard of living. This could not have been done more completely by a leveling downward of existing wage rates. Not only has labor experienced a relative decline of income in relation to total output; but the overwhelming majority of the working class has suffered an absolute decline of real wages.

The cumulative effect of this whole development is a growing disproportion of the relative share of the national income received by the different social classes. Out of this relationship, and out of the ever more explosive political conjunctures, which will inevitably ensue from the American imperialists' counter-revolutionary role in world affairs, the crucial question arises: "What will be their effect on the existing stability of class relations?" For adequate treatment, a question of such magnitude will require a separate study. Suffice it now to say that continued and increasing expenditures for war preparations must of necessity lead to more devastating inflation. Simultaneously the pressure for lower costs of production can be expected to take

the form of more direct attacks upon the working class standard of living.

The Real "Prosperity"

This is the reality of the much vaunted armaments "prosperity". How does this compare with the often repeated claims that the American economy, since the end of the great depression, has succeeded by its own resources in overcoming the cyclical crises of overproduction and thereby refuted the analysis made by Marx?

Newspaper and magazine editors, radio commentators, have been pouring out a constant barrage of such claims. This is a frantic effort to resurrect the exuberant confidence of the bourgeois propagandists of past decades in the superiority and stability of capitalist ownership of the means of production. It represents also an effort to make the workers accept this gospel. Servile labor salesmen of imperialism echo these outpourings, less skillfully to be sure, but with no less conviction. The reality refutes all these presumptions.

What the American economy has experienced since the great depression has been a series of crises. Following in succession we have witnessed a world war, imperialist assaults on colonial people, cold war, and armaments in preparation for World War III. These have revealed the hideous physiognomy of capitalism in decay. Throughout this period the disproportion between the vastly augmented productive capacity available and the impoverished, disrupted and shattered world market, together with the restricted consuming ability of the masses at home, has grown to more colossal dimensions. Elements of crisis of overproduction have recurred in ever more malignant form. The alternatives of a depression or war are still poised on a razor's edge.

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Wall Street's Dilemma in Japan

By V. GREY

The allies and enemies of the last war have changed places with the usual air of cynicism, and with considerably more than usual degree of rapidity. Underneath these dazzling changes, which make heroes out of villains—and vice versa—the main, the preponderant influence, is not the mutual interchange of strength among the imperialists themselves, so much as the absolute and relative weakening of imperialism as a whole before the revolutionary movements of the world. This proposition acquires a special emphasis in the relations between the United States and its former arch-enemy and “stab-in-the-back” antagonist, Japan.

The real purpose of the Japanese-American rapprochement is becoming obvious enough to the careful reader of the daily capitalist press. The helter-skelter search of the Wall Street brass for allies and bases is dutifully reported in the newspapers. And Japan, from this point of view, is just one of a series of military bastions of U. S. imperialism. The Japanese “Peace” Treaty, as everyone at San Francisco last fall all too clearly understood, was in reality a war alliance between the United States and Japan.

However, the laws of contradiction apply to this treaty in another respect too. Not only is it not for peace; it is also not quite a treaty. That is to say, this new alliance is already coming apart at the seams. The Japanese bourgeoisie, who, one might think, should be the most obliging and subservient to Wall Street, are strongly opposed to a large part of the perspective laid down for them. The only thing they found attractive about the treaty was that it gave them limited sovereignty—i.e. allowed them to set up shop again.

On the other hand, a strong alliance is of paramount importance to Wall Street. The short-range calculations of Japanese business men, even a large section of them, must not be allowed to conflict with the long-range plans and interests of the new, self-constituted center of world capitalism. Japan is far more important to these interests than as a mere military base. If Japan were to play the role of a more or less independent neutral, trading with the continent of Asia, Japanese capital and *Chinese independence* would grow at the expense of Wall Street. And if Japan's economy were too restricted and throttled, and the Japanese workers were to overthrow capitalist tyranny, the whole of Asia would have to be written off by imperialism.

If this is a correct statement of the case, then a rationalist might say, with impeccable logic: “Why not give concessions to the Japanese workers, thus taking the sharp edge off the social conflict, while at the same time reinforcing the purges of the economic rulers, and ‘priming the pump’ to make a more cooperative and beneficial economy?”

The Reactionaries Return

But Wall Street, like the Church of England, can allow 38 of its 39 articles of faith—or logic, as the case may be—

to be attacked with democratic impunity, but cannot allow one thirty-ninth of its property to be endangered. The logic of events and class interests has already determined the answer to the question before our courageous liberals have posed it. The U. S. State Department is already collaborating with the Japanese rulers in the most savage repressions of the masses. It is re-installing the most vicious reactionaries and all-powerful bureaucrats into high office.

As early as February, 1951, John Foster Dulles, while laying the groundwork for the “peace” pact, demonstratively visited with Ichiro Hatoyama and Tanzan Ishabashi. These two gentlemen were supposedly out of public life, having been purged by the Japanese ruling circles themselves, as much in response to the indignant protests of the masses as to the suggestion of the Occupation authorities.

Hatoyama had been purged from his high office, and membership in the Liberal Party, but was still a good friend and supporter of that party's president, Yoshida. In his time, he was also an enthusiastic supporter of—Hitler.

Ishabashi was the Minister of Finance at the end of the war. He so manipulated Japanese currency between the surrender and the arrival of the American troops (a two-week period, conveniently allowed by the conqueror) that the monopolist Zaibatsu recouped most of their fallen fortunes, and the poor masses paid for this in an artificially intensified inflation. (Ishabashi was *de-purged about ten weeks after Dulles' visit*, not at the initiative of the Japanese, but at the express order of Ridgway's office.)

The significance of Dulles' visit was not lost on the Japanese workers, who momentarily experienced a wave of despair. Nor was it lost on the Japanese monopolists, who proceeded with gatherin steam to de-purge many of their military friends. The Japanese war rulers have been steadily returning to power. On March 2nd of this year, the Japanese Government de-purged none other than Saburo Kurusu, the special envoy who was in Washington discussing peace during the Pearl Harbor attack—without any noticeable disapproval in the Capital from those who once had hurled the country into war to avenge “the sneak attack.”

The American State Department actually became convinced in 1948 that there could be no alliance with a liberal Japan. They became convinced that the popular good will toward the United States was relatively unimportant for the new power considerations, Japanese capitalist society being what it was, divided between the overweening rich and the desperately poor. The ulcerous condition of this capitalism had been more or less understood in the period 1945-48 as well, of course. But the earlier gestures of liberalism—even by MacArthur—were conditioned wholly by the Wall Street power politics of *that time*.

In the interests of American hegemony in the Pacific, in the interests of the contemplated American business hegemony over apparently prostrate China, it was necessary to strip Japan of its war-making power. The American ex-

perts correctly understood that Japan's war-drive emanated from its monopoly capitalist rulers, and was personified in its totalitarian military government. Therefore both of these had to be removed in the interests of the victor. How monopoly capitalists can be destroyed without destroying capitalism itself, was not discussed. But the so-called reform program was nonetheless carried out more energetically than an American radical, acquainted with the reactionary MacArthur, might have predicted.

Although the purge of the top military figures must have gone against the grain of MacArthur and his whole military staff, this purge was extremely widespread, and more than mildly effective. True, most of the many thousands of purged upper officers merely whiled away their time on country estates, while the millions of rank-and-file veterans who had been dragooned into the army, many of them now cripples, most of them unemployed, were reduced to public beggary. But the military's *active* role in public life was stopped.

The restrictions on monopolies and cartels were somewhat more ludicrous, but they had at least the effect of causing the monopolists themselves to lie low, and do their best from behind the scenes. This gave a measure of freedom to the bourgeois-democratic forces, more, as a matter of fact, than the Occupation had bargained for. Nearly all classes in Japan had such a hunger for freedom, and such an economic need for it, that they were quick to wedge open even the narrowest crack in the totalitarian wall.

Not only was the Diet reconstituted, with some actual power, as opposed to the formerly all-powerful cabinets, but labor unions became legalized, and mushroomed into enormous membership and activity. Suffrage was universalized for the first time—to include not only younger men, but women as well. Land reforms were *started*. Freedom of speech and criticism was restored. Radical parties were legalized, in a sense for the first time. Douglas MacArthur, butcher of the bonus marchers of 1932, signed the order for the release of the Communist Party members from prison. As a matter of fact, the amazing popularity of MacArthur in the early days of the Occupation, was in large part due to the fact that the workers, peasants, and middle class regarded him as their champion against the old rulers.

China Enters the Picture

Even without any change in the international situation a break was bound to occur between the democracy preached by MacArthur, and the democracy practiced by the Japanese masses. This came in the spring of 1947 with the threatened strike of hundreds of thousands of government and railroad workers. MacArthur, with an order backed by the large occupying army against a disarmed people, prevented, and broke, this strike. It was not until at least the end of 1947, however, nearly a year after the Truman Doctrine was announced, that Wall Street's policy makers began to realize that the Far East was subject to the same laws of social development they had perceived in Europe the year before.

It was bad enough that their own brand of capitalist

liberalism in Japan was being misunderstood by the workers. It was bad enough that these workers were joining the newly constituted radical parties, and striking forcibly in unions that somehow took their new rights too seriously. All this was bad enough. But now, hardly an hour's flight to the west, the Soviet Union, even under the usually accommodating Stalin, was organizing the economy of Manchuria and North Korea. The civil war in China was taking an alarming turn. It was becoming clear that American capitalism, from a defensive, as well as from an offensive, point of view, must inevitably apply the Truman Doctrine to the Far East.

The whole Pacific war had been fought over who was to exploit China. Now China was threatening to remove herself from the grasp of *any* imperialist exploitation. How clearly this was understood at the time, is a question, considering the debate in the State Department then, over the character of the Chinese Stalinists—"agrarian revolutionaries—or tools of the Soviet Union." If the former, they would presumably set up a bourgeois-democratic regime, trade with the U. S., and inevitably come under the influence of Wall Street. But "Mr. X," George Kennan of the State Department, had already generalized the problem and sufficiently crystallized the policy, with his plans for "containment." This policy was tactically directed first against the Kremlin, but strategically it was meant to uphold the imperialist status quo of the whole world from all revolutionary assaults.

The imperialists are seldom guilty of feather-headedness or wish-thinking in world politics—for long. (How brutally they have rejected Owen Lattimore! and in so doing, rejected his thesis of a development of *laissez faire* capitalism in Asia.) They are unacquainted with the laws of the permanent revolution, but they very soon responded in their own way to the situation in Asia.

The Bismarckian Thinkers

Japan therefore had to be viewed, not as a defeated enemy imperialism, but as a potential ally of American imperialism. On August 20, 1951, the *N. Y. Times*, in an effort to sell the coming Japanese "Peace" Treaty, coldly explained some of the facts of life regarding capitalist power politics, in their leading editorial:

"The Far East can be considered as a triangle formed by Japan, China and Asiatic Russia. When these powers are relatively equal in strength in the Far East, there is peace. . . It is our role in the coming years to do in the Far East what England did in Europe during the three centuries and more between the defeat of the Spanish Armada and the wars of this century. . .

"From another point of view it could be said that we are setting up Japan as a counterweight to Communist China. Thus, as Russia is today throwing her weight into the balance on the side of Communist China, so we are throwing ours onto the Japanese side."

The first paragraph contains the word "peace." But it would take an extremely careless reader to assume that there might be three hundred years of it. On the contrary, the whole history of England's "balance-of-power" politics was one of intrigue, bloodshed, and war after war, some

of the wars lasting for decades. The second paragraph hits the mark a little closer. The new Japanese-American relationship is to be a war alliance against the alliance of the Soviet Union and China. There is no "balance" here, but a front to front antagonism . . . and "we" are "setting up Japan."

Needless to say, the Bismarckian wisdom of the *N. Y. Times* is not here directed toward the State Department, but toward middle and upper class laymen in politics. The State Department and the most responsible capitalist politicians have been aware of this problem in the Far East at least since 1853 when Perry opened the closed ports of Japan with his gunboats. And more especially since Theodore Roosevelt invited both Russia and Japan to Portsmouth, N. H. in 1905 and covertly dictated the treaty which ended the Russo-Japanese War.

The first 50 years of American relations with Japan were characterized by a struggle between England and the U. S. for influence over a more or less helpless semi-colonial people. Imperial Russia, which had been pushing toward the Pacific for over a century, could not, as a land power, be so aggressive as the imperial England or the dollar-minded U.S. who were both naval powers. By the time Russia was able to get into the act, Japan itself had emerged from its subordinate status and amazed the world by its showing against the troops and ships of the Czar. For many years thereafter, it was a corner of the so-called "power-triangle" in the Pacific.

The Balance Altered

But no balance can last forever. The very essence of a balance is a combination of imbalances, one of which must sooner or later overcome the other. Japan's growing industrial might demanded first raw materials, and next the control of the source of those raw materials. A production of commodities for sale growing up overnight, as it were, without producing any internal market to buy those commodities, demanded, sooner than in all other capitalist countries, markets abroad. And given the very finite limits of the world market, demanded the control of at least some of these markets. Capitalist Japan had to expand or die. It could only expand at the expense of China. And translating this truism into imperialist politics: also at the expense of those countries with interests in China, i.e., the Western world, including Russia.

The first concrete evidence of Western alarm at Japan's growing strength was shown at the Washington Conference of 1923. Here the big powers made the famous 5-5-3 stipulation which limited Japan's navy to three-fifths of that of England or the United States. This treaty validated a new relation of forces. But even while the new relationship was developing, finally to explode at Pearl Harbor, and again at Hiroshima, a still more fundamental change in the relationship of forces was emerging, of which the Korean war is the result rather than the cause.

The victory of the Russian Revolution in 1917 had already changed the balance of power in the Far East to an extent that wasn't clearly recognized in the U. S. for many years. Soviet Russia was not even invited to the Washing-

ton Conference of 1923 (which was to deal with problems of the Far East) where Czarist Russia would certainly have been. Even at that late date the imperialists were not convinced the Soviet revolutionary victory was definitive—and still calculated on an early overthrow. But in spite of its weakness as a world power, the USSR's enormous attraction as a revolutionary force exerted a great pull on the colonial peoples of the time.

This helped lay the basis for many strategic and revolutionary developments of today. At the same time however, the revolution removed the Czarist threat of expansion into Manchuria, Korea and China, at a time when the nationalist movements in those countries were still relatively weak. This "unbalancing" of the Far East was further reinforced by the victory of Stalin in the Soviet Union which brought with it the defeat of the Chinese workers and peasants in the mid 'Twenties.

This "power vacuum," as they call it nowadays, whetted imperialist Japan's appetite all the more for China. But it was only after Chiang Kai-shek had defeated and apparently exhausted the revolution of 1925-27 that the Japanese dared to move. The Tanaka Memorial (see *F. I.*, June 1941), outlining the subsequent plan of empire was submitted to the Emperor precisely in 1927. Manchuria was conquered in 1931; China was invaded six years later.

The U. S., which had helped to build Japan as a buffer against Czarist Russia, so as to facilitate the "Open Door" policy in China, now found Japan *closing* the door on all the other imperialists, especially the U.S. itself. The same development which opened up the possible conquest of China to Japan, thus led to the U. S. turning against Japan, thus dictated the alliance between the U. S. and China, and to a large extent, the alliance between the U. S. and the Soviet Union. Indispensable premises of these alliances were a static Soviet Union and a dependent China.

But by the end of World War II, history was rapidly picking up the threads she had dropped in 1917. Not only were the great Asian masses on the march, but the relationship of the powers was changing more drastically than the warmakers had foreseen. The nearer Japan came to defeat in the war, the closer Wall Street's frontiers approached the Soviet's. The atomic bomb was far more of a warning to the Soviet Union than a death blow to imperial Japan.

With Japan, the former buffer, temporarily reduced to a zero, the United States and the Soviet Union stood face to face. And the Soviet Union was unexpectedly strong. China, which might have been a new buffer between the two remaining giants, was taking an entirely different road. Wall Street tried frantically, not to keep a balance, but to weight the balance in its own favor, by eleventh-hour efforts to control China. The cataclysmic failure of this attempt was only fully revealed, and the real recriminations begun, after Korea revealed the changed positions on the power map and in the class struggle. These changed positions, even in a less tension-ridden world, would have created their own tensions; even without the "Cold War," would have dictated a new policy toward Japan.

The State Department does not dream, however, as the

N.Y. Times seems to imply, that there will be a new constitution of the "triangle" in the Far East, which the U. S. can manipulate from afar. The old theory of the triangle power balance—Asiatic Russia, China, Japan—assumed an independent Japan, and an exploited, but more or less unallied China. Now Japan must be built up and armed by the United States with a concentration of U. S. troops still in that country, and a possibly greater concentration of them in near-by Okinawa. China, far from being unallied, is less likely than ever to break its ties with the Soviet Union.

It is significant that all bourgeois press speculation on a Chinese Tito ceased after the Japanese "Peace" Treaty. And well it might. If the Chinese-Soviet alliance alarmed Wall Street, then the Japanese-American alliance has provided the firmest binding cement for the two countries against whom it is primarily directed.

When Dulles spoke to the U. S. Senate Foreign Relations Committee on January 22 to urge ratification of the "peace" treaty, he said among many similar comments: "Never before in our history have we adopted a defeatist attitude toward despotism (clearly meaning the government of new China-V. G.) and I see no reason why we should do so now. We must adopt a positive policy, and get away from the idea that the overrunning of China is the final, last word."

The "positive policy," of course, here refers to the Japanese "Peace" Treaty. This statement of the chief architect of that treaty makes it as clear as noonday that the peace treaty with Japan is an instrument of war against China. This point is at least equally clear to China, which suffered the most and the longest in the war against Japan and was not even invited to the "peace" conference. And in disposing of Japan's former colonies, the treaty does not even mention Formosa, the present drill-ground of the Chinese counter-revolution with its more than six hundred highly specialized American drill masters. Small wonder that the Chinese and Korean leaders distrust a truce with the same rulers who dictated the Japanese "Peace" Treaty! And small wonder that they feel they need the USSR's assistance fully as much as the Soviet Union needs theirs!

Let us make it quite clear, and say again, that it is not Japan who is now so anxious to invade China and take on the revolutionary movement there. Those are the snows of yesteryear to this year's scrambling Japanese financiers. The initiative comes from Wall Street from both wings of the capitalists; from Acheson-Truman, as well as from Taft-MacArthur.

But this unanimity of American capitalists strikes but a muffled responsive chord in the breast of the pragmatic Japanese capitalist. It is pretty well understood by now that there is going to be a great international show-down in the near future. And it is also understood that the capitalist countries will line up behind the United States. But each capitalist country has its own fish to fry as well. Each has its own contradictions, its own problems. These considerations may not be strong enough, nor the inter-imperialist tensions sharp enough, to cause any of them to

line up on the other side. But they considerably alter the idyllic picture Wall Street is trying to draw. They slow down Wall Street's high-powered war chariot, and may even give it serious motor trouble in the middle of the conflict. This is especially true of Japan.

Treaty Without Trade

Shigeru Yoshida, the main spokesman for the treaty in Japan, is presently enjoying the lowest degree of an already low popularity for so prominent a capitalist statesman. Newspapers, business, manufacturing and middle-class interests are all pouncing on him for promising too much to Wall Street in his eagerness to ratify the treaty. Why so? It is not the actual provisions of the treaty, *primarily*, that the Japanese bourgeoisie object to. It is the implied condition *that they must end their trade with China*. And Yoshida apparently agrees with the U.S. on this point.

This question was somewhat muted last fall in the noisy hurrahs for the "beneficent," the "non-vindictive" treaty. But it is coming into the open now. Money, like murder, will out, it appears. And Japanese business does not stand to make much money if it is denied trade with China. The American Senate, faithfully reflecting (if not embodying, in its millionaire personnel) the position of Wall Street, refused to ratify the treaty without assurances that Japan would boycott and embargo trade with China.

Yoshida took it upon himself to give this assurance, by writing Dulles on December 24, 1951, that the Chinese-Soviet alliance was "virtually a military alliance aimed against Japan. In view of this (and other) considerations I can assure you that the Japanese government has no intention to conclude a bilateral treaty with the Communist regime of China."

But Takeo Mikki, leader of the Conservative Democratic Party (not much more conservative than Yoshida's reactionary Liberal Party) accused Yoshida of being "secretive and dogmatic" (*N.Y. Times*, Jan. 12), in making arrangements with foreign powers on his own initiative. And the bourgeois Kyodo News Agency said that Yoshida's gratuitous concession "prejudiced major interests of the Japanese nation." "The inability to trade with Red China," this agency truthfully declared, "is a definite obstacle to the rehabilitation of the national economy."

Wall Street has indicated that Japan can make up for the lost trade with China by cultivating Southeast Asia and Indonesia. But this involves a keen competition with British trade, a rivalry which neither Britain nor Japan views with great relish. Britain has already conceded too much, in the opinion of British shipbuilding interests, by allowing the reestablishment of Japan's shipyards. These yards, though considerably smaller than Britain's, are the third largest in the world and are taking many foreign ship orders away from Britain. Japan is already endangering the British textile trade in India. British textile merchants are more than willing that Japan should trade with China instead of India. And they consequently have the same curses for Churchill's secret deals with Truman on the Far East, as their Japanese cousins have for Yoshida.

It is only because the world situation is so tense, because politics today supersedes the economics on which it is finally based, that Yoshida, like Churchill, gets away with his commitments to the "enemy." But the opportunists in the Kremlin are not so unrealistic when they woo the Japanese bourgeoisie with the possibilities of Asiatic trade. And the extremely pragmatic capitalists of Japan, are somewhat more inclined to the theory of "co-existence" than their intransigent American mentors, particularly since it is the only profitable—and safe—perspective they can see for the immediate future.

One-fourth of all Japan's pre-war trade was with China alone. Sixty-six percent of her exports in the year 1947 were to Asiatic countries. (MacArthur himself was compelled to wink at the Chinese trade even after China had entered the Korean War.) And some of the most important strategic materials for industry come from China. Japan is lacking in iron ore and coking coal, the very guts of modern industry. For many years these have come from Manchuria. If Japan is to fully revive industrially, it must deal with Asia, on one basis or another.

Japan and the West

It should be remembered that Japan's "Asia for the Asiatics" slogan was only partially demagoguery. Ousting the Western imperialists was a prime necessity—if only because they were rivals who restrained Japan's advancement by their own exclusive exploitation of the Orient. In a sense, economically speaking, the ouster of the Western Powers was more important to Japan than the subjugation of the people.

This ouster, combined with the subjugation, would have given the Japanese imperialists limitless vistas in Asia. Neither of these goals was achieved. But the very attempt of conquest, with all its attendant "disorder," the opposition movements encouraged by Japan against the West, and by the West against Japan, the preoccupation of the imperialist overlords themselves with other battles, all combined in their own way to aid the basic colonial drive for freedom. The colonies began to oust Western imperialism on their own. Thus an important half of Japan's imperialist program was realized, in spite of Japan—and in a revolutionary way!

The present Eastern situation gives defeated Japan more than a ray of hope. China has not changed from a potential preserve of Japanese business to a preserve of American business, as both Japanese and American ruling classes had expected at the end of the war. On the contrary, China itself has leaped into independence. And the victorious U. S. has been cheated of the prize of victory (China) more drastically than even Japan was cheated by the United States and other powers, of its victory over China in 1894.

China, like the other former colonies, wants an industrial development which the Chinese themselves will control. But even political independence and national freedom do not add up to economic self-sufficiency. More than ever, China will require assistance from more developed industrial nations. Japan could be on the ground floor of

a big boom in trading industrial goods for soy beans, Manchurian coal and ore, and other strategic raw materials.

The class nature of the coming war must line up capitalist Japan on the side of capitalist Wall Street. But in the meantime Japanese capitalism must show a profit. While it must stand or fall with world capitalism, it is not in a position to see this as clearly as the U. S. wishes, and in any case is not at all averse to making a few dollars out of somebody else's fall.

True, there have been a series of reports since Christmas (since the time of Yoshida's letter to Dulles) about Japan's "shunning Communist China" and desiring cooperation with Chiang Kai-shek. But these reports emanate as much from the Dai Ichī (formerly Ridgway's headquarters) as from the Diet. And now that Japan has actually begun negotiations with Formosa, it appears that the *vocal* criticism is more or less stilled, and the die is cast.

Whose interests are being served, however? The British Foreign Office stated on January 16 that "no pressure should be put on the Japanese, and they should be left free to decide their future relations with China according to their own best interests and in full sovereignty." Since British capitalism is desirous of Japan's dealing with China rather than poaching on what Britain considers its own preserves, the British suspicion of the nature of the pressure and the source of the pressure is clear.

The centrifugal tendency of Japanese capitalism away from the Wall Street center, generates more positive action by Wall Street, possibly a faster, certainly a more determined, drive for war. It pushes them toward Chiang Kai-shek, toward an even more unpopular war than before.

The Japanese ruling class resists? Well, there is more than one way of skinning a cat, says Wall Street! If the immediate business interests of Japan are not in harmony with ours, the Zaibatsu may be addressed in other language than that of the dollar, and "the worse may prove the better cause." Such a line may not prove as viable as a more perfect harmony of economic interest, and it may prove less palatable to Japanese and American liberals. (The Americans have long since shut their mouths.) But it will serve . . .

Zaibatsu Gets Its Way

Immediately after Dulles left Japan last spring, Yoshida's party asked the Zaibatsu what changes they desired in the Occupation's policy (as if they didn't know!). These arch-monopolist war leaders answered coolly: "An end to the purge, repeal of labor standard laws, abolition of anti-monopoly and fair trade legislation, and revision of the land reform laws." (Robert Martin, writing for the Overseas News Agency.) In a word, a return to the unchallenged rule of the feudal-capitalist-imperialist coalition—a return to the most savage repression known to capitalist nations.

It is not enough that the Liberal Party is backed by the Mitsuis and the Conservative by the Mitsubishiis. These rulers do not want any political parties at all. And from the point of view of maintaining Japanese capitalism they are quite right. But the Occupation, in giving them their

way, not only buttresses the tottering economic system of Japan, but directs its energies as much as possible, in the direction of war. That is why just two months after the above news was released, no less than a hundred and fifty thousand of the old military bureaucracy were taken off the purge list (three-quarters of the total).

Wall Street intends to overcome, in this simple way, the constant stream of opposition issuing from the limited democracy embodied in the present Diet. They intend to overcome the voluble opposition of the more or less representative, and extremely vociferous newspapers of Japan. These phenomena, like labor unions, Wall Street figures will soon be things of the past.

But Wall Street, whose very best experts misjudged the situation in China, and are now reversing themselves in Japan, will not find the iron hand so much more suitable than the velvet glove. Last November, three thousand students at the University of Kyoto asked the visiting Emperor Hirohito: "Will you, as Emperor of Japan, which has renounced war, resist rearming if and when it is forced upon us?" And they surrounded the imperial limousine singing the workers' "Internationale." The usually cautious Associated Press said the incident was of "possibly historic significance." It is undoubtedly that, considering what the Emperor institution is in Japan. And it is a portentous to Wall Street as to the Emperor.

On February 22nd of this year, a whole series of protest demonstrations flared up in Tokyo and other cities of Japan. Eleven thousand of the newly enlarged police force were mobilized against them. [Since this article was written, there occurred the May First demonstration of 500,000 in Tokyo, militantly anti-American in character.]

Will the Peasants Fight?

Now the Japanese bourgeoisie have this further problem: after the eight year experience with the undefeatable Chinese masses — in their *pre-revolutionary* period — the Japanese rulers are being asked to hurl their own awakening masses into a veritable maelstrom of revolution on the continent. Not only does Wall Street tell them not to make a profit from the Chinese revolution but demands that they risk being destroyed altogether by it. They were unsuccessful in fighting to enclose the "world under one roof," the Japanese roof. Now they are expected to send their peasant armies to fight for the world to be under Wall Street's roof — and in the bargain, to fight armies who have slaughtered their landlords and seized the land. This would demand a faith in the abject obedience and docility of the Japanese poor, which some Western bourgeois may fondly cherish, but which the Japanese ruling class never for a moment fools itself with.

The American land reforms, so-called, at their very height only comprised about a quarter of the land (the basis of the reforms was a 30-year payment sale program of 2½ acres to a farmer). And the wheel has been turning the other way for over three years now. The American overlord is beginning to exhaust his credit with the Japanese peasant whom he expects to fight his war. The grip of the formerly divine Emperor, whom Wall Street has hopefully maintained in power, may seem as strong as ever on the

superstitious peasant. But the superstitions of the peasant have their limit. They may cause him to believe he will get land in heaven, but they do not eliminate his desire for it on earth. On the contrary, they often fortify it. Somewhere in his soul, the peasant feels that his worst enemy is, after all, his own landlord.

The Japanese capitalist-landlords and landed capitalists are well aware that Japan's long history is marked by hundreds upon hundreds of the most explosive and destructive peasant revolts. To send these elemental masses to shoot down those who have dealt in a larger, more organized, more programmatic way, with their own landlords—this is certainly to court destruction.

It is no wonder the Japanese bourgeois hesitates. It is no wonder he resents the commands of the U.S. And yet his destiny pulls him down this mad course with the inevitability of one of his own classical morality plays. Only last month (March 17) the unpopular Yoshida was re-elected president of the Liberal Party on the very day he made a speech defending extra-territoriality for American troops. (Extra-territoriality is among the most hated of Western impositions throughout the Orient — particularly in Japan which has the proud record of having been the first country to throw it off, in 1899.) Yoshida's re-election sets a seal on the inevitable.

The real last word, not only in Japan, but in a large part of the Orient itself, will rest with the Japanese masses. They have a far greater potential than is generally realized. They are much the largest working class in Asia, much the most cohesive, with much the highest technical level, and the closest connections to the peasantry.

The long-suffering peasantry, in spite of their long history of revolt, would not at this time dream of any such demonstration as the Kyoto University students staged against the still venerated Emperor. They are not armed with logic, or rationalism. But they will be armed with guns, by the unwilling Japanese bourgeoisie. And they think their own thoughts — slowly — but with finality. They have received the thoughts of the workers who have drifted into the countryside from season to season of city employment. They have been subject to the same oppression in imperialist Japan as their counterparts in colonial China.

Seething Volcano

Worker, peasant, white collar employee, all have endured the agonies of Japanese imperialism. These agonies have been compounded by the blows of American imperialism, and never really ameliorated by its subsequent reform program. Re-armament now brings new sacrifices, new miseries, cruelly shattering some of their last illusions, but, it is to be expected, also awakening them to their historic tasks.

Japan is the country, despite its explosive character, which least fits in with the present pattern of Asian revolt. Throughout that teeming continent, socialism is driving in to power on the old, but now more powerful vehicle of nationalism while Japan solved its purely nationalist problems many years ago. But it solved them in such a way, and at such a terrible cost to the masses that there

remains from its "solution" a burdensome heritage of things undone. The rising of the oppressed must be more unanimous, their revolution more compressed in its stages, their vengeance more terrible, than any so far seen in Asia.

As for the Japanese ruling class, it is now divided within itself, unsure of its path, unsatisfied with the only ally who can prop it up, afraid of its own military bureaucratic servants whom Wall Street has called back into the house, and above all frightened more than ever before in its whole swaggering modern history at the very

thought of war. Here is indeed a "vacuum of power" which awaits only the Marxist leadership to fill it.

America pushed capitalist Japan to the edge of the abyss in World War II, then pulled her back from the brink. This same capitalist America may yet push Japan over that brink, and let loose a social revolution which would not only further alter the world power map again in Wall Street's disfavor, but would generate still newer and more vigorous currents in the revolutionary movements of the world.

Revolution and Counter Revolution in Bolivia

The Great Decade of Class Struggles

By **GUILLERMO LORA**

We are happy to be able to present to our readers this historical survey and political analysis of the volatile, revolutionary Bolivian proletariat. The recent revolution has brought the country where the "beggar sits on a mountain of gold" into the headlines. To a certain extent, all of Latin America awaits the next developments in Bolivia. In the struggle over control of the nation's vast tin properties, now dominated and exploited by absentee monopoly interests in Wall Street and in Europe, there is being fought out the same battle we have been witnessing in Iran, in Egypt, in North Africa and in Southeast Asia. Our own oligarchy is anxiously watching this development, fearful that unless restrained in time, this revolution in Bolivia will kindle vast outbreaks among its semi-colonial slaves in Chile, Venezuela and elsewhere on the southern continent.

In many ways, the revolution in Bolivia is similar to outbreaks against imperialism and their military puppet regimes which have occurred since the end of the war. The vast movement of land-hungry peasants and starving workers is led at the beginning by a middle class, nationalist party, which ever seeking compromise, has always gone down to defeat. But in Bolivia a new factor — a decisive one — has entered in force on the revolutionary stage: the organized, militant working class movement. From the outset, miners and textile workers have raised their own demands, principally the nationalization

of the natural resources, and have insisted that the government carry them out. Their intervention has split the governing party into a right and left wing whose present conflict foreshadows a later showdown between the toiling people on the one side and the combination of landed gentry, feudal capitalists and imperialists on the other.

Guillermo Lora is well qualified to treat with the subject. Leader of the Partido Revolucionaria Obrera, Bolivian section of the Fourth International, his name is associated with the heroic struggles of the tin miners and the Bolivian workers. Time and again he has paid for his activities by long terms in the prisons and concentration camps of Bolivian reaction. The recent revolution restored his liberty and once again he is in the thick of the struggle.

His study of Bolivian events since the Chaco War should help give the reader an insight into the peculiarities and dynamics of the revolutionary anti-imperialist movement. It should cut through the slanders and confusion disseminated by capitalist journalists whose analysis begins and ends with the characterization of the MNR, the ruling party, as "fascist" or "Peronist." It should serve as a guide not only to present developments in Bolivia but in other Latin American countries as well.

The concluding installment of Lora's study, which ends in this issue with the fall of the first MNR government in 1946, will be published in a subsequent issue of **Fourth International**.

In 1932, Bolivia was forced by its imperialist overlords to make war against Paraguay to defend the interests of Standard Oil then threatened by Royal Dutch Shell which had established its investments in Paraguay. It was at this time that the intelligentsia, influenced by Marxism, attempted to show the masses a revolutionary road: "*To act immediately and by every possible means for the end of the war, for the re-establishment of peace and the overthrow of the feudal governments of Bolivia and Paraguay which place the interests of the oil companies over those of the respective peoples.*" (From the program of the Tupac Amaru group.)

The world crisis of the 1930's which had impelled the petty bourgeoisie of the continent on to the political arena, marked the starting point of the revolutionary upsurge of the masses, a process which was interrupted by the war with Paraguay. Both of these events however hastened the

regroupment of the radicalized petty bourgeois intellectuals in a number of "left wing" circles. The war was the answer of the Salamanca government to the unprecedented social crisis which was convulsing the country.

The Chaco War brought to an end a historic stage: The stage of the undisputed reign of the feudal bourgeoisie, of liberal reforms, of the building of railroads, of a trade boom, of a lightning-like rise of mining developments, and also of the stage of unorganized workingclass revolts which were drowned in blood. A new stage was ushered in: the stage of the definitive decline and decomposition of the ruling classes in which a series of petty bourgeois military governments were to succeed one another, in which the Bolivian proletariat would enter the political struggle and would organize its own party, the POR (the Revolutionary Workers Party), in the wake of the bankruptcy of centrism and of reformism, for the overthrow of capital-

ism. The most salient fact of this stage is represented by the independent organization and the political party of the proletariat which had previously been an appendage of bourgeois and then of petty bourgeois movements. While the origins of the POR date from the crisis of the pre-war period they are connected to the struggle against the world massacre organized by imperialism and to the widespread battles undertaken by the exploited masses at the end of the war.

The Petty Bourgeois Military Governments

The petty bourgeoisie modeled its political formations along the lines of those organized by the proletariat. In reality it was aided in this task by the military governments which needed political support. The POR, on its side, existed since 1934.

In view of the numerical weight of the petty bourgeoisie, it can be said that Bolivia is a petty bourgeois country in its social composition. Oscillating between the feudal bourgeoisie and the proletariat, this class in turn is composed of several social strata: artisans, small proprietors, small tradesmen, usurers, etc. As a class, it is a vestige of the past consisting in the main of artisans and a large part of the peasantry. On the other hand imperialist penetration in the country gave rise to new social strata which have an enormous importance in the ranks of the urban bourgeoisie: technicians, government employees, the liberal professions, the intelligentsia, etc. Despite their differences imperialism and the native feudal bourgeoisie have, so to speak, split the petty bourgeois mass into two distinct and even antagonistic sectors; the majority of this class suffers the consequences of feudal exploitation, the yoke of imperialism, the backward state of the country and lives under subhuman conditions. The process of proletarianization of this class does not keep pace with the growth of poverty. The integration of the country into the world capitalist system has led to the economic ruin of the petty bourgeoisie which has become semi-parasitic in character. A privileged minority in the upper levels of this class render service to imperialism and to the native ruling class. The intelligentsia, which in 1930 belatedly achieved the "University Reform," an expression of a peculiar aspect of the struggle between the bourgeoisie and the proletariat for influence over the middle classes, acquired enormous importance in the history of the country. In large part this intelligentsia is a product of the dislocation of the dominant strata. It thinks of itself as playing an independent social role because of the bankruptcy of the university and of the liberal professions which represented an obstacle to its development, and it is hungry for revolutionary ideas.

However the petty bourgeoisie is incapable of developing an independent policy. Even if, under the pressure of the masses, it succeeds in elaborating a program of national liberation and agrarian reform, even if it assumes the leadership of the national revolutionary movement, that is as far as it is capable of going. At a given stage of the struggle it will join with the feudal bourgeoisie and imperialism to crush the masses whose revolt endangers the system of private property.

Moreover, the political weakness of the Bolivian petty bourgeoisie is demonstrated by the fact that it always requires the support of military camarillas to come to power.

In 1936, Colonel David Toro formed his "Socialist" government, a direct result of the situation created by the Chaco War. Apparently taking the anti-imperialist road, it nationalized the vested interests of Standard Oil but it soon capitulated to the Yankees. First, it abandoned its program of national liberation, it set about to preserve order through repressive measures so as to enable the mine owners to better exploit their properties and then it gave up its project of currency control. Toro's betrayal aroused the discontent of the masses and undermined the government.

The Busch (Lieutenant-Colonel German Busch) government (1937-39), which came to power after a coup d'état against the Toro government, assumed the guise of renovator of the ideas of national liberation set forth before 1932. On June 7th, 1939 it obliged exporters to sell 100% of their currency to the central bank. Bold as he was, President Busch did not have the time to reflect on the illusory nature of his measures dealing with the so-called economic liberation of the country. He fell victim to an assassin in August 1939.

Both governments had many common traits in that they had mobilized the proletariat, while controlling it, for the purpose of exercising pressure over imperialism in order to extort some advantages which would tend to stabilize the internal situation and cope with the ever-present threats of the feudal bourgeoisie. But each time these working class mobilizations went to the point of ridding themselves of governmental leadership and of taking a revolutionary road they were brutally suppressed. In his aim of strangling the workers' movement, Toro sought and found the aid of those who today lead the PIR. Once this aim was achieved he did not hesitate to hound them as well. His regime was fundamentally anti-Communist and always considered extremist propaganda a crime. Neither of these governments touched the land question and both crushed the periodic risings of the masses. The characteristic feature of both these governments was their alliance with political groups of the petty bourgeoisie.

The politicians of the petty bourgeoisie (Gonzales, Baldvieso, Tamayo, Saracho, etc.) constituted the Socialist Party — which never attracted a popular following — in order to serve the military governments and to derive substantial gains and privileges. Today they are unconditional agents of Yankee imperialism. Others who received their political schooling in the SP later went over to the ranks of the MNR and the PIR.

The Villaroel Government (1943-1946)

This too was a military government allied to a section of the petty bourgeoisie, the MNR (National Revolutionary Movement). In keeping with the traditions of the country regarding *pronunciamentos* it established itself in power in the December 23, 1943 coup d'état and disappeared in a tragic way.

Villaroel-Paz Estenssoro, came to power at a time when the discontent of the masses was undermining the reactionary Penaranda government. Working class action, whose culminating point was reached on December 21, 1942 at Catavi, was not completely eliminated by the Catavi massacre but it was already on the decline. At the time the MNR had control neither of the proletariat nor of the peasants nor of the majority of the petty bourgeoisie. It was known only as a group of journalists, who, under the influence of the German embassy and paid by it, had conducted an extensive campaign against Yankee imperialism. It sought to control the workers' movement through the government.

The Catavi strike was of enormous importance in the sense that it marked one of the most important stages in the elimination of the PIR from the leadership of the proletariat. This party which had appeared as the undisputed leader of the exploited had succeeded though with great difficulty, in obtaining control of the unions up to the end of 1942. Supporters of the PIR had reorganized the unions and constituted the CSTV (Trade Union Federation of Bolivian Workers) affiliated to the CTAL controlled by the Stalinists.

Its policy of class collaboration, its ties with the feudal bourgeoisie during and after the Second World War, under pressure of the Stalinist nucleus in the PIR leadership, caused its isolation from the masses. The strike committee requested aid but the PIR (Left Revolutionary Party) had decided to curb any movement which might paralyze the mines or the railroads; this in its opinion was the best tactic of aiding North American "democracy." This desertion of the masses was facilitated by the fact that the PIR lacked the cadres that might have exercised control over it.

Evidence is available showing how the Patino mining firm imposed the policy of bloody repression on the government. The PIR collaborated in this repressive policy of bloody repression on the government. The PIR collaborated in this repressive policy but that did not prevent it from being hounded in turn. The strike did not succeed in transforming itself into a political movement and was impotent in its isolation. The only way to have avoided such an outcome was to have broadened the movement, i.e. to have impelled it forward instead of curbing it, but the workers were shamefully betrayed by their leadership.

The MNR took the offensive during the parliamentary interpolations concerning the strike and politically capitalized on the popular ferment. The PIR limited itself to applauding the MNR. The MNR's activity was openly stimulated by Minister Silveti Arze, one of those who had organized the massacre of the miners, but who was seeking to politically crush the PIR. It should also be said that this same Arze, during the period of the anti-fascist democratic front, had declared that he was wrong in supporting the MNR against the PIR.

Judging from the violent anti-Yankee campaign carried on by the MNR while it was in opposition it might have been thought that the Villaroel-Estenssoro govern-

ment intended to take measures against imperialism. But after examining the policy of preceding governments in this sphere, we can conclude that the object of the Villaroel-Estenssoro government in its struggle against imperialism was to bring pressure on the USA in order to wrest important gains for the national economy and to satisfy the urgent needs of the Bolivian state. Its anti-imperialist intentions were expressed in the mobilization of the working class through which, let us say in passing, it sought to defend itself against the threats of the feudal bourgeoisie. The balance sheet of three years of power demonstrated that the Villaroel government was less progressive than its predecessors Toro and Busch. It did not nationalize any branch of the economy, nor did it oblige the mine owners to sell 100% of their gold currency. The land remained in the hands of the proprietors. Experience demonstrated in this sphere that since the forms of servitude are tied to forms of property they cannot be altered merely by some random kind of legislation. The revision of the laws on social reform came the closest to satisfying some of the needs of the working class. One of the most important of these — the law on voluntary retirement — was adopted by the legislature and accepted by the president who claimed to be "more friendly to the poor than to the rich" and considered this law as being opposed to the interests of the industrialists. It is noteworthy to point out of the parliamentary policy of the MNR that it opposed a proposal for a progressive tax on big property. The MNR had promised to free the peasants but when the latter attempted to divide the *latifundias* they were crushed by the repressive forces of the government.

All important working class mobilization was carefully controlled by the government. The FSTMB (Miners' Federation), most important trade union organization of the country, had been organized by the government at the Huanuni Congress in 1944 in such a way as to put the political leadership of the federation in the hands of the Minister of Labor. The Union of Textile Workers and the Federation of Flour Mill Workers were also constituted under the auspices of the government; both organizations are practically non-existent today. Prior to 1943 there had been regional organizations of miners and textile workers in Oruro and also in Potosi. The PIR, losing its influence over the workers to the government, the CSTB lost all importance as a nationwide organization. Only the railroad workers federation, which had an organizational tradition and was composed of relatively political workers, succeeded in evading government control. Its most outstanding leader, Noel Carbagal, carried on activity on two fronts: in the PIR and in Freemasonry. In reality he was an instrument of reaction.

Under these conditions the Villaroel government gained a relative popularity among the population comparable to that enjoyed by the Belzu government which had also mobilized the artisans and the native population against the landowners. The masses believed that by organizing and fighting behind the Villaroel government they were fighting for their own liberation, for their own interests. They believed that it was "their own" government and

that it had taken upon itself the fulfillment of their aspirations by fighting against the bosses. But experience soon awakened a critical attitude in the masses regarding the limitations of the "progressive" governmental program. Their demands became more and more numerous and they were presented in ultimatum form.

The dynamism of the mobilization of the masses created the premises for an opposition to Villaroel's policy. A revolutionary regroupment of the exploited took shape around the slogan of nationalization without indemnity of the mines signifying defiance of the government which had shown its impotence in realizing its so-called program of national liberation. This process of radicalization began among the most politicalized minorities and subsequently extended to the broad masses. It would be schematic however to say that the proletariat at the time had definitively broken with the government. The consciousness of the masses — when the revolution has not yet begun — proceeds only in slow, complex forms and is never a direct process. In any case, it was becoming more and more obvious that the Bolivian proletariat was moving further and further away from the government's orientation and was beginning to take revolutionary paths. If these developments had not been interrupted by the events of July 1946 it is certain that the revolutionary pressure of the masses would have led to the overthrow of the Villaroel government. The government's answer to the new situation was to suppress the most advanced revolutionary elements. The repression reached even into the MNR, a number of whose members had inspired the peasant organization "Bolidia" and were deported to the east.

Why did the Villaroel-Paz Estenssoro government fail to realize anti-imperialist objectives comparable to those of other petty bourgeois military governments? This government was not lacking in good intentions; only it was organically incapable of realizing them. The pressure of Yankee imperialism on the new regime installed by the MNR movement was so strong that it forced a capitulation from the beginning. The USA recognized the new government only after it had accepted the most humiliating conditions. It was obliged to eliminate from the governmental group those men who had carried on an anti-Yankee and pro-Nazi campaign such as Carlos Montenegro, Auguste Cespedes, etc., while Mr. Avra Warren, an emissary of the State Department, was authorized to conduct an inquiry on the safeguarding of invested capital. The difficulties created by Wall Street's pressure made it impossible for the government to arouse the power it commanded in workers' support against imperialism. Maintenance of order, respect for property, safeguarding of capitalist profits — such were the pillars on which the government built its existence.

However in the constant endeavor to preserve the support of the masses as much as possible it found itself obliged to make many concessions in the improvement of living and working conditions as well as in the participation of the masses in the political life of the country by granting them certain trade union rights. Although the

social reforms adopted by the Villaroel government were not at all extraordinary, they did not fail to arouse clashes between itself and the employers which the government exploited to emphasize its so-called laborism. The anti-imperialism of the MNR was already history. Its organ *La Calle*, around which the party was organized, owed its popularity to the campaign it has carried on during the Second World War against American imperialism. The petty bourgeois intellectuals hoped that the victory of German imperialism would aid in expelling the Yankee masters from Latin America. But as the latter had won out, the "anti-imperialists" set about to eradicate their past and to win the sympathy of the Yankees who on their part had not forgotten these anti-imperialist antics.

The experience of the Villaroel government demonstrated that the petty bourgeoisie is not capable of fulfilling the bourgeois democratic tasks such as national liberation from imperialism, the destruction of big landed property and the realization of national unity. The preceding governments had revealed by their policy that even if they could make a beginning in the fulfillment of such a program they had to abandon it at a given moment because they could not carry it to a conclusion. It should be added that they suppressed the workers' movement each time it tried to go beyond their leadership; in this repression, they were allied to reaction because, in the final analysis, the working class mobilization was directed against the system of private property. The second lesson to be drawn from all this experience is that the masses, even when mobilized by governments or petty bourgeois parties are led by the dynamism of their own mobilization to go beyond these leaderships, to put forward their own demands and to liberate themselves from all oppression. But if a powerful revolutionary vanguard does not succeed in gaining the leadership of the mobilized masses they are always defeated by the class enemy.

The unceasing campaign by American imperialism against the Villaroel government crowned by its overthrow in July 1946, was not caused by the danger which the government in itself represented for the USA. To be sure they did not exclude the possibility of the MNR reviving its anti-imperialist attitude in the event of a change in the international situation, but the real reason for their attack against the Villaroel government lay elsewhere. Washington quickly perceived that the government demagoguery directed to the Bolivian proletariat was inherently an enormous potential danger for capitalist society. In effect, to the degree that the mobilization of the masses grew broader and deeper the chances of the government keeping it under control diminished, at the same time opening a perspective to the masses of realizing national liberation under a revolutionary leadership.

For the first time in the history of Bolivia the proletariat courageously attempted to go beyond the petty bourgeois leadership and to rally around an anti-capitalist program; for the first time also there was an impulsion to the left under the anti-imperialist slogan of nationalization of the mines. In their offensive against the Villaroel gov-

ernment, the Yankees were much more concerned with the danger of their being eventually expelled from the country by the Bolivian masses than they were with the social reform measures. They believed that by destroying the Villaroel regime, they would at the same time remove the danger of a proletarian revolution which already appeared on the horizon. Wall Street dreamed of executing Villaroel and the workers' movement on the slabs of the Plaza Murillo.

The essentially petty bourgeois Villaroel government assumed a Bonapartist character by placing itself equidistant from the proletariat and from imperialism. Its history is that of efforts to secure support in the masses in order to resist the pressure of the USA and, to a certain degree, of the utilization of police and military terror against the most advanced section of the proletariat, i.e. the revolutionary opposition. A transitional government, it was in the grip of contradictions arising from its maneuvers with the two camps.

The Third Congress of the Miners (1946)

The undercurrent of workers' opposition to the Villaroel government which had proved itself incapable of satisfying the aspirations of the masses and of fighting against their exploitation by the employers expressed itself publicly in a coherent manner at the Third Miners' Congress held in March 1946 at Catavi. The opposition was directed as much against the PIR, allied to the feudal bourgeoisie and to imperialism, as against the capitalist regime; it had nothing in common with oligarchical reaction.

As the days of the Villaroel government drew to an end the revolutionary upsurge of the masses began and it came to a climax, after many detours, with the holding of the Miners' Congress at Pulacayo (1946). The Fourth Congress of the POR had already noted a left turn of the masses. At Catavi, the miners surprised the pro-imperialist press by breaking from the tutelage of their official leaderships and by imposing their own aims which were very far from those of the MNR. "Official" trade unionism began to decompose. The following demands were adopted at Catavi: the unity of the working class as against the PIR program of "national unity" with the feudal bourgeoisie; workers' control of the mines, the sliding scale of wages and hours, formation of workers' militias, etc. It was at this time that the government unleashed its repressive forces against the revolutionary wing which was beginning to take shape in the ranks of the proletariat.

Patino, on his side, laid off the miners at Huanuni en masse. The trade unions answered by demanding compensation as of the date of the layoff in conformity with the law adopted by the government. In face of Patino's formal refusal, the government had to pay out some six million Bolivianos to the laid off workers.

On the other hand the Third Congress of the miners marked the complete split between the PIR and the proletariat. The pro-Stalinists trained the heavy artillery of their propaganda against the Congress. Servile toward the government, they dispatched their troops of agitators

to Catavi to disseminate their thesis that the mining masses were nothing but fascists.

The Stalinist-Influenced Petty Bourgeoisie (The PIR)

After the 1943 coup d'état, the PIR attempted to come to power through the back door while offering its services to the government under the pretext that the bourgeois democratic revolution had begun. Its services rejected, the Stalinist-influenced petty bourgeoisie then sought an alliance with the parties connected with the feudal bourgeoisie: the Liberal Party, The Unified Socialist Party, the Socialist Republican Party, all interested in overthrowing the Villaroel government to put an end to the mass movement which was becoming more and more threatening. In this way the PIR was utilized by reaction to divide and destroy the workers' movement. In 1944, J. A. Arze organized the Bolivian Democratic Union which in the following year became the Anti-Fascist Democratic Front supported by the CSTB, the University Federation controlled by the PIR, and the Democratic Union of Women. The Anti-Fascist Democratic Front was the hub of the conspiracy by the feudal bourgeoisie and the imperialists against the Villaroel government. Two movements were face to face in this stage: One represented by the revolutionary opposition led by the most advanced elements of the proletariat; and that represented by the right opposition led by imperialism in whose ranks the Stalinist-influenced petty bourgeoisie played the role of *franc-tireur*. The reactionary campaign was crowned with the slogan of "national unity."

The Villaroel-Paz Estenssoro government was caught between two fires: on the one side the conspiracy of the right wing, on the other the ever greater pressure of the masses who sought to go beyond their leadership. However it did nothing to regain the confidence of the exploited by means of a program which, through the nationalization of the mines and the railroads and the expropriation of the land, would move toward the destruction of the economic power of imperialism as well as of the native bourgeoisie. On the contrary its police measures were aimed at barring the road to the revolutionary opposition. What other proofs are needed to demonstrate the inability of the petty bourgeoisie to carry on an effective struggle against imperialism?

The Popular Rising of July 21, 1946

The middle classes and the proletariat of the cities carried the burden of the wasteful policies of the government and of the economic boycott by imperialism and the feudal bourgeoisie. The fall of Villaroel was preceded by a wave of strikes in La Paz for an increase of wages while in the mine basins the conflicts between the workers and the employers were multiplied. On July 8, 1946, the teachers, supported and followed by the university students, began a nationwide strike for an increase of appointments and the restoration of teachers' autonomy; railroad workers also went on strike for economic demands.

There were no organizational ties between these move-

ments in the cities and those taking place in the mines. The strikers had no nationwide organization which could have coordinated their action. Nevertheless all these strikes had the same roots of discontent. The poverty of the masses increased, they were deceived by a "popular" government — which was already on its way out — which did not give satisfaction to their needs.

The peoples' movement in the cities had a special character: From the beginning it had been encouraged, then controlled, by the feudal bourgeoisie and imperialism through the PIR. In this sense one can correctly say as has already been said: "The responsibility for the rising of July 21st rests with US financial groups." "La Rosca" * utilized the discontent of the masses, whose revolutionary upsurge more and more embraced the whole country, as a lever against the Villaroel government — against the government which could only satisfy the aspiration of the masses on condition of breaking in a definitive revolutionary way with all its ties to imperialism and feudalism.

The Center of the Conspiracy

The general headquarters of the conspiracy was at La Paz University (incapable of seeing further ahead, the MNR elements made the mistake of storming the university and shooting its professors. The directing brain of the conspiracy was director of the university H. Ormachea Zalles, well known reactionary, grand master of Freemasonry, acting in liaison with the North American embassy. Although Zalles' role was well known, his life was never in danger. In reality, Freemasonry, which represents the interests of the imperialists in Bolivia had its fifth column in the very ranks of the government and in the leadership in the MNR. Ormachea Zalles had hoped to bring his "brother" Masons also under control but seeing that Villaroel was taking the orders of the "Radepa" military lodge and was supported by its armed force, he decided to overthrow Villaroel, organized a series of coup d'états and finally utilized popular discontent for that purpose.

Before playing the dangerous card of popular uprising, imperialism and the right wing parties had recourse, unsuccessfully, however, to several military revolts whose preparations had been largely financed by the big mining companies. One of these revolts occurred at the end of 1944, another broke out towards the middle of 1945, and still another on June 13, 1946. It had proved impossible to overthrow the Villaroel government by such means.

Every mobilization of the masses carries with it the grave danger for reaction that the masses can shake off their official leadership and follow a revolutionary party to the seizure of power. Always concerned with this possibility, Villaroel's enemies from the beginning were careful to avoid taking such measures that would lead to a revolutionary awakening of the masses. The PIR rendered incomparable services in this counter-revolutionary task. The mobilization of the masses was organized within the

* Literally — the chain. In Bolivia, this is an expression designating the ruling class as a whole connected by common interests.

framework of the organizations controlled by the PIR (Federation of Teachers and Students, Railroad Workers Federation, FOS, CSTB, etc.) The sectors of the petty bourgeoisie which had adhered to the struggle thus found an organization prepared in advance and controlled by reaction. The Villaroel government overthrown, the masses threatened to continue on their own road and tried to prevent the entry of "rosca" elements into the new government but reaction had already succeeded in binding the masses through tripartite committees directed by the PIR. They were further disoriented when a "workers' " minister turned up in the new governmental combination.

A Popular Uprising

The uprising of July 21st was a popular movement but it was prepared and led by imperialism and the feudal bourgeoisie. If a powerful revolutionary party had existed it would have been able to defeat the maneuvers of the PIR and place itself at the head of the rebellious masses; the uprising would then have become an important phase of the proletarian revolution. The big mine interests were so sure of the PIR that they did not oppose the transformation of economic strikes into political strikes such as occurred with the general strike which broke out in La Paz a few days before the rising.

Guided by their class instinct, the miners who had been moving toward a break with the MNR, did not follow the process taking place in La Paz where a complete split had developed between the proletariat and the government. The miners feared that the "rosca" would return to power in the event that the government was overthrown. Forgetting their experience they became more Villaroelist than ever, for Villaroel in their eyes represented "their" revolution. If the mining masses had been able to completely emancipate themselves from the influence of the government they would have thus placed themselves at the head of the exploited who were fighting in La Paz and the history of Bolivia would have taken a different course after July 21st.

Villaroel had mobilized the masses among whom he enjoyed great influence in order to defend himself against the attacks of reaction. But to do that effectively he would have had to act differently, namely to satisfy the economic demands of the masses, then to prove by acts that he had decided to destroy the capitalist regime. The "rosca" would not have succeeded in overthrowing him had he begun a new stage by nationalizing the mines and the railroads. But Villaroel did nothing in this direction however necessary it was for his self-defense; he was convinced that the masses would continue to move towards a frontal attack against the system of private property. Fundamentally Villaroel was in greater fear of being overwhelmed by the revolutionary tide of the masses than of being overthrown by the "rosca." The last days of his government were characterized by the breakup of the leading top group, by the struggle between the military clan and the MNR clan which had been tied to the MNR by ministerial posts.

(To be continued)

Newsletter: The Ceylon Elections

The following letter from a friend in Ceylon gives some of the highlights of the May 26-30 general elections on the island. It fills in some of the details which explain how the ruling capitalist party, the United National Party, won an overwhelming victory and the reasons for the loss of some 5 seats in the new parliament by the Lanka Samasamaja Party, Ceylonese section of the Fourth International:

* * *

COLOMBO, June 16 — This year we (the Lanka Samasamaja Party) had to face the full strength of the organized bourgeoisie, using every weapon in their possession and control against us — the press, the priests, the police and almost everywhere the state apparatus.

No analysis of the voting figures would be valid without the assumption that the votes were honestly counted. But that is precisely what is being questioned by wide sections of the population. Charges have been made that there was widespread ballot paper rackets and they have been openly made in the newspaper *Trine*. I personally am of the opinion that important substitutions did take place. . .

The bourgeoisie was far more organized in 1952 than in 1947.

Although in each electoral district, the total number of voters increased, in most cases the Left vote was deliberately not registered. The Indian vote (numbering thousands in the plantation areas) was excluded by government disfranchisement. Few if any of these votes would have gone to government candidates.

The daily press kept up a tremendous barrage against us. . . The Left was supposed to be out to destroy democracy and religion — and the English-speaking middle classes were stampeded to the polls. Most of them were class conscious enough to have a bourgeois reaction to our program. As one of our comrades put it: "They rallied to save the 250 acres they do not have and the 2000 rupees they hope to get."

The Catholic priests went all out against us: sermonizing, canvassing, even driving cars on election day to bring voters to the polls. It was proclaimed a mortal sin to refrain from voting. And they got a response, especially from many women and the middle classes. In predominantly Catholic areas the voting booths were in Church compounds. Some Catholic workers openly flouted all instructions and even hung up red flags in front of the churches. Some of the top-ranking Buddhist monks made pronouncements against us but that was partially counteracted because poorer Buddhist monks worked openly on our side. . .

In each electoral district we received the Left vote whereas the UNP was able to scoop the "dead" i.e., the non-political vote. In most areas our vote remained steady in comparison with 1947. In view of the above, the actual vote we obtained is a tremendous achievement. The main division is as follows:

Party	Seats	Vote	Percentage of total vote
UNP	54	1,026,005	43.96
LSSP	9	305,133	13.07
CP	4	134,528	5.76
SLFP *	9	361,250	15.47

Thus the UNP has a large majority in the parliament, 70 seats together with allied groups out of a total of 101. But this is no indication of their actual strength in the country. Our slogan of a Samasamaja Government (i.e. a Workers and Peasants Government) has polarized the country: the class conscious workers together with large sections of the peasantry on the one side, the bourgeoisie, the middle classes and the lumpenproletariat on the other. Our propaganda went over so well that the press is devoting columns to attacks on Colvin de Silva, outstanding LSSP leader, knowing full well that his very defeat in the election has raised his standing in the minds of the masses.

We all consider our job in the election a job well done. There has been no demoralization — on the contrary it is difficult to restrain our militants from immediate action. . . . The country has been polarized and parliament will not be the arena for the next wave of mass struggles.

* The Si Lanka Freedom Party, a bourgeois party headed by former Health Minister Bandaranaike, which split away from the ruling UNP a few months before the elections.

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