

INTERNATIONAL

Vol. 11, No. 45

PRESS

25th August 1931

CORRESPONDENCE

Editorial Offices and Central Despatching Department: Berlin SW 68, Lindenstraße 71-72. Postal Address, to which all remittances should be sent by registered post: International Press Correspondence, Berlin SW 68, Lindenstraße 71-72. Telegraphic Address: Inprekorr, Berlin. Telephone: Dönhoff 2856 and 2867.

Economics and Economic Policy in the Second Quarter of 1931.

(Concluded down to July 24, 1931.)

By E. VARGA.

I. The Threatening Catastrophe.

Events are developing with amazing rapidity! The crisis of capitalism is assuming dramatic forms. What is in the focus of attention one day has been superseded the next and loses all significance. Giant concerns totter and fall. The economic circulation of entire countries stands still, petrified. The internal laws underlying the capitalist system of production — never properly understood by the bourgeoisie — make themselves forcibly felt (as Marx predicted) and bring the whole edifice crashing on the heads of its inhabitants.

Will the bourgeoisie of the main imperialist countries, divided by manifold antagonism, succeed in its effort to prevent the threatening breakdown of the weakest sections of the imperialist front by concerted measures of relief? And if so, then for how long?

This is the problem submitted by history at the present juncture. But it is not submitted merely as a problem for analysis. The proletariat is the decisive factor in the course of history. It is on how the proletariat, led by its vanguard, the world Communist Party, decides to act in this most critical phase of European capitalism since the end of the war, that the success or failure of the relief measures depends.

A New Stage in the Economic Crisis.

In the classical aspect of crisis, as known to us from the teachings of Marx, one important feature was so far lacking in this particular crisis, and that was the credit crisis with its disastrous results, a run on the savings-banks, the collapse of credit institutions, a panic, and a moratorium. Generally, the credit crisis makes itself felt at the very beginning of an economic crisis. The highly-developed monopolist character of present-day capitalism and the fact that the crisis first became openly apparent in the United States, the strongest sector of the capitalist front, tended to delay the credit crisis for a long time. But delayed does not mean obviated. Slowly but logically, the presumptions for a credit crisis have been ripening in the course of the economic crisis itself.

In this connection, the character of the credit crisis as a crisis of confidence is drastically evident. Naturally not in the psychological sense of the word. The bourgeois talk of a lack

I. The Threatening Catastrophe.

A New Stage in the Economic Crisis.
The Versailles System and the Reparation Problem.
Germany in the Midst of Imperialist Antagonisms.
Beginning of the Acute Credit Crisis in Germany.
The First Abortive Attempt at Relief on the Part of the United States and Great Britain.
France's Sabotage of Hoover's Suggestion.
The Second Attempt at Relief.
The Failure of the London Conference.

II. General Section.

The Renewed Relapse following the Spring Revival.
State Budget Deficits.
The Credit Crisis.
The Collapse of the Austrian Credit-Anstalt.
Bourgeois Economists in Favour of a Deterioration in the Position of the Working Class.
The Agrarian Crisis in the New Harvest Year.
The Crisis and the Five-Year Plan.

III. Special Section.

Germany.
France.
Italy.
Great Britain.
United States.

of confidence as a psychological phenomenon is empty twaddle. The fact that in America, France, and Great Britain there has been an unparalleled abundance of loan capital (so that in June the United States Government placed a Treasury-bond loan at a rate of $\frac{5}{8}$ per cent.), while at the same time the emission of securities shrank to a minimum, was a special and economically well-founded feature of the latent credit crisis which has now come to the fore in its most violent form in Central Europe.

This latent form of the credit crisis, which is so highly characteristic of the present economic crisis, the plethora of short-termed loan capital in the face of a simultaneous lack of long-termed loan capital for purposes of investment, arose from the following circumstances:

The acuteness of the economic crisis greatly lessened the utilisation of productive capital. This is one of the main reasons of the outbreak of an acute credit crisis in Central Europe.

A second basic fact is the agrarian crisis, which greatly enhanced the credit requirements of agriculture, while for the same reason its creditary abilities grew smaller and smaller.

A third reason lay in the crisis of state finances (big budget deficits in most countries), the depreciation of currency in several countries, and the open or latent bankruptcy of a great number of municipalities.

Thus the credit crisis was not devoid of well-founded economic bases, added to which there were factors of a social and political nature.

Social factors: The political upheavals in a number of countries (Spain, South America), the growth of revolutionary movements in the colonies, especially the stabilisation and spread of Soviet power in China, and the maturing of revolutionary crises in Germany and Poland in particular.

Factors of political power: The struggle for markets has grown more and more acute throughout the crisis, hence also the struggle for political spheres of influence. A coalescence of finance capital with the state has become extremely apparent, capital exportation being placed altogether at the service of foreign policy, while the latter again has been determined wholly by the interests of finance capital.

It was factors of political power, especially the financial campaign of French capital to prevent the realisation of the Austro-German customs-union plan (which aimed at breaking the bonds of the Versailles system), that turned the credit crisis, so long latent, into a reality. Therefore, if we are to understand the events of the last few weeks, we must in the first place investigate the effect of the Versailles system on the situation of Germany and on the development of imperialist antagonisms.

The Versailles System and the Reparations Problem.

German finance capital, when prior to the war it reached its full height, found the world already divided among its chief competitors. Its attempt to found an empire for itself in Eastern Europe and Western Asia (Berlin—Baghdad), by pushing its way between the British Empire in Southern Asia and the Russian in Northern Asia, led to an alliance between these otherwise hostile predatory Empires against the interloper. In the world war, Germany was defeated. The road to the East was barred by the destruction of the Austro-Hungarian Monarchy and the establishment of a belt of states faithful to the interests of France in Eastern Europe. The German colonies were taken away and the country itself disarmed and shorn of part of its territory; East Prussia was separated from the rest of Germany, Rhenish Prussia subjected to a military occupation; a tremendous war-indemnity was imposed upon the vanquished state.

Such was the position imposed by the victors upon Germany. It was, and is, full of pronounced contradictions, in the first place economically. Germany was to pay a yearly indemnity to the amount of several thousand million marks — according to the Dawes Plan “only” 2,500 millions — to the Allies. Since Germany acquires no gold, this payment can only be made in the form of an exportation of goods. The goods exported must for the most part be finished industrial products, seeing that the thickly populated country is dependent on imported foodstuffs and raw materials and has only a few raw materials, such as coal and potash, available for exportation.

The exportation of finished industrial products, however, is subject, at the time of a general crisis of capitalism, to the most acute competition in private economy. By greatly increasing its exploitation of the workers, the German bourgeoisie succeeded in considerably increasing its exports. The Reparation burden was thus to a very great extent shifted on to the shoulders of the proletariat. The consequent pronounced aggravation of the class struggle forced the German bourgeoisie to pursue a policy of high protective duties on agricultural products, so as to maintain and strengthen its class-alliance with the landowner and big peasant-farmer class. A relatively large portion of the product value was left to these classes in the

form of ground-rent. This meant an increase in the cost of living and a renewed deterioration of competitive conditions on the world market, only to be overcome by a yet further decrease of real wages.

The chief contradiction in the Reparation question is therefore as follows:

The indemnity imposed on Germany by the victors can only be paid in the form of goods, to be sold on the world market in competition with the other highly-developed imperialist countries. But the terms of the Versailles peace treaty place the greatest obstacles in the way of Germany's exportation of goods.

Seen from the standpoint of the victorious Powers, the contradiction lies in the fact that while they desire to exact from Germany as great as possible a sum in money, the only way in which this can be done consists in an increased sale of German goods on the world market, which, in view of the chronic limitations of the world market at a time of the general crisis of capitalism, means a serious burden for the Reparation payees in their character as competitors of Germany.

Hence the dilemma: either Reparations and a greatly enhanced sale of German industrial goods on the world market, or else prevention of this increased sale and a practical renunciation of Reparations¹⁾.

So far, the economic solution of this problem was along the latter line of procedure. The Reparation sums were raised in Germany and the burden thereof imposed upon the working people. Formally, too, the sums raised were transferred to the creditors and paid in foreign currency. But it was only a bogus transfer, for sums to the same amount were imported as capital. Indebtedness to foreign countries grew parallel with the Reparation payments, as may be seen by the following figures for the individual years since stabilisation of the currency (for the inflation period it is impossible to compute any even approximately reliable returns):

	Deficit on Balance of Trade ²⁾	Reparations Payments Made ³⁾	Reparations plus Interest ²⁾	Deficit on Bal. of Payments minus Cap. Import. ²⁾
(Millions of Marks)				
1925	— 2,444	1,000	1,063	3 611
1926	— 793	1,200	1,464	709
1927	— 2,960	1,600	1,929	4,410
1928	— 1,285	2,000	2,562	4,233
1929	— 47	2,500	3,374	2,445
1930	— 1,642	1,700	2,843	735
	— 4,292	10,000	13,235	16,143

These figures, the accuracy of which is admittedly not great, show that in the course of the last six years Germany has paid no Reparations out of its own product value. The commercial balance shows a deficit: hence the sum total of the capital importation, the sum total of the new indebtedness to foreign countries, is greater than that of the Reparations payments. The sum Germany is called upon to pay annually to foreign countries, moreover, grows from year to year in view of the addition of interest on the new debts contracted. The transfer problem of Reparations is not solved but merely postponed from year to year by the incurrence of new debts.

In consequence of the payment of Reparations by means of capital importation, therefore, the indebtedness to foreign countries has risen from year to year. It is even greater than the total deficit on the balance of payments, seeing that German capitalists are forced to carry on capital exportation in their turn to a certain extent in support of goods exportation.

¹⁾ The deliveries in kind were an attempt to avoid this dilemma. They were more or less practical as long as it was a question of deliveries for reconstruction purposes, i. e. of special requirements arising once only. It will be remembered that the Young Plan makes provision, at the demand of Great Britain in particular, for a speedy diminution of deliveries in kind.

²⁾ “Wirtschaft und Statistik”, 2nd June issue, 1931.

³⁾ v. Wagemann: “Struktur und Rhythmus der Weltwirtschaft”, Berlin 1931, p. 391.

At the close of 1930, Germany's foreign debts were estimated as follows⁴):

	Millions of Marks
Long-termed, w fixed r. o. int.	9,000
Long-termed, without f. r. o. int.	6,000
Short-termed	11,000 - 12,000
	<u>26,000 - 27,000</u>

Over against these sums, Germany has invested abroad:

	Millions of Marks
Long-termed	4,000 - 5,000
Short-termed	5,000 - 6,000
	<u>9,000 - 11,000</u>

Germany's net foreign indebtedness thus figures at 16,000 or 17,000 million marks.

This great foreign indebtedness, and in particular the short-termed debt — the German banks alone having taken up roughly 8,000 million marks' worth of foreign capital — formed the particularly weak point in German capitalism as soon as confidence was shaken.

In Germany, as in all other countries, the general reason of the crisis of confidence lies in the economic crisis.

The economic crisis has affected Germany very severely, the decline of industrial output from its peak figuring in Germany at 32 per cent., the most pronounced decline in any country in the world. This alone was reason enough for the foreign capitalists to restrict their advances to Germany as greatly as possible. And what was more, in Germany, one of the weakest links in the capitalist front, the preconditions for a revolutionary crisis were pronouncedly apparent. The crisis has led to an extent of unemployment hitherto quite unknown, likely to amount on an average for the year 1931 to something between 4 and 5 million fully unemployed. Wage reductions and the cutting down of social insurance, the retrenchments in unemployment insurance, the reduction in the salaries of officials, the new taxes, in short all measures undertaken by the bourgeoisie and their government for the purpose of shifting the burden of the crisis on to the working masses, have led to general discontent among the broad masses of the German population. The fear of revolution, meanwhile, has proved a fresh motive for the withdrawal of foreign credits, as also for the flight of capital which set in after the September elections. Added to this there was the crisis in State finances. Heavy as were the burdens they inflicted on the people, the Emergency Decrees of the German Government did not suffice to ensure the balancing of the German budget. Not even the latest Emergency Decree, coming into operation on July 1st, 1931, could effect a stabilisation. This was a renewed motive for distrust on the part of foreign countries.

In such circumstances, a crisis of the German currency was inevitable as an outcome of the financial crisis of the State and of the unsatisfactory balance of payments. The acute outbreak of this currency crisis was accelerated by the financial measures of coercion employed by French finance capital against Germany and Austria. To appreciate this fact, we must briefly survey the most important imperialist antagonisms in their effect on Germany.

Germany in the Midst of Imperialist Antagonisms.

France is not only the strongest military Power but also the strongest financial Power in Europe. It has accumulated a tremendous hoard of gold⁵), which naturally acquires significance

⁴) Wagemann, p. 135. The computations of the League of Nations afford much the same result.

⁵) The gold holdings of the most important central banks in Europe (in millions of sterling) figured as follows at the end of June, 1931.

France	465	Holland	50
Great Britain	165	Spain	100
Germany	70	Switzerland	30
Italy	55		

in a phase of widespread credit crisis. In this direction, France has the advantage of Great Britain.

Under the pressure of the United States, the Dawes Plan resettled the Reparations question. But the military preponderance of France, together with its Eastern vassals, suffices to keep Germany in bonds.

In the numerous conflicts between France and Germany, Great Britain, roughly speaking, has pursued the following tactics: Diplomatically and by means of vague promises, it has supported Germany in the struggle against France (as was particularly the case at the time of the Ruhr occupation) in keeping with its traditional policy of preventing, if possible, that any Power should have the hegemony over the European Continent. When matters came to a head, however, Great Britain invariably ranged itself on the side of France, except in those instances in which it could co-operate with the United States. This policy is easy to understand. The fundamental imperialist difference was and is that between Great Britain and the United States. In other words, Great Britain is obliged, as long as its differences with the United States have not been settled, absolutely to maintain "friendly" relations with France. Great Britain could only collaborate with the United States for the protection of Germany against France when the security of the American capital invested in Germany and of the capitalist system in general appeared to be menaced by a proletarian revolution in Germany.

On the other hand, the difference between the United States and Great Britain compels the former, too, to treat France with the utmost circumspection as being a possible decisive ally in a future conflict with Great Britain. Roughly speaking, the two Anglo-Saxon Powers have always left France a free hand in its dealings with Germany in so far and as long as the safety of the capitalist system in Germany did not appear to be threatened by the French policy.

The relations between France and Germany were particularly complicated by the fact that, as the strongest military Power, France took upon itself the organisation of intervention against the Soviet Union. This caused a fresh contradiction. The East-European vassals of France, the guardians of the Versailles system against Germany in the East, were also to play the chief rôle in the attack on the Soviet Union. But how could they go quietly to war, if behind them they had an embittered Germany, which, though actually disarmed, potentially represents—by reason of its tremendous development of industry—a formidable military Power, possessing in the Reichswehr the cadre for a future army of many millions? (By the construction of the armoured cruiser "A", Germany showed what instruments of destruction a highly-developed industrial country can produce by the application of the latest achievements of technical science, even within the narrow limits of the Versailles treaty.)

Hence a temporary vacillation in the policy of French finance capital or at any rate a part of it, in relation to Germany; repeated attempts at an economic or political rapprochement, for which the negotiations of individual branches of industry (European steel-cartel, Franco-German chemical and potash agreements, etc.) were to play a preparatory rôle. At the same time, the most recent occurrences clearly show how deep the cleft really is between the German and the French bourgeoisie and how difficult it is, if the Versailles system is to be fully maintained, to range these two bourgeoisies side by side for a war against the Soviet Union. We shall return to this matter later on.

There can be no doubt that at present the French bourgeoisie is employing all its energy and perseverance towards a renewed political subjugation of Germany, which is to be forced to provide "political guarantees" that it will refrain, in the future too, from all attempts to loosen the fetters of the Versailles system. To gain this end, French finance capital has encouraged the outbreak of a credit crisis in Central Europe and driven Germany into a financial and economic catastrophe, despite the fact that it is thereby exposing the bourgeoisie in Central Europe to the most serious dangers. The American and British bourgeoisie have hastened to the help of Germany, but thanks to its financial preponderance, the strenuous resistance of the French bourgeoisie sufficed to undermine and frustrate the first relief measures undertaken.

Beginning of the Acute Credit Crisis in Germany.

We shall briefly recapitulate the events which led to the open outbreak of a credit crisis in Germany. On March 22nd, 1931, the German and Austrian Governments had surprised the world with the announcement that they had agreed in principle to unite their territories in a common customs area. In spite of a formal adherence to the dictates of the peace treaties, this would have been tantamount to the "Anschluss" of Austria and would thus have been an infringement of the limits imposed by the Treaty of Versailles. Obviously, French finance capital was bound to do its utmost to prevent the realisation of the Austro-German customs-union. Under the auspices of the Government, the French bourgeoisie initiated financial measures directed in the first place against Austria, where a withdrawal of foreign credits caused the downfall of the Austrian Credit-Anstalt and endangered the Austrian currency. At this very critical moment, the British bourgeoisie came to the rescue, the Bank of England advancing the Austrian National Bank a credit of 150 million Austrian shillings just at the moment when the negotiations for an international loan threatened to come to a standstill by reason of the French sabotage. The difference between France and Great Britain did not mean that the latter was positively in favour of the "Anschluss". That this was not the case, was shown clearly enough by the deliberations at Geneva. But the prevention of the "Anschluss" obviously appeared of too little importance to the British bourgeoisie to allow it to entail the risk of an extension of the credit crisis to the whole of Central Europe, the more so as the Austrian Credit-Anstalt belongs immediately to the group of interests controlled by the Bank of England and as a relatively small sum of 4 million pounds sterling sufficed to localise the financial conflagration.

In the meantime, however, the acute credit crisis had already spread to Germany. The withdrawal of the short-termed French capital from Germany led to an accelerated retraction of short-termed capital of other than French origin, a process which, albeit slowly, had been in progress ever since the September elections. The flight of German capital abroad which set in after the September elections, assumed wholesale proportions. In the course of the month of June, the German banks had day by day to disburse several tens of millions of marks in gold and foreign bills so as more or less to maintain the parity of the mark⁶⁾.

The Reichsbank's stock of gold and foreign bills dropped from 2576 million marks on May 30th to 1514 millions on June 23rd. By reason of this great outflux of gold, the gold cover of the notes in circulation was brought down close to the legally prescribed limit of 40 per cent. The raising of the bank rate at one stroke from five to seven per cent. proved fully abortive under such circumstances. Therefore the German Reichsbank was obliged to effect a credit restriction on June 20th, by suspending the so-called "private discount", i. e. the immediate discounting of bills presented by the big banks, which were thus obliged to apply specially for the settlement of every bill. At the same time, a circular was distributed among the banks by the Reichsbank, announcing that they would be allowed credit only up to a certain sum and calling upon them, in case they should already have overstepped the said limit, to make up the deficiency within 24 hours.

The First Abortive Attempt at Relief on the Part of the United States and Great Britain.

Measures of relief in favour of the German bourgeoisie had become imperative. But the financial resources of the British bourgeoisie were not sufficient to allow of their independent and unaided intervention as in the case of Austria. Therefore the Bank of England had to refuse Reichsbank-President Luther's application (of June 18th) for the rediscount of bills in favour of the Reichsbank to the amount of 12 million pounds sterling. In view of the greatness of the sum needed for relief measures in Germany, the collaboration of the United States was unavoidably necessary. This appears to have been the main conclusion

⁶⁾ Throughout nearly the whole of June, the mark was so far below par in relation to the dollar and sterling, as to render the private exportation of gold a profitable transaction.

arrived at by Brüning und MacDonald in their deliberations at Chequers. Immediately after this meeting, the British began to approach the Government and financial circles of America.

The immediate consequence of the alarm sounded by Great Britain was the visit to Europe on the part of Mellon, American Secretary of the Treasury, and Stimson, American Secretary of State. This was followed, on June 20th, by the action of President Hoover, aiming at a twelvemonth's postponement of inter-Allied debts and Reparation payments.

The urgent representations of Great Britain and the appeals of the German bourgeoisie would not so speedily have attained the desired result, had it not been for internal reasons in the United States. One of the main motives for Hoover's action was the serious economic crisis in America itself, especially the severe relapse which had ensued after the short-lived seasonal revival in March.

Added to this, there were the alarming reports despatched from London by Mellon, the immediate representative of American finance capital in the United States Government⁷⁾.

Thus it was that on June 20th there was issued Hoover's famous document, the most important items of which are as follows:

(1) The American Government proposes the postponement during one year of all payments on inter-Governmental debts, reparations, and relief debts, both principal and interest, of course not including the obligations of Governments held by private parties.

(2) Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign Governments to the American Government payable during the fiscal year beginning July next, conditional on a like postponement for one year of all payments on inter-Governmental debts owing to the important creditor-Powers.

(3) The purpose of this action is to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.

(4) The world-wide depression has affected the countries of Europe more severely than America. Some of these countries are feeling to a serious extent the drain of this depression on the national economy. The fabric of inter-Governmental debts, supportable in normal times, weighs heavily in the midst of this depression.

"These and other difficulties abroad diminish buying power for our exports, and in a measure are a cause of our continued unemployment and continued lower prices to our farmers."

(5) There cannot be even the remotest question of an annulment of the inter-Allied debts. The proposed action entails no interdependence between Reparation Payments and inter-Allied debts. The United States are not concerned with the strictly European problem of Reparations payments.

France's Sabotage of Hoover's Suggestion.

The suggestion of Hoover was received with general enthusiasm in Germany, Great Britain, and the United States. Mussolini also immediately expressed his agreement with it, albeit with certain small reservations.

In the United States, Hoover had prepared the way for a favourable result of his suggestion by ensuring in advance the acquiescence of the leading Senators and Congressmen of both parties, as also of both Dawes and Young, whose names are connected with previous attempts to settle the Reparation question. The stock and commodity exchanges of all the world, including those of France, responded to Hoover's suggestion with a marked rally.

This enthusiastic reception of the proposal made it impossible for the French Government simply to turn it down, gladly as it would have done so. For the moment, France was isolated.

In such circumstances it would have been unwise immediately to decline Hoover's suggestion, all the more so as the credit crisis in Germany had not yet reached such dimensions

⁷⁾ Mellon is the fifth-richest man in the United States. He and his family are the proprietors of the Aluminium Trust, which, thanks to the high duties on aluminium and articles thereof, is one of the most lucrative enterprises.

that relief measures might not have succeeded without the aid of France. Instead of openly declining, therefore, France had recourse to a policy of diplomatic sabotage by extending the discussion of details indefinitely.

Hoover's suggestion was at variance with the French policy in several points.

It was incompatible with the prestige of France's position as a world Power to suppose that the French Government would bow to a decision arrived at without its knowledge.

Hoover's proposal suspended for a year the Young Plan, which only recently Briand had designated as the "final and unalterable solution of the Reparation question", besides which it called for a suspension of the assumedly inviolable actual Reparations, the unprotected portion of the annuities.

Most important of all, moreover, was the fact that a smooth and speedy execution of Hoover's plan appeared to frustrate the French intention to profit by the straits of Germany for the purpose of exacting "political guarantees". Therefore France's policy lay in the direction of preventing the acceptance and realisation of the American President's suggestion.

These French tactics were all more feasible, seeing that, apart the United States themselves it was France on which, Hoover's plan imposed the greatest material sacrifice, since the difference between Germany's Reparation payments and France's inter-Allied debt payments to America naturally benefits France⁸.

There ensued a lengthy discussion of details of the plan which were of materially little importance; this lasted for no less than 17 days. It would be of little sense for us to review the individual moves in the diplomatic chessgame. France attained the political object it had in view. The long duration of the discussions robbed the Hoover Plan of its "psychological" effect. France meanwhile continued its financial campaign against Germany. After an interval of a day or two the outflux of gold from the Reichsbank was resumed with renewed force. The report, more and more widely spread, of the difficulties of the Danat-Bank contributed to this process. When at length the negotiations in regard to Hoover's plan were concluded, it was already apparent that—in spite of the 100-million-dollar credit accorded in the meantime by the B. I. S. and the American, British, and French (!) notebanks—the situation in Germany could no longer be put right by the simple realisation of any such plan of relief.

Under such circumstances, relatively less importance attaches to the modifications of Hoover's suggestion which had meanwhile been made. The most important points in this connections were as follows:

(1) The unprotected payments are to be continued, Germany rendering these sums to the B. I. S., which will recredit the German State Railways to a like amount by discounting the latter's obligations for the sums in question.

(2) Payment of the suspended amount is to be made, not in one year's time, as suggested by France, nor yet in 25 yearly instalments, as proposed by Mellon, but after a lapse of two years in ten equal yearly instalments.

(3) The sums saved by Germany by the suspension of its obligations may be employed for economic purposes only.

(4) The question of deliveries in kind and the financing thereof was to be decided by a conference (to meet in London on July 17th) of the representatives of the States participating in the Reparation payments, i. e. with inclusion of Germany but with exclusion of America.

The actual outcome is that France will really have to make a considerable financial sacrifice. But some such sacrifice France would in any case have been obliged to make, albeit rather later, since without the suggestion of Hoover Germany would very shortly have had recourse to the moratorium clause of the Young Plan for the protected part of the Reparations, while at

⁸) The balance-sheet of Hoover's suggestion may be seen in the following table:

Millions of Sterling:	To Pay	To Receive
Germany	75	—
Great-Britain	15.45	18.1
Italy	7.4	9.55
Belgium	1.6	5.15
France	21	42
United States	—	50

the same time raising a question as to the further payment of the unprotected portion.

On the other hand, France has, for the time being at any rate, attained its political object. It has shown the world that it will not accept the dictates of the Anglo-Saxon Powers. It has forced Germany and the other States participating in the Reparations payments to negotiate with France. It has attained the further payment of the unprotected portion of the debt. And, most important of all, the credit crisis in Germany has meanwhile rapidly aggravated into a catastrophe. As a capitalist State, Germany must for several years cease to figure as a foreign political factor of any importance.

The Second Attempt at Relief.

On July 7th, the Franco-American agreement materialised. On the 9th, Luther, the President of the Reichsbank, went to London to apply for a credit of 500 million marks on the basis of a collective guarantee of the thousand biggest German enterprises. During his absence there ensued the collapse of the "Nordwolle" concern, a giant enterprise, employing 27,000 workers and one quarter of the total number of wool-spindles in Germany. The losses amounted to 240 million marks, British banks being seriously involved. In the meantime, the situation on the London capital market had greatly deteriorated, since France continued its financial campaign by withdrawing short-termed loan-capital from England too. Luther proceeded to Paris. The response to his request was a reference to "political guarantees", which he had no authorisation to give. He proceeded to Basle, where he was again asked for "political guarantees".

Luther's failure was followed by the bankruptcy of the Danatbank, the closing-down of all the banks from July 12th to 20th, the suspension of the issue of foreign currency by the Reichsbank, the raising of the bankrate to 10 per cent. (15 per cent. for the hypothecation of goods), stoppages of payment on the part of the municipal corporations, wholesale dismissal of workers, almost complete standstill of import trade, etc. France has driven Germany into a chronic state of catastrophe. The "miraculous salvation" of the Reparation postponement has now become wholly insufficient. If it is to get the better of the credit crisis without recourse to inflation, Germany will need a foreign credit of at least 2,000 million marks.

But it was no longer a question of an economic catastrophe within the limits of capitalism, but already of a possible downfall of bourgeois rule and the capitalist system in Germany and thus throughout Central Europe. By reason of the chronic catastrophe, the maturing revolutionary crisis threatened to become acute.

Such is the situation in which the Anglo-Saxon Powers are attempting fresh measures of relief, in which connection they are confronted again and again with the French demand for "political guarantees".

What then are these famous "political guarantees" which are being demanded day after day by the entire French press as a precondition for the participation of France in an action of relief?

Officially, they have not yet been specified, but they may be gathered from a perusal of the French newspapers.

- (1) Abandonment of the customs-union with Austria.
- (2) Renunciation of special commercial agreements with the Balkan States.
- (3) Cessation of all further construction of armoured cruisers.
- (4) Recognition of the present Eastern frontier ("East Locarno").
- (5) Control of German State finances.
- (6) No State guarantees of credit for deliveries to the Soviet Union.

Brüning and Curtius, who, instead of receiving MacDonald and Henderson in Berlin, were ordered to appear in Paris, have so far not given the political guarantees demanded by France.

At the commencement of the London Conference, the following standpoints may, roughly speaking, be said to have confronted one another:

The French standpoint: Political guarantees as a precondition for the participation of France in according Germany a large foreign credit.

The British-American standpoint: Accordance of a loan to Germany under conditions rendering possible the maintenance of the capitalist system in general and the Brüning Government in particular in Germany.

The momentary financial strength of France, however, put its stamp upon the entire proceedings⁹⁾.

The Failure of the London Conference.

"There can be little question that the gathering, hurriedly as it has been brought together, will be the most important of its kind that has been assembled since the war."

This is what the "Times", the leading journal of the British bourgeoisie, said on June 20th in regard to the significance of the London Conference. Three days later, this most important conference since the end of the war, a conference convoked with a view to stemming the catastrophe in Germany and preventing the spread of the credit crisis to other lands, had been dissolved without arriving at any result. In spite of all manner of pretty speeches, the imperialist antagonisms have proved so great that a common action of relief for Germany could not be initiated. In place of the indispensable extensive foreign loan, the German bourgeoisie obtained nothing but good advice and a committee of bankers.

The failure of the London Conference became a certainty as soon as the French Government stipulated that political questions the settlement of which it had made a precondition for the French participation in a long-termed loan to Germany, must not be discussed at the Conference. This, indeed, was the condition on which France took part in the London Conference at all.

So as to give added weight to its political demands, French finance capital continued its campaign against the London capital market with striking success. The withdrawal of short-termed French capital from London caused the sterling rate to fall below gold-point, although the Bank of England was day by day parting with a few millions of sterling in gold. Thus, the London Conference was under the threatening impression of a possible outbreak of a credit crisis in Great Britain itself¹⁰⁾.

The complete failure of the London Conference was scantily cloaked by the acceptance of a motion by Stimson.

It was resolved:

(1) That Germany be accorded no further credits.

(2) That in the countries which have invested short-term credits in Germany¹¹⁾, "Standstill" Committees be established with the object of preventing any further removal of credits.

(3) That a commission of bankers, delegated by the B. I. S., inquire into Germany's credit needs and work out plans for the transformation of the short-term into long-term loans.

A commission of bankers in the place of tangible help. The prevention of a further withdrawal of credits is devoid of practical significance, since in any case the 6,000 millions could not be paid out of the gold holdings still left to Germany to the amount of 1,400 million gold marks.

⁹⁾ The strength of the financial position of France appears from a Washington contribution to the "Times" of July 15th:

"If a political motive for so doing existed, France could not only go a long way towards wrecking the prospects of any credit to Germany, but could also exercise very serious pressure on London, and possibly even on New York, where the amount of French short-term credits is estimated at somewhere between 250 and 500 million dollars."

¹⁰⁾ Between July 15th and 25th, the Bank of England lost almost 20 million pounds' worth of gold, so that the bankrate had to be raised a full per cent., from 2½ to 3½.

The outflux of gold from London is not exclusively an outcome of the French withdrawals dictated by political motives; as an international banking centre, London suffers particularly through the spread of the credit crisis, since funds invested there are withdrawn from all sides.

¹¹⁾ According to the latest estimates, the following countries have short-term capital in Germany:

United States	2,400	million marks
Great Britain	1,800	" "
France	300	" "
Switzerland, Sweden, Holland, etc. (tog.)	1,500	" "
	<u>6,000</u>	million marks

What are the real causes of this failure? They are both political and economic. The imperialist antagonisms proved stronger than the international solidarity of the bourgeoisie in the face of the economic catastrophe and the threatening revolutionary crisis in Central Europe. In connection with the German catastrophe, each imperialist Power pursues its own aims: France desires to force Germany to a political capitulation and to attain a fresh consolidation of the Versailles system and full political control over Germany. Great Britain desired to compel the United States to reopen the question of inter-Allied debts, while America wanted to persuade France to come to a naval-disarmament agreement with Italy, as without this the London Naval Pact is left hanging in the air.

The situation is further complicated by the question of how best to prepare an intervention against the Soviet Union, by the struggle between France and the United States for the leadership in such an intervention, and by the necessity of including Germany in the anti-Soviet front. Roughly speaking, France wants simply to force Germany into line with the other anti-Soviet States by a further accentuation of the Versailles system, while America would prefer to procure the German alliance willingly in return for certain concessions at the cost of the European States which profited by the Treaty of Versailles.

Economic Reasons.

(a) The catastrophe in Germany has already advanced so far that it would be extremely risky to lend the bankrupt debtor another 2,000 million marks.

(b) Of the three great capital exporting countries, Great Britain is itself at the present moment upon the verge of a credit crisis; in the near future it will not be able to accord any more big foreign loans since it may itself soon be obliged to seek the assistance of France or of the United States. The United States, again, certainly possess a tremendous stock of gold, but the continually increasing economic crisis, the great "frozen" credits, the gigantic deficit of the government budget, and the requirements of South America (which have precedence of those of Europe) make caution most advisable. Without France, the Anglo-Saxon countries can at the present moment hardly raise an extremely risky and unpopular loan of many millions in favour of Germany.

Therefore Germany must for the time being be left to its fate.

The Outlook.

Never since the end of the war was the international position so complicated as it is this month. Thus it is difficult to foretell the further march of events. We should prefer not to enter into vague speculations. The following points, however, seem to admit of little doubt:

(a) The German economic position is bound to go from bad to worse. The attempt at preserving the stability of the mark by means of credit restrictions, will lead to further collapses, to wholesale restriction of output, to a rapid increase of unemployment, to a minimum of tax revenue, and to a tremendous deficit of the State budget. In spite of all legal preventative measures, the flight of capital from Germany will continue. If a very big loan is not raised in a very short time, a contingency which appears highly improbable, the attempt at maintaining the stability of the mark will fail and an inflation will be inevitable. (In a covert form a 50 — per cent. — increase in the amount of metal coin in circulation — it has, indeed, already begun.)

(b) The credit crisis will be aggravated; it will spread to other countries, possibly also involve England in the catastrophe, and bring about, or augment, inflation in a number of other States (in many of which, such as Spain, Australia, various South American countries, and all countries with a silver currency, it already exists).

(c) The Central European credit crisis (whether with inflation or without) will rapidly decrease the purchasing power of the countries in question on the international market, thus rapidly aggravating the economic crisis in such countries as have not yet experienced a crisis of credit. The sale of raw materials in particular, and also of agricultural products, to Germany, Austria, and Great Britain will suffer a severe decline, a development which will enhance the international agrarian crisis.

(d) The struggle for markets and the consequent imperialist differences will rapidly increase. Before, or at the commencement of, inflation, great obstacles (special duties, import prohibitions,

etc.) will be placed in the way of dumping on the part of countries with depreciated currencies. An "inflation boom" in the sense hitherto known is therefore not to be expected.

(e) The catastrophic deterioration in the position of world economy will, in spite of the growing antagonisms among the imperialist Powers, eventually **increase the danger of a war of intervention** as the last desperate attempt to find a way out of the crisis.

(f) The attack of capital on the standard of living of the working class will be continued and aggravated on a broad front, directly by wage-reductions and restrictions in social policy as long as the currencies are stable, indirectly by devaluation of monetary wages when inflation ensues. The aggravation of the struggle between capital and labour, combined with the dissatisfaction of the working peasantry under the scourge of the agrarian crisis, with the indignation of the petty-bourgeois masses as a result of the credit crisis and possible inflation, finally with the feeling of helplessness in the ranks of the international bourgeoisie itself, points to the rapid development of the presumptions of a revolutionary crisis in several countries. In Germany in particular, the unavoidable political capitulation to France will tend to aggravate the political position very greatly. It is up to the proletariat and their vanguard, the Communist Parties, to supplement these objective presumptions by the subjective preconditions indispensably necessary for the overthrow of the bourgeoisie.

II. General Section.

Further Spread and Aggravation of the World Economic Crisis.

In the last few months the world economic crisis has greatly advanced in both extent and intensity. In Central Europe it has come to a banking and credit crisis, which is constantly spreading and which threatens capitalist economy with a catastrophe. The most significant factors in this development are as follows:

(1) The spring revival, to which such widespread hopes were attached passed all too quickly. As early as May, there was again a relapse which increased in June and July and seems to be leading production to a fresh nadir.

(2) In practically all countries there have been tremendous budgetary deficits, leading in some instances (Germany, Australia, South America) to a regular crisis of State finances.

(3) In connection with this crisis of State finances, the long duration of the economic crisis has, in Eastern and Central Europe, entailed a real banking and credit crisis, a feature hitherto missing in the general aspect of the crisis. This credit crisis is drawing ever wider circles. Up to the outbreak of the credit crisis, and in some cases even since its development, there has been an unparalleled degree of liquidity on the money market in Western Europe and the United States, in the face of a severe restriction of capital investment and capital exportation.

(4) The reduction of wages, hitherto carried on only in practice, is now more and more being advocated theoretically as a way out of the crisis. The theory of high wages as a basis of prosperity, formerly advocated for demagogic reasons, is now publicly disavowed by the "scientific authorities" of the bourgeoisie, who are in an ever increasing degree seeking an expedient at the cost of the proletariat.

(5) In a number of countries we can observe an accelerated ripening of a revolutionary crisis, which in its turn aggravates the crisis of credit.

(6) The exceptional position of the Soviet Union is, albeit reluctantly, more and more openly recognised by bourgeois economists, though not by the Social-Fascists, and a way out of the difficulty is coming to be sought in the way of attempts at planned economy in imitation of the five-year plan.

(7) The optimistic prophecies so widely spread in the spring in regard to a speedy termination of the crisis, have now almost entirely ceased, the probable duration of the crisis being estimated by bourgeois economists at an increasingly lengthy period.

The Renewed Relapse Following the Spring Revival.

The price-drop of agrarian products and industrial raw materials has continued throughout the last few months. According to the index of the "Economist", the prices in Great Britain, which are not restricted by customs-duties and therefore most clearly reflect the price development on the world market, show the following trend:

Wholesale Price Index of the "Economist"
(On the Basis of 100 to Represent the Level of 1913.)

	Grain Meat	Other Food- stuffs	Tex- tiles	Mine- rals	Mis- cellane- ous	Total Index
Average 1924	159.9	169.9	210.6	145.2	131.5	159.3
Average 1930	113.4	122.9	99.1	101.6	101.5	106.8
End of June 1930	115.1	124.0	102.4	100.7	104.7	108.5
End of Dec. 1930	98.0	113.2	79.1	94.8	93.7	94.6
End of March 1931	93.6	106.8	82.7	90.6	87.1	91.1
End of June 1931	96.3	95.9	74.5	88.0	85.6	87.5

The coincidence of an acute phase of the agrarian crisis and of extraordinarily low prices of agrarian products and raw materials with the unproportionally slight recession in the prices of finished industrial products by reason of the highly-developed monopolistic character of industrial capitalism, prevents stocks from decreasing in spite of a very marked restriction in output and causes the termination of the crisis to be more and more delayed. How greatly industrial production has receded in the course of the crisis in the most important countries, may be seen by the

Production Index Returns of the Institution for Business Research

(On the Basis of 100 to Represent 1928.)

	Ger- many	U.K.	Poland	Sweden	France	Canada	U.S.A.
1929 Monthly Average	101.4	107.9	99.8	122.7	109.4	111.6	106.3
1930 Monthly Average	83.6	96.1	82.2	119.1	110.2	94.9	86.8
1931 January	67.7	82.7 ¹²⁾	74.0	102.7	104.7	82.0	73.9
1931 February	68.8		71.3	111.8	104.7	84.3	77.5
1931 March	72.2		70.4	110.9	103.9	88.6	79.3
1931 April	74.0		71.8	—	—	—	80.2

The volume of orders, too, in so far as returns are available in this regard, shows that there is no improvement in the business position (see Special Section).

Profits have likewise greatly shrunk. According to branches of production, however, the recession of profits is very unequal, while within each branch of production there is a further equally marked inequality among the individual works.

State Budget Deficits.

The long duration and the depth of the crisis have led in almost all countries to a tremendous deficit of State budgets. This is an outcome firstly of the decreased profits of capitalist enterprises, by which the revenue from income and capital taxation is diminished, and secondly of the smaller consumption, which lessens the revenue from indirect taxes, and of the shrinkage of foreign trade, which, in spite of and because of higher tariffs, yields a smaller total revenue from customs duties. Added to this, there are on the expenditure side subventions to "needy" capitalists in various forms, expenditure for the artificial propping of the prices of agrarian products, and, in some countries, enhanced costs of unemployment benefit.

The deficits of some of the more important countries is shown below in millions of sterling:

United States	190
Germany (appr)	75
Great Britain	30
Canada	10
Australia	17.5

¹²⁾ First Quarter, 1931.

In certain countries, Germany in particular and also in Australia and some of the South American republics, the deficit has led to a crisis in State finances with all the social and political consequences connected therewith. While in the financially strong United States the deficit was covered by the raising of an internal loan of 800 million dollars, recourse had to be taken in the financially weaker countries to a decrease in the number of State employees, reductions of salaries, a deterioration of national insurance, cutting down of unemployment relief, and in some instances to a suspension of payments of interest on Government loans.

The Credit Crisis.

The most remarkable event of the last few weeks is the outbreak of a credit crisis of tremendous severity in Central Europe, which is now proceeding to spread to other countries, Great Britain in particular, and which greatly aggravates the whole situation of capitalist economy.

In the present economic crisis, the credit crisis has assumed quite particular forms. Whereas in former crises the credit crisis was wont to make its appearance concurrently with, or very soon after, the outbreak of the general economic crisis, it developed in this instance only after the general crisis had been lasting for about two years. In this connection, too, a tremendous lack of uniformity is noticeable.

At a time when in Central Europe the credit crisis was already in full course of development, there was in the United States, Great Britain, and France an unprecedented superfluity of short-term loan-capital. In the month of May, the bankrate of the Federal Reserve Bank of New York was put down to 1½ per cent, a rate which had not been experienced since 1909. In the United States, first-class bank bills payable in 90 days were discounted at a rate of one per cent. At the end of June, the United States Government was able to place Treasury bills to an amount of 800 million dollars at a rate of 5/8 per cent. per annum. In France, the banks raised difficulties when called upon to accept any new investments.

At the same time there had already for a long time been a lack both of short-term and — yet far more — of long-term capital in the countries of Central Europe and in the agrarian countries overseas which were most severely hit by the crisis. Here the bankrate was many times as great as in the capital-exporting countries. What is especially characteristic of this present crisis, however, is the fact that in spite of this gigantic difference in interest, there was no transference of capital from the Western countries. On the contrary, not only did capital exportation greatly diminish, but the short-term funds were withdrawn from Germany and Austria, a development which brought about the acute crisis mentioned above¹³).

The credit crisis started in Austria, where it reached its height with the collapse of the Credit-Anstalt (to which further reference will be made later on). From Austria it spread to Germany, where — after a catastrophically rapid disappearance of the gold and foreign-bill holdings of the Reichsbank — it led to the collapse of the Danat-Bank, to the suspension of banking activity, to a practical breakdown of the credit system, and to a serious jeopardisation of currency stability.

The credit crisis hereupon leapt like a flame to a number of other countries, most pronouncedly so to Hungary, which is economically weak and financially closely connected with Germany. Here too, as in Germany, all monetary institutions had to be closed down so as to prevent their wholesale ruin, the stock-exchange not excluded. In a similarly virulent form, the credit crisis attacked Latvia, where the same measures had to be adopted.

Poland, too, was fairly hard hit by the credit crisis, though for political reasons it was naturally propped by France. The outflux of foreign bills and of gold and a certain oscillation of the currency, moreover, had already been in progress here prior to the outbreak of the credit crisis in Germany. The crisis has, however, so far assumed no such violent forms in Poland as it did in Germany, since in the one case France was acting defensively and in the other aggressively.

All these facts, meanwhile, are completely overshadowed by the fact that in the middle of July there were unmistakable

¹³) The political factors contributing to this development will be dealt with in due course.

signs of an incipient credit crisis in Great Britain, which still plays the rôle of the world's banker alongside the United States. In the course of July a pronounced outflow of gold from London set in. From the middle of the said month, there was a daily outflux of as much as 3½ million pounds. By July 22nd, the gold stocks of the Bank of England had shrunk to 14 million pounds, i. e. below the minimum considered requisite for maintaining the gold-parity of the British currency. This outflux of gold was inevitable, seeing that the rate of the pound sterling was constantly so far below par as to render the exportation of gold from England profitable to private speculators.

The reasons of the outflow of gold are above all to be sought in the withdrawal of French short-term loan-capital from Great Britain. The sum total of French capital invested in London is said to be 70 million pounds. If this is a fact, the menace to London, prompted by political reasons on the part of France, must be considered very serious indeed.

It would be wrong, however, to put down the critical tension on the London money market solely to French tactics. It is in great part also due to Great Britain's rôle as the world's banker, as a mediator of credit, and as a financial centre of exchange on an international scale. This function on the part of London causes most countries to place funds there. The credit crisis in so many lands forces most enterprises to mobilise their financial assets immediately and to remove them from London, whereas Great Britain has far more difficulty in realising its own assets in foreign countries without risking a spread of the credit crisis to an ever wider area.

The Collapse of the Austrian Credit-Anstalt.

The collapse of the Österreichische Credit-Anstalt deserves special attention not only because it most drastically demonstrates the new phase of the world economic crisis, but also because it reflects all the symptoms both of the present epoch in general and of the particular circumstances prevailing in Austria.

The failure of the Austrian Credit-Anstalt is the last link in a long series of bank failures that have taken place in Vienna since the war. The Verkehrs-Bank, the Union-Bank, the Depositen-Bank, the Zentral-Bank Deutscher Sparkassen, the Anglo-Bank, and finally, two years ago, the Boden-Credit-Anstalt, all the great institutions which formed the centre of finance capital in the former Austro-Hungarian Monarchy, disappeared one after another. In various ways, their assets and debts were absorbed by the Credit-Anstalt, which thus was able to combine under its control 80 per cent. of the industry of Austria.

This successive disappearance of banks is no matter of chance. It reflects the fate of Austria and Vienna; the financial centre was retained, while the economic territory, which before the war comprised more than 50 millions of inhabitants, was cut off, thus depriving the big Vienna banks of their economic basis. So as to protect the credit capacity of Vienna in relation to foreign countries, the losses incurred in the individual bank-failures were not simply written off, but were transferred from one bank-amalgamation to the other. This was particularly the case when the Boden-Credit-Anstalt was taken over by the Credit-Anstalt.

After the forced merger of the Boden-Credit-Anstalt, the Credit-Anstalt was practically the only big bank left in Vienna. It occupied an exceptional position among Vienna banks. It was the bank of the house of Rothschild and had the most splendid financial connections abroad; indeed, it was part of the sphere of interests of the Bank of England, which, when the Anglo-Bank was taken over by the Credit-Anstalt in the year 1926, became by a commutation of shares an important shareholder in the latter concern.

The business interests of the Credit-Anstalt extended to some 75 or 80 per cent. of Austrian industry and thus of Austria's economic life. Besides this, it had an exceptionally strong position in all the other Succession States of the old Austro-Hungarian Monarchy. Indeed, its business gravitated not so much towards the small Austrian republic as towards the wider territory of these Succession States. True, the branches of the bank in the individual countries had been naturalised and transformed into national institutions, but their appurtenance to the Credit-Anstalt was preserved. The Bohemian Discount Bank in Prague, the Discount Bank in Warsaw, the

Roumanian Credit-Anstalt in Bukarest, the Agrar-Bank in Belgrade, the Bosnian Landes-Bank, the Credit-Anstalt at Liubliana, and affiliated institutions such as the Bank für Auswärtigen Handel in Berlin and the Amstel-Bank in Amsterdam were all important members of the financial concern controlled by the Vienna Credit-Anstalt.

The structural crisis of Austrian industry, however, which was cut off from its original markets, proved from year to year more and more heavy burden on the Credit-Anstalt. The entire capital of the Credit-Anstalt was petrified in credits to the Austrian metal industry, the cotton spinning-mills, the automobile works, the locomotive industry, which had been deprived of its railways, and the engineering industry, which was separated from its proper markets. Factories once employing 4000 or 5000 workers now employ 400. At the same time, the same big salaries were in general paid to managers and the same indemnities to retiring directors.

The true state of affairs was not recognised by the managing board of the institution until the balance for 1930 was being made. They then applied for help to the Government and to the National Bank. Though this was done secretly, the news soon leaked out and a run on the bank ensued. In the middle of May the first relief measures were undertaken, when it had become apparent that a straightforward balance showed both the share capital of 125 million Austrian shillings and the reserves of 40 millions to have been consumed.

These first relief measures demonstrated the interdependence of finance capital and the State which is so characteristic of the epoch of monopoly capitalism. Of the total losses of the bank of 160 million Austrian shillings, only 30 millions were covered by the house of Rothschild, 100 millions being provided by the Government and 30 millions by the National Bank. While the house of Rothschild, therefore, has ever since 1855 pocketed the lion's share of the profits of the Credit-Anstalt, the bulk of the loss was immediately shifted to the Austrian State, i. e. to the working masses.

This first attempt at relief did not entail the desired result.

The Austrian investors in particular, whose traditional confidence in the house of Rothschild was shaken, hastened to remove their deposits, while the foreign creditors in the main refrained from withdrawing their credits.

Foreign finance capital hastened to the aid of the Credit-Anstalt and the Austrian National Bank. The B. I. S. granted the Austrian National Bank a rediscount credit of 100 million shillings with the advice that all bill claims of the Credit-Anstalt bearing a Government indorsement should be accepted. In this way the risk devolved on the Austrian State, i. e. on the working masses. In Great Britain, a shandstill consortium had been formed under the lead of the London house of Rothschild with participation of the Bank of England, so as to prevent the withdrawal of the foreign bank credits.

At this point, however, political difficulties arose, emanating from France. As we have already pointed out, the Austrian State had engaged to invest 100 million Austrian shillings of new capital in new shares of the Credit-Anstalt. But the Austrian State has no funds. The necessary means were to be raised by the emission of Austrian Treasury bonds to the amount of 150 million shillings, which bonds were to be discounted by the West-European banks. The French banks raised difficulties and delayed the negotiations indefinitely. At the same time, the French Government made the accordance of these credits conditional on the final abandonment by Austria of the plans of a customs-union with Germany.

In the meantime, the position of the Credit-Anstalt and that of the greatly-encumbered National Bank had continued to deteriorate; several leading banks of the United States, such as the Guaranty Trusts Company and the Irving Trust Company, had cancelled credits to the amount of several millions of dollars. The withdrawals by Austrian depositors continued as before. At this catastrophic juncture, the Bank of England intervened, placing at the disposal of the Austrian National Bank a credit of 150 million Austrian shillings and thus frustrating the political extortions of France.

The accordance of this credit was made dependent on extremely onerous conditions: The Austrian State was to guarantee all investments, not only the new ones as had already been agreed to in the original plan of relief, but also all the old investments, the aggregate sum involved figuring at about

1000 million shillings. The Austrian bourgeoisie and the Austrian Parliament agreed almost unanimously to this demand, which shifted practically the entire risk on to the State. There was no alternative within the limits of capitalism, since the position of the National Bank had also become most critical. Between May 7th and June 15th, the National Bank's portfolio of bills payable had increased from 70 to 488 million shillings, and without foreign aid a collapse of the currency must have ensued.

The acceptance of the second Relief Bill, consisting in the taking over by the State of the entire risk and therefore of the entire loss, ensued with the support of the Austrian Social Democrats. As is always the case when capitalism is in danger, the Social-Fascists came to the aid of the bourgeoisie.

On this weakest sector of the capitalist front, the lengthy economic crisis thus first led to a genuine banking and credit crisis. The losses, however, were not borne by those big capitalist groups which had formerly pocketed the profits, but were shifted in their entirety on to the State, i. e. the working people, and that with the active support of the Austrian Social-Fascists. The fight between France and Great Britain for the preponderance in Austria, meanwhile, ended with the victory — for the time being — of Great Britain.

The crisis evoked by the catastrophe of the Austrian Credit-Anstalt has not been limited to Austria. The Austrian failures were followed by difficulties and bankruptcies on the part of the enterprises connected with the Credit-Anstalt in almost all the other Succession States, e. g. the Lederer concern in Bohemia and the Hungarian Credit-Anstalt in Budapest. In the other Succession States, the credit crisis is at present in full process of development. It has been extremely aggravated by the credit crisis in Germany.

Bourgeois Economists in Favour of a Deterioration in the Position of the Working Class.

During the last few months there have been a number of international conferences on the question of the crisis, and innumerable economic leaders and bourgeois theoreticians have expressed their opinions as to the cause of the crisis and the way to overcome it. It is not worth our while to enter in detail into the theoretic contents of all these utterances. They contain no fresh arguments and cast no new light on the problem.

The general directive resulting from the fairly fruitless theoretic controversies of the last few months, is the struggle against the theory of high wages as a basis of prosperity, as voiced in the United States by Ford, Hoover, and Green, Chairman of the American Federation of Labor. True, this theory in the United States has by no means prevented American capitalists from reducing wages there too, as is proved not only by the great falling-off of the wage-total index-figure in relation to that of the degree of occupation (part of it coming under the head of short-time work), but also by the utterances of competent economic leaders.

The assault on the said theory has taken place in all highly-capitalist countries at the same time. The theoretic starting point is an investigation by the Frenchman Rueff, who in 1925 attempted to prove (in the "Revue d'Economie Politique") that the curve of unemployment in Great Britain in post-war times has run parallel to the curve of the relation of wages to the wholesale-price index. The higher the wages in relation to the wholesale-price index, i. e. to the yield for the capitalists, the smaller their competitive capacity and the greater unemployment. The British system of governmental unemployment relief, Rueff opined, prevented the reduction of wages in keeping with the change in the price level, and was thus the reason of lasting unemployment in Great Britain.

This line of reasoning was taken up by Stamp, one of the greatest authorities on British economy. In two articles in the "Times", he carried on Rueff's computations down to the year 1930, ascertained that the two curves were parallel even subsequent to 1925, and fully supported Rueff's thesis that the cause of unemployment lies in the unduly high level of wages as established by collective agreements. His deduction is as follows:

"Permanent unemployment can only be avoided if it is made possible for wages to adapt themselves as freely as possible to existing economic conditions. There is only one way of reducing to a minimum the want caused by unemployment and that is the entire freedom of wages development."

This entire theory accepted by Stamp is based on a palpable fraud. The British wholesale-price index — no matter whether "Board of Trade", "Economist", or "Statist" — reflects to 90 per cent. the prices of raw materials. It does not show the proceeds received by British manufacturers for their products but the expenses they have in the purchase of raw materials. The relation between the wage level and the wholesale-price index is thus no criterion at all for the competitive capacity of British industry and its capacity to employ more or fewer workers. On the contrary, if at an equal level of wages the wholesale-price index (i. e. the index of raw-material prices) drops, this ought to lead to a greater competitive capacity on the part of British industry and therefore not to a parallel development of the curve of the relation of wage-level to prices and the curve of unemployment, but to a contrary development of the two curves¹⁴).

The fact that the arguments of Rueff and Stamp would not hold water naturally did not prevent them from being reproduced in hundreds of publications and employed as a theoretic argument in favour of a reduction of wages and an abolition of unemployment benefit. Almost simultaneously with Stamp, another economic authority of Great Britain, Sprague, official economic adviser to the Bank of England, delivered an address on the causes of the crisis and the way out of it. He sees the cause of the crisis in the overproduction of agricultural materials, which has led to an acute price-drop, while in industry the high wages and the cartel agreements of the capitalists have preserved a relatively stable price level. The balance between the prices of agricultural products and those of industrial products must be restored by an adaptation of the prices of finished industrial goods to the new price level of agrarian products, and not by attempts to raise the latter to the artificially high level of industrial products.

"Wages and salaries, especially in the sheltered trades, must be decreased and the obstacles to a free movement of labour removed, while the taxes on securities bearing a fixed rate of interest should be augmented, so as to give the downward movement of wages the appearance of equity and generality." ("Statist" of June 22nd, 1931.)

In the United States, too, there is a general attack on the theory of high wages. Thus Baker, editor of the "Annalist", writes somewhat as follows¹⁵):

"In insisting on the payment of the full wage per hour, irrespective of the number of hours a worker works per week at this rate, Hoover, Green, and their adherents are clinging to the unreal symbol of the standard of living and disregarding the real basis of the standard of living, i. e. the actual earning of the worker per week.

Should President Hoover and President Green really succeed in preventing an adaptation of wages, this would undoubtedly prolong the duration of the economic crisis very considerably beyond its necessary limits."

This line of reasoning is repeated in innumerable speeches and newspaper articles in the United States. The theoretic position of Hoover, Ford, and Green, which has long forfeited its practical significance, is now also attacked theoretically from all sides.

Added to the material assault on the workers' standard of living, therefore, which has now spread to all countries of the world, we have a theoretic fight against the theory (obviously never intended to be taken seriously) of high wages as a basis for prosperity, against the resistance of the working masses to wage reductions, and against governmental unemployment relief in those countries in which it still exist, as being an obstacle to the reduction of wages below the level of such relief. The effort of capital to reduce wages and in this way to attempt to check the shrinkage of profits in the crisis, is only kept in bounds to some degree by the fear of a proletarian revolution.

¹⁴) An attempt to apply the Rueff-Stamp methods to Germany, as is done by Benham in the "Economist" of June 20th, 1931, shows that in the case of Germany the two curves are not parallel at all.

¹⁵) "Annalist" of May 22nd, 1931.

The Agrarian Crisis in the New Harvest Year.

The Hoover Plan has momentarily entailed an upward movement not only on the security market but also on the grain market. The world-market prices for wheat have risen a few cents per bushel from their lowest level of early June. At the same time, an examination of the factors decisive for the future price-development of agrarian products shows that there can be no question of any considerable price appreciation in the coming harvest year. On the contrary, it is possible that there will be a further decline in the prices of agricultural products and very probably also a further drop in livestock prices.

Let us in the first place examine into the future development of the price of wheat. The prices of the other sorts of grain regularly follow the formation of the wheat price, and the price formation of fodder is bound in time to determine the prices of livestock products.

Among the factors influencing the formation of the price of wheat, importance attaches to the size of transitional stocks of wheat. The visible stocks, i. e. the stocks in the elevators and transport depôts (exclusive of the stocks in the hands of producers or of the Farm Board), stood on April 1st 20 per cent. higher than a year earlier. Since then, down to the end of the harvest year, these stocks have naturally decreased, but the relative proportion compared with last year has by no means changed. The stocks are roughly three times as great as they were on an average in the last five years before the war.

The significance of these transitional stocks can be judged from the fact that they are pretty nearly as large as the total annual wheat exports throughout the world, which, in the last nine years, averaged 770 million bushels, though with considerable variations from year to year. These variations depend not only on the outcome of the harvest in the exporting countries but also on the outcome of the harvest in the principal importing countries. The main wheat-importing countries are Great Britain, Italy, France, Germany, Holland, and Belgium, which together consume 80 per cent. of the world's exports of wheat.

In regard to the size of the crops this year, there are naturally no figures available. So far, all that is to hand is the official statistics regarding the area under wheat. The Roman Agrarian Institution announces that the area cultivated outside the Soviet Union was 94.4 million hectares in the year 1930/31, as against 98.8 million hectares in 1929/30. This means that there was a diminution of 4.4 million hectares.

On the strength of the reports to hand, there can be no question of a failure of the harvest on the Northern hemisphere. Assuming that there is no disastrous failure of crops in the two big wheat-exporting countries of the Southern hemisphere, Australia and Argentina, it follows that the supply of wheat on the world market will, in view of the great transitional stocks, by no means be smaller than it was last year.

If, furthermore, we bear in mind that in consequence of the serious economic crisis, leading to a continual deterioration in the position of the working classes, and in consequence of the constantly increasing unemployment, the consumption of wheat is bound to show a tendency to decline, it is obvious that in the coming economic year the present low wheat prices and therefore also the present acute phase of the agricultural crisis are bound to continue. The super-abundance and the low price level of wheat will necessarily entail a continuation of low prices for the other cereals and fodder products. In the case of a normal maize crop in the United States, there will probably be a further recession in the price of maize, since the present relatively high price was occasioned by the failure of the maize crops in the United States last year.

Such are the causes which have led to a failure of the numerous agrarian conferences held during the last few months. At these conferences three opposing standpoints could be observed. In the first place, the standpoint of the United States, which considered a compulsory restriction of output the only possible remedy, and the standpoint of Canada, which was shared at

the London Wheat Conference by all the other exporting States including the Soviet Union, and according to which a system of fixed quotas was to be established for the exports of each country. In this connection, the Soviet representative naturally demanded that the quota of the Soviet Union should be determined not on the basis of the insignificant exports of the post-war period, but in accordance with the relative importance of Russia on the international wheat market in pre-war times. The quota suggestion was rejected as a result of the resistance of the United States, the holder of about half the total transitional stocks (the 300 million bushels in the hands of the Farm Board alone representing about 40 per cent. of the world's exports).

The third standpoint was that of the wheat-exporting countries of Eastern Europe, Rumania, Yugoslavia, Poland, and Hungary, and embodied the suggestion of a special European solution of their particular market difficulties, with preferential duties for their products in the West-European countries as against the agrarian products of the oversea countries. This suggestion failed, mainly in view of foreign-political considerations, Great Britain, the consumer of some 30 per cent. of the total wheat exports, openly declaring itself unable to entertain any such proposal out of consideration for its Dominions.

In this way, the numerous conferences merely led to the purely formal result that a better and more accurate statistical treatment of wheat stocks and wheat exports was envisaged, a characteristic and customary way of cloaking the abortiveness of international conferences.

One important result in this connection, meanwhile, is the definitely established bankruptcy of the Canadian wheat-pool, which could no longer meet its liabilities to the banks and was officially declared insolvent. All its engagements are being liquidated, its elevators are to be handed over to the great commercial grain-firms, and forward business in wheat will be reintroduced on the Winnipeg grain-exchange. The farmers are released from their obligations towards the Pool, and free trade in wheat is reestablished all along the line.

As could easily be foreseen, the superfluity of wheat and feedstuffs has brought about an overproduction of animal products, particularly pigs and pork, butter and the like, the more so as the consumption of these more expensive foodstuffs has greatly shrunk in consequence of the crisis. The prices of animal foodstuffs have therefore considerably declined on the world market during the last few months. The same is the case in regard to sugar and other products. Even the "organisation of the market" has so far failed to check the fall of prices.

As the result of prolonged efforts, Chadbourne, the virtual ruler of sugar production in Cuba, has succeeded in bringing about an agreement among all the sugar-exporting countries of the world on the following basis: Cuba, Java, and the leading European countries exporting beet-sugar undertake (1) to place the existing excessive stocks of sugar on the market in fixed instalments within the next five years and (2) to introduce a systematic limitation of their sugar output. In spite of this worldwide sugar cartel, the prices of sugar have again considerably declined. It was for this reason that Chadbourne recently declared he had lived sixty years in vain: he had eliminated 2,5 million tons of sugar from the total supply by his own efforts and yet the price continued to fall.

The case of Brazilian coffee is very similar. In this connection the decadence of the capitalist system is most drastically illustrated. So as to prevent the further fall of prices, the Brazilian Government was obliged, when raising a loan in connection with its plan of reconstruction, to undertake to destroy from time to time a certain quantity of coffee in keeping with the amount exported. The amount to be destroyed in the first place figures at four million sacks. Since the burning-up of such a tremendous quantity might entail conflagrations, while casting it into the sea would involve great freight expenses from the interior of the country and also some expenditure for labour, American technicians have been commissioned to invent suitable machinery for the purpose of grinding the coffee to powder, whereupon it will be employed as a fertiliser¹⁶).

The Crisis and the Five-Year Plan.

One of the results of the lengthy crisis is a sudden increase of attention on the part of the capitalist world to the Soviet Union in general and the Five-Year-Plan in particular. In this connection certain significant facts are to be observed.

In the first place, a number of bourgeois writers and scientific institutions openly recognise the exceptional position of the Soviet Union in world economy. Alongside the stupid talk of the Social-Fascists regarding the unrealisability of the Five-Year-Plan and the misery of the Russian workers, as was dished up by Wels and Tarnow at the Leipzig Congress of the German Social Democratic Party, there is an increasing number of serious bourgeois utterances regarding the Soviet Union and the Five-Year-Plan.

There is, however, a distinct division in this regard in the capitalist countries between exporting and important interests. In view of the general shrinkage of foreign trade in the crisis, the rôle of the foreign trade of the Soviet Union is rapidly growing in importance. For individual branches of industry in certain countries, e. g. for the tool-machine industry of the United States, the iron and steel industry of Germany and Poland, the orders of the Soviet Union at present constitute a very important portion of the total output. Even the "Vorwärts" is obliged to mention the Soviet orders in the iron and steel industry as a factor tending to mitigate unemployment.

Under such circumstances it is not surprising that those capitalist circles which are interested in the exportation of their goods to the Soviet Union, as also the economists in their pay, should in many instances adopt a new tone in regard to the Soviet Union.

Quite different again is the attitude of such capitalist circles as suffer from the competition of exports from the Soviet Union. Here general class hatred combines with immediate business interests to increase to the utmost the agitation and calumny directed against the Soviet Union.

The tremendous impression, finally, which the Five-Year Plan and its successful execution have made upon the capitalist world, together with the fact that the Soviet Union is the only country untouched by the economic crisis, has led in various capitalist countries to an imitative elaboration of economic plans. That such plans are constantly being made, although their execution is impossible on the basis of capitalism, proves the tremendous popularity which the Five-Year Plan and the Socialist construction connected with it have acquired in the widest circles of the proletariat all the world over. Capitalist five, ten, and twenty-year plans are intended to demonstrate to the proletariat that capitalism is capable of achieving the same as the proletarian dictatorship.

III. Special Section. Germany.

At the moment when we write these lines, July 22nd, German capitalism is economically more seriously shaken than has been the case since the height of inflation, in October 1923. At the present moment it is not yet apparent whether the further development will assume the form of a renewed inflation or of a credit restriction carried to the utmost possible limits, or whether one of these forms will suddenly give place to the other, which, indeed, seems the most probable.

Both these expedients inflict tremendous hardships on the working masses. An inflation means a covert but automatic reduction of wages and salaries, robbery of the petty-bourgeois class by the big capitalists, expropriation of those ten million marks of savings deposits which the poor population of Germany (officials, employees, workers, servants, tradesmen) have stinted themselves to save during the last ten years.

The June Emergency Decree and Its Effect.

The emergency decree issued in June marks a turning-point in the economic and political development of Germany; between that event and the collapse of the Danat-Bank and the shaking of the German currency, there was as continual series of occurrences following hard and fast upon one another and driving German economy in the direction of a catastrophe.

The June decree entailed a severe cutting down of salaries and wages and of all social services. This draconic measure

¹⁶) v. "Frankfurter Zeitung" of May 10th, 1931.

only just succeeded in more or less salving the budget of the Reich and unemployment insurance, while no attempt was made to solve the difficulties of the budgets of the provinces and communities, encumbered by the tremendous burden of public-welfare institutions.

Simultaneously with the reduction of the wage-income of the workers, the purchasing power of wages was systematically diminished by raising agrarian duties. Schiele's protective-tariff policy succeeded not only in maintaining grain prices at more than double the world-market level but also in forcing them up still further.

In May, a Government decree increased the duties on a number of additional agrarian products, such as pigs, pork, geese, lard, and feedstuffs, by anything between 50 and 100 per cent.

The low rye prices had occasioned a considerable extension of the area under wheat and a restriction of that under rye. The inordinate haste with which the Government set about propping the price of rye, led towards the close of the harvest year to a scarcity of this commodity.

In this way an absurd and impossible state of affairs was brought about, since in face of a most pronounced price-drop for agricultural products on the world markets, 79 communities (including all big cities except Kiel) reported increases in the price of bread during the middle of May, after the rye surplus had been made unfit for human consumption.

Consequently, the cost-of-living index-figure rose in June to 137.8, as against 135.3 in May.

This, meanwhile, is but the first stage of Schiele's policy. The Landbund demands increased tariff-protection for dairy farm products on the ground of their particular importance as representing two-thirds of the agricultural output of Germany.

The Credit Crisis.

The fear of revolutionary movements in consequence of the emergency decree, entailed a fresh flight of capital, which, together with the withdrawal of foreign short-term credits (partly for political reasons on the part of France, v. Section I.), put the Reichsbank in an extremely tight corner already in June. The discount rate had to be raised from 5 to 7 per cent. and an — albeit originally moderate — restriction of credit was effected.

President Hoover's proposal, which was brought about through the mediation of British financial capital under the menace of an approaching catastrophe, checked the outflux of gold from the Reichsbank for no more than one or two days.

As a result of the French sabotage of the plan of President Hoover, the hoped-for reassurance of the money-market failed to materialise. The removal of foreign funds and the flight of capital from Germany grew more and more pronounced from day to day. Between May 1st. and the collapse of the Danat-Bank, the total withdrawals from Germany figured at more than 2,000 million marks. Luther's attempts to obtain a fresh big foreign credit of 500 millions on the strength of the collective guarantee of the 1000 biggest enterprises of Germany, was doomed to fail.

After this, one collapse followed on the heels of the other.

First came that of the "Nordwolle", an enterprise employing 27,000 workers and running 25 per cent. of all wool-spindles in Germany. Liabilities of 240 million marks were faced by realisable assets of barely more than 40 millions. British banks had participated considerably in the "Nordwolle" in the way of loans.

The insolvency of the "Nordwolle" and the failure of the loan-negotiations sealed the fate of the Danat-Bank, which had been involved in difficulties for several weeks.

The failure of the Danat-Bank is an event of world-wide significance. By a system of concentrational developments, only three banks of the first magnitude remained in Germany, the so-called "D" banks, viz. the „DeDi" (Depositen-Diskont), the Dresdner, and the "Danat" (Darmstädter-National). Of these three, the Danat-Bank occupied the third place in point of view of capital-power and second place as regards its influence on industry. Roughly one-third of all German industrial enterprises was directly or indirectly under the influence of

the Danat-Bank, which extended to all branches of industry but was particularly strong in the case of the heavy industries, engineering, the textile industry, and shipbuilding. Like all giant banks in the epoch of monopoly capitalism, the Danat-Bank was a "universal enterprise".

Accurate statistics of the sphere of influence of the Danat-Bank are naturally not to hand. It may be estimated by the number of controlling directorships which the managers of the bank occupied in the various capitalist enterprises. On this basis it may be computed that something like 22 per cent. of German industry was connected with the Danat-Bank.

Jakob Goldschmidt, chief-manager of the bank, was himself on the boards of control of about 100 of the biggest German joint-stock companies. (This does not mean that the enterprises in question belonged entirely to the sphere of interests of the Danat-Bank, seeing that the biggest industrial enterprises maintain connections with several of the leading banks.)

The Danat-Bank was in a far greater degree a "business" bank than the other two D-Banks. This is why the freezing of credits in connection with the crisis affected it particularly. Added to this, the bank had been hard hit by a series of big insolvencies (Favag, Karstadt, etc.). For some months back, the position of the bank had been critical. According to Jakob Goldschmidt, the bank had, between July 30 th, 1930 and July 12th, 1931, paid back to its creditors between 950 and 1000 million marks. Of these 950 millions, the following approximate sums were disbursed during the last three months:

May 1931	June 1931	July 1931
100 millions	300 millions	250 millions

The bankruptcy of the Danat-Bank at once intensified tremendously the credit crisis in Germany. The German Government undertook to guarantee for the deposits in the Danat-Bank, just as the Austrian Government had done in the case of the Credit-Anstalt. Seeing, however, that there was no ready money either in the Treasury or in the Reichsbank — an extension of the fiduciary emission would have meant the gold cover sinking materially below the prescribed proportion of 40 per cent — the Government decreed (on the very day of the Danat-Bank failure) the closing-down of all monetary institutions. From July 12th to 20th, the entire complicated apparatus of the up-to-date German credit system was at a standstill, while the stock-exchange was likewise closed. It was only for wage-payments that money could be realised. Even after June 20th, banking-business could not be resumed. Small private depositors were allowed to collect 20 marks and small tradesmen 100 marks.

Simultaneously with the general moratorium, the Reichsbank suspended the paying-out of foreign currency, to which the foreign exchanges responded by cancelling the quotation of the mark and of German securities. Mark notes were no longer accepted abroad, and the German citizens outside Germany were caused much annoyance in consequence. Foreign trade threatened to come to a standstill. This complete suspension of banking and credit business led to the closing-down of numerous works.

The credit crisis soon spread to all the provinces in which the influence of the Danat-Bank was particularly strong. After the reopening of the banks, the Schröder Bank at Bremen, a leading institute in the waterside district declared itself bankrupt.

Development of the Economic Position.

The new industrial-output index of the Institution for Business Research, which now comprises 36 categories of goods and roughly 30 per cent of the actual industrial output of Germany, figures as follows ("Vierteljahresheft für Konjunkturforschung", 6th year, 1st issue, p. 52):

Index of Industrial Output. (On the Basis of 100 for 1928.)

	Total	Means of Production	Articles of Consumption
April 1928	104.5	103.3	106.6
April 1929	108.4	112.5	101.3
April 1930	92.3	88.9	98.2
April 1931	74.0	65.2	89.3

In April last, the output was thus 30 per cent. below the figure for April two years ago. The decline consisted mainly in the greatly decreased output of means of production. During the last few months, including April, industrial output proceeded with slight fluctuations along the same lines.

Index of Industrial Output¹⁶⁾,

1930		1931				
Novemb.	Decemb.	January	February	March	April	May
75.4	72.5	67.8	69.2	73.5	76.3	75.2

As in most countries, there was a slight improvement in the spring, which, however was limited solely to articles of consumption and very soon disappeared. In June there were no more signs of it.

Output of the Heavy Industries.

	Hard Coal	Brown Coal	Pig Iron	Crude Steel	Rolled Prod
	(Millions of Tons)		(Thousands of Tons)		
March 1930	12.54	11.30	1008	1202	930
April 1930	11.48	10.83	901	1034	828
May 1930	11.95	12.31	860	1034	816
March 1931	10.61	10.06	560	811	652
April 1931	9.51	9.60	529	741	601
May 1931	9.34	10.50	555	744	566
June 1931	9.49	11.83	575	779	624

As early as May, the position of German engineering was lamentable. The Union of German Machine Constructors writes as follows:

"Whereas May, usually brings an increase in the number of orders received in engineering, May 1931 passed without any perceptible improvement. There was no increase in orders, and the average number of hours worked per week remained at the level of about 42 recorded since February. The degree of occupation figured at 44.7 per cent. of the normal."

The shortage of capital naturally affected the building trade most severely. This is what the "Reichskreditanstalt" writes in its half-yearly report:

"The position of the German building trade is altogether gloomy. For the first five months of 1931, a decrease of occupation can be ascertained of about 40 per cent. compared with April to May 1930, about 46 per cent. compared with the same period in 1929, and about 55 per cent. of the same two months in 1928. Whereas for 1928 the total value of the building output of April and May be estimated at 3,250 million marks, for 1929 at 2,750 millions, and for 1930 even at 3,500 millions, that of the output for the first five months of 1931 will be found hardly to exceed 1,500 million marks."

With the outbreak of the credit crisis, the building activity will naturally have ceased almost entirely.

Foreign Trade.

Foreign trade likewise failed to provide an outlet for business, though, in comparison with other countries, export trade was fairly well maintained under the pressure of the shortage of foreign currency.

	Imports	Exports
	(Millions of Marks)	
March	584	867
April	679	818
May	600	783
June	608	749

¹⁶⁾ These figures, culled from the weekly report of July 20th, do not wholly coincide for the year 1931 with those in the quarterly report.

Compared with last year, the average of exports in the first six months has dropped from more than 1000 million marks per month to roughly 750 millions, while imports have receded yet more, from 866 to 607 millions. The great decline in imports — an outcome of the decrease in raw material requirements, of the diminution of stocks, and the acute price drop — has led to a pronounced surplus of exports in the first half-year

1st Half of 1927 — Excess of Imports of 2000 Million Marks
 1st Half of 1928 — Excess of Imports of 1350 Million Marks
 1st Half of 1929 — Excess of Imports of 290 Million Marks
 1st Half of 1930 — Excess of Exports of 500 Million Marks
 1st Half of 1931 — Excess of Exports of 1070 Million Marks

This marked export surplus is an outcome of the crisis and not a "normal" phenomenon.

Unemployment.

It is natural that the stagnation of output should be accompanied by the continuation of very great unemployment. The alleviation of the labour market as a result of seasonal work came to a standstill in July.

	No. of Wholly Unemployed in Thousands	
	1930	1931
End of March	3 091	4,756
End of April	2,840	4,389
End of May	2,691	4,067
15th of June	2,693	4,000

The month of July is likely to show a leap upward in the total of unemployed as a result of the credit crisis.

The Fresh Attack on the Working Class.

As was to be expected, the German bourgeoisie seeks a way out of the crisis in a renewed attack on the standard-of-living of the workers, on national insurance, unemployment relief, and wages.

These tactics have been pursued by the German bourgeoisie for several months past and found a partial realisation in the Emergency Decree.

To the arguments advanced by the capitalists in support of a general reduction of wages, a new demagogic slogan has been added under the influence of the credit crisis, that of "National Liberation by the Formation of Native Capital". The present catastrophe is alleged to have arisen as a result of Germany's dependence on foreign short-term credits. Therefore there is a cry for lower wages, bigger profits, increased formation of capital, repayment of foreign credits. In this way the German bourgeoisie seeks to use the breakdown of the credit system to bring forward fresh arguments in favour of an attack on the standard-of-living of the working class.

The Social-Fascists as Guardians of Capitalist Class Rule.

The rôle played by the Social-Fascists as guardians of the capitalists order of society is most strikingly revealed in the present crisis of German capitalism. Both in an ideological and in an organisational respect, the German Social Democratic Party has become the main prop of capital in Germany.

At the Leipzig Party Congress the German Social Democratic Party not only openly declared that they desired to act the part of the "doctor at the sickbed"; Tarnow, their chief theoretical reporter, went so far as to say that it had at all times been the historical rôle of the Social Democracy to save capitalism from collapse.

With Brüning's consent, Wels has gone to London and Breitscheid to Paris, in order to assert "on the spot" that the British and French capitalists may safely grant credits to the German bourgeoisie, since they, the Social-Democrats, are standing as guardians behind the capitalist system. When the Danat-Bank collapsed, the German Social Democratic Party was the first to call upon the population to preserve order and upon the workers not to remove their deposits from the monetary institutions. It was the Prussian Ministry, i. e. the Social-Democratic Home Secretary Severing, that advocated and helped to realise the reintroduction of martial law for the purpose of gagging the German Press. It was a characteristic of war-times that the Press was obliged to publish articles

compiled by the Government without any qualifying remark in any column officially specified. This rule has now been reintroduced.

If, however, the Social-Fascists were to impress upon the workers merely their rôle as a prop of capitalism, the workers would quit the S.D. Party in shoals. Recourse must therefore be had to demagogic means.

A support of Brüning's Government is described as a "lesser evil" in comparison with Fascism. This was the main tenor of the Leipzig Party Conference.

"There was the alternative between the Brüning Cabinet or an open Fascist dictatorship", said Sollmann in his political report.

"If we overturn the Brüning Government, we shall be exchanging the Brüning whip for the scorpions of Hugenberg and Hitler", says Dittmann.

Threatening the workers with the danger of a Fascist form of bourgeois dictatorship so as to restrain them from a revolutionary fight against any form of bourgeois rule — such are the present tactics of the Social Democratic Party of Germany, such is the rôle allotted them by the bourgeoisie.

At the same time, the fight against the Soviet Union, the stronghold of world-revolution, is naturally not neglected either. In all the speeches made by the Social Democratic leaders at the Party Congress, there was a pronounced undercurrent of calumny of the Soviet Union, barefaced and brutal in the address of Wels, covert and connected with compliments for the success of Socialist construction (this as a bait for the working masses) in the case of the so-called "Left".

The Outlook¹⁷⁾.

The credit catastrophe and the complete fiasco of the London Conference will tend to aggravate the position of German capitalism at a rapid rate. The good advice of the London Conference to foreign capitalists, to refrain from further removals of capital from Germany, is an empty phrase devoid of any binding power. Its sole relation to actuality lies in the fact that, now that the Reichsbank's stock of gold and foreign bills has already shrunk to less than 1,500 million marks, there is no possibility for foreign creditors to withdraw their assets from Germany at all speedily.

German capitalists, meanwhile, are not deprived of the possibility of leaving abroad part of the proceeds of their exports and thus continuing the flight of capital in spite of the emergency regulation regarding the surrender of foreign bills. This they are sure to do, so as to gain special profits from the imminent inflation and a reserve fund for the eventuality of a victory of the proletarian revolution. This procedure, however, is bound to lead to a further depreciation of the mark in foreign monetary traffic.

An inflation, moreover, in the sense of an augmentation in the circulating medium of payment to cover the deficit of the State budget, will hardly be avoidable in spite of the continuous restrictions in social policy. Whence is the State to derive its revenues, if economic life is crippled by an accumulation of bankruptcies and by wholesale suspensions of industrial activity, if the customs-proceeds dwindle by reason of the rapid decline of imports, and if the yield of taxes on consumption grows smaller and smaller as a result of the impoverishment of the masses? If Germany does not very shortly receive a new and very substantial foreign loan (of not less than 2,000 millions marks), inflation appears to us inevitable.

This inflation, however, will differ from the last inflation, in that it is unconnected with any inflation boom. In the present crisis in all capitalist countries of the world, most of the other countries will react by the severest protectionist measures to any inflationary dumping on the part of Germany; they will raise their tariffs, restrict importation, or even place embargos on German imports.

By reason of the experience gained in the former period of inflation, moreover, the adaptation of the price-level to inflation inside the country will this time be far more rapid. Therefore the difference between the home and foreign price-

levels will be less marked than it was during the last German inflation.

The whole weight of the inflation will thus fall upon the proletariat, while the automatic devaluation of wages will not be alleviated, as it was in 1920—22, by a full occupation of the workers. Unemployment will also continue during an inflation.

There is therefore the prospect of a catastrophic deterioration in the economic position of Germany, an extreme aggravation of the class struggle, and the rapid approach of a revolutionary crisis.

France.

French finance capital played a decisive rôle in bringing about the credit crisis in Central Europe. In this it was actuated by considerations of political power, desiring to nip in the bud the attempt of German finance capital to open up an immediate outlet to the Balkans by means of a customs-union with Austria. The French imperialists have gained their object. But they are playing a very hazardous game. They are incurring the risk of a proletarian revolution in Central and Eastern Europe and of a credit crisis in which the whole of Europe may possibly be involved.

The French bourgeoisie think they can risk a good deal, as they have an exceptionally firm currency position. At present, at the close of June 1931, the Bank of France possesses 56,400 million francs' worth of gold. In the course of one year, its gold holdings have increased by 12 million francs. Together with foreign currency holdings, the reserves covering the circulation figure at 63,000 millions. The circulation itself figures at the end of June at 77,000 millions francs, so that there is a cover of 80 per cent. Since besides this France has invested a great deal of money in short-term loans abroad, the French bourgeoisie believe they can defy all danger and dictate the political terms on which they are willing to accord Germany the big loan which is indispensable to the latter.

Growth of the Economic Crisis in France.

During the last few months there has undoubtedly been an aggravation of the economic crisis in France, though it is still far from being so acute as the crisis in the other capitalist countries, especially Great Britain, the United States, and Germany.

Productional Index.

	1930	1931
January	144	133
February	143	133
March	144	131
April	144	131

The falling-off in output since the beginning of the year amounts to roughly 10 per cent.

The output of the heavy industries has been continually declining in the last few months.

Output of the Heavy Industries.

	Hard Coal	Pig Iron	Crude Steel	Furnaces in Operation (End of Month)
	(In Thousands of Tons)			
Mthly. Aver. 1929.. . . .	4577	871	805	156
May 1930	4622	901	855	154
March 1931	4632	775	722	133
April 1931.. . . .	4288	738	675	133
May 1931	4066	—	—	—

French coal has to contend with severe competition on the part of Dutch and Belgian coal, which sells in France at from 30 to 50 francs per ton below the French price-level. This fact acts most depressingly on prices, the official price being at present 6 per cent. below that of the first quarter, while the actual price is at least 15 per cent. below that level.

In consequence of the shrinkage of the foreign markets the surplus output of iron and steel increasingly depresses

¹⁷⁾ v. Section I.

the home market, this greatly impairs dumping, while the monopoly price at home crumbles and approaches the world-market price. One of the biggest of French steel concerns, that of Chatillon-Commentry, states in its annual report that between the first quarter of 1929 and March 1931 the price of iron plates fell 40 per cent. and that of iron girders 22 per cent.

Among the industries producing articles of consumption, the textile industry is experiencing an acute crisis; in April last (i. e. prior to the big strike in Northern France) its volume of output was 19 per cent. below that of pre-war times.

Price Movements.

For the first time of late, there was between April and May a sharp drop in wholesale prices, a fact which indicates a coming aggravation of the crisis. Retail prices, too, registered a drop of much the same extent between April and May; nevertheless, the tension between wholesale and retail prices continues to be abnormally great.

Prices.

(On the Basis of 100 for the Level of 1914.)

	Wholesale Price Index	Retail Price Index in Paris (Foodstuffs only)
April 1930	560	586
May 1930	553	540
June 1930	544	593
March 1931	492	647
April 1931	494	641
May 1931	480	634

The relative stability of the cost of living is mainly caused by the exaggerated customs protection on the part of the Government in its attempts to ward off the effects of the agrarian crisis from French agriculture. The French price of wheat is more than three times as high as the world-market price. Since April 1930, the index of agricultural products and foodstuffs shows an uninterrupted and rapid upward movement.

Index of Agricultural Products and Foodstuffs.

(On the Basis of 100 for the Level of 1913.)

1930 April	481
1930 July	540
1930 October	562
1930 December	570
1931 January	580
1931 February	575
1931 March	581
1931 April	592

Foreign Trade.

Both exports and imports have continued their downward movement occasioned by the crisis.

	Imports		Exports	
	(In Millions of Francs)			
	1930	1931	1930	1931
Januar	4,754	3,817	3,704	2,574
February	4,813	4,065	4,035	2,757
March	4,439	3,929	3,947	3,076
April	4,575	3,902	3,889	2,877
May	4,090	3,575	3,675	2,438
Total	22,671	19,288	19,250	13,722

In May 1931, raw-material imports figured at 1,071 million francs against 2,474 million francs in May 1930 and 3,103 million francs in May 1929. This exceedingly big decline in raw-material imports may also be looked upon as a symptom of the approaching restriction of production.

The exportation of manufactured goods also shows a pronounced decline. It figured in May 1931 at 1,512 million francs against 2,293 million francs in May 1930 and 2,478 million francs in May 1929.

State Revenue.

The revenue of the State has again greatly decreased. It amounted in May 1931 to 2,689 million francs against 3,303 millions in April 1931, 3,172 millions in May 1930, and 3,204 millions in May 1929.

Undeniable proof of an increasingly acute crisis may be seen in the fact that the yield of the turnover tax fell short in May 1931 by 19 per cent. of that in May 1930.

Italy.

It is very difficult to ascertain the actual state of affairs in Italy from a perusal of the severely censured Fascist Press. The economic returns are scanty and greatly delayed. In publications appearing outside Italy, there are comprehensive returns for no later than the month of February¹⁸⁾. It is, however, at any rate possible to ascertain that the crisis has deepened during the last few months.

The weekly report of the Institut für Konjunkturforschung contained the following statement on June 3rd:

"Economic activity has continued to decline. Industrial production is in almost every case below the level of last year, the degree of occupation in the automobile, iron, and textile industries in particular having markedly declined, apart from the usual seasonal improvement. The output of artificial silk has more or less managed to hold its own. Only shipbuilding can show a larger volume of orders than in 1930. Turnovers on the home market and in foreign trade have again fallen off. The quantities of goods transported by rail and ship are considerably below last year's average."

Fundamentally the same characterisation, though in somewhat milder terms, is given by the article indicated above. He draws attention to the great recession in building, the decreased consumption of electric energy, and the very precarious position of the textile industry.

The following figures are perhaps most highly characteristic of Italian economy:

Transport Revenue of the Railways

(in Millions of Lire)

First 4 Months	Goods Traffic	Passenger Traffic
1930	927	468
1931	914	405

The position of the working classes is extremely bad. Unemployment is very great, even according to official returns. The peak figure in February was 765,000; in April the total receded to 670,000. The actual number is far greater.

In the course of the crisis, wages have repeatedly been reduced by government decree. The cost of living, however, obstinately remains at the same level.

Cost of Living in Milan.

(100 representing First Half of 1914.)

1930		1931		
May	Dec.	Jan.	March	May
144	139	133	135	134

In the course of the first five months, the cost of living will thus be seen to have remained altogether stable.

By reason of the tremendous expense of the Fascist apparatus of power (Party cadre, militia, trade-union bureaucracy, gendarmerie, military, etc.), the burden of taxation is extraordinarily heavy.

¹⁸⁾ Bacchi: "Italian Economy in the First Quarter of 1931", contained in the "Wirtschaftsdienst" of June 5th, 1931.

Governmental and local taxes figured as follows:

	1913	1925/26	1930/31
	(In Millions of Lire)		
Originally	9,200	14,900	22,500
Computed on the Pri- ce-Basis of 1925/26 ..	12,300	14,900	29,500

In the course of five years, taxation has doubled. The full weight of it principally falls on the broad mass of the working population, the workers, peasants, petty-bourgeois circles, and employees.

At the present moment, July 17th, there are not yet any tangible signs of Italy also being involved in the credit crisis. In view, however, of the general weakness of Italian economy and of the number of insolvencies and bill-protests, this appears highly probable. France, moreover, will hardly let slip the good opportunity of dealing her rival in the Mediterranean a financial blow by withdrawing credits, selling Italian securities, and getting rid of Italian currency holdings.

It is therefore quite easily possible that in a very short time Italy too will be a victim of the credit crisis.

Great Britain.

Both in Great Britain and in the United States, the spring revival, which was very slight, lasted for but a short while.

For Great Britain, the development is reflected in the

Index of the "Economist". (On the Basis of 100 for 1924.)

	February	March	April	May	May 1903
Imports:					
Raw Materials .. .	97	98	90	93	103
Non-ferrous Metals	104	102	117	118	116
Consumption:					
Iron & Steel	90	84	78	82	123
Coal	111	112	108	102	111
Cotton	70	64	64	66	85
Rubber	418	355	371	309	387
Electricity	123	126	118	108	123
Exports of Ind.					
Goods	66	66	63	64	93

We see a continual deterioration throughout the spring of 1931 and a serious falling-off in comparison with May 1930. This is particularly pronounced in regard to the consumption of iron and steel, coal, and cotton, England's old staple industries, and in the exportation of finished industrial goods, which in May dropped to half that of May 1929.

In the month of June the position (for which no numeric material is yet to hand) continued to decline. This is demonstrated not only by the reports from certain centres of production but also most clearly by the constant growth, since Whitsuntide, of the unemployment total.

Percentage of Fully Unemployed among Insured Workers.

January	February	March	April	May	May 1930
21.5	21.5	21.5	20.9	20.8	15.3

The spring season brought a quite insignificant reduction in unemployment, not even by one per cent. The unemployment total is one-third in advance of what it was a year ago and roughly 20 per cent. greater than ten years ago, during the crisis of 1921.

In the month of June, the unemployment total rose from week to week.

	1st Week	2nd Week	3rd Week	4th Week	5th Week
	(In Thousands)				
1930	1775	—	1885	1815	1891
1931	2630	2603	2621	2627	2665

The unemployment total has now reached the highest point recorded this year, save for one week in March. In proportion to the total population, it is just about as great as in Germany.

Undoubtedly the number of unemployed will continue to increase in the next few months and surpass the highest absolute figure recorded in the crisis of 1920—1921.

The rapid growth of the unemployment total has led to a further great increase in the deficit of the insurance fund, so that additional millions of pounds sterling of state credit had to be placed at its disposal. Since at the same time the position of the budget is impaired by the general crisis, a concerted attack on unemployment relief on the part of the bourgeoisie, their scientific apologists and the bourgeois Press, has set in, based in the first place on the assumption that unemployment benefit is the main cause of the present extent of unemployment.

The policy of wage-reductions is being pursued with increased vigour. In a number of big industries wage-cuts are in progress or announced. The proletariat has responded by numerous partial strikes, the trade-union bureaucrats having so far succeeded in preventing any greater struggles.

Position of the Money and Capital Market.

The gold holdings of the Bank of England have for a long while past evinced a tendency to decline. The Bank was forced to make great efforts and to pay a higher price for newly-produced gold than provided for in the statutes, so as to prevent its holdings from shrinking below the accepted minimum of 150 million pounds.

In the current year — as we pointed out in our last report — the outflow of gold came to a standstill. This was a consequence of the crisis. Great Britain's overseas debtors were prevented by the acute price-drop for agricultural products from paying their interest liabilities in kind; they were forced to pay gold, to export gold to London. The gold holdings of the Bank of England once more started to increase.

Gold Holdings of the Bank of England (in Millions of Sterling).

Beginning of	July 1930	December 1930	April 18th 1931	July 8th 1931
	156.6	148.5	147.2	163.7

For half a year the gold reserve had sunk below the "theoretic minimum" of 150 million pounds.

How small this sum is may be seen by a comparison with France. 150 million pounds are equal to roughly 19,000 million francs, one third of the gold holdings of the Bank of France.

The gold accretion of the last few months came not only from oversea countries but also to a considerable extent from Germany as a result of the Reichsbank's efforts to preserve the gold-parity of the mark.

An important factor in this connection was also the pronounced decline of capital exportation.

Capital Exports in the First Half-Year.

	1928	1929	1930	1931
	(Millions of Sterling)			
Empire	49.7	47.4	42.9	35.4
Foreign countries ..	31.7	36.1	33.2	7.9
Together	81.4	83.5	76.1	43.3

In the last half-year, capital exportation has sunk to roughly half of its extent in the last few years. It was only thus that British capital managed to increase the gold holdings of the banks in the course of the last few months by some 20 Million pounds.

During the last few days, since the open outbreak of a credit crisis in Central Europe, a reverse movement has again set in: France is withdrawing short-term credits from London and the capitalists of the countries most affected by the crisis are liquidating their holdings in England. As in every great credit crisis, the "world's banker" is in a precarious position.

Particular interest attaches under such circumstances to the advocacy of inflation, as voiced by Colonel Wedgwood, a Labour member, in the House of Commons on June 23rd. Even more interesting is the fact that a "Royal Commission" appointed under the chairmanship of Macmillan to inquire into the state of banking, while not exactly advocating inflation in England in particular, reported in favour of international inflation by means of a monetary policy of all banks of issue aiming at an increase of world-market prices.

Anxiety as to the stability of sterling is (together with French military preponderance) the reason why British finance capital is obliged to manoeuvre in different ways and in general to submit to the political dictates of France. One of the main keys to an understanding of the vacillating policy of the British bourgeoisie during the last few weeks is undoubtedly to be found in the insufficient gold holdings of the Bank of England in the face of a rapidly developing international credit crisis¹⁹⁾.

United States.

"This is the biggest crisis the world has ever experienced."
(Hoover.)

Almost two years had to pass before M. Hoover, business head of the financial capital of the United States, could condescend to look facts in the face and give up all attempts at embellishing them. The above admission was wrung from him under the force of circumstances. Facts plainly show that those optimistic estimates which were voiced some months ago under the impression of an improved trend of business in certain minor branches of industry — superior textiles, footwear, etc. — and which asserted that the worst of the crisis was over and a revival already in sight, have proved wholly fallacious. The economic curve of 1931 is parallel to that of 1930, showing an improvement in the economic position at the end of the winter, a stagnation on the same level during the spring, and a renewed marked falling-off in the summer. The only difference is that the whole process is on a far lower level in 1931 than it was in 1930. This is best shown by a comparison of the total index of production in the last few months with that of the corresponding period of the two preceding years.

Production Index of the "Annalist".

	1931	1930	1929
March	77.9	91.3	104.3
April	80.8	95.1	108.8
May	77.5	90.0	110.1

¹⁹⁾ While this report has been in preparation, between July 15th and 28th, the position of the British money market has rapidly gone from bad to worse. Day by day, a few million pounds of gold had to be exported so as to maintain the parity of the pound. The raising of the bankrate by a full point, i. e. from 2½ to 3½ per cent., which was effected on July 24th immediately after the close of the London Conference, has so far remained wholly without effect. There is a steady continuation of the gold removals, partly as a means of political pressure on the part of France and partly as an anarchic outcome of the constantly spreading credit crisis. A further increase of the bankrate seems inevitable.

These figures show that in the course of the last year the volume of output has decreased by another approximate 15 per cent. For the month of July there are not yet any returns to hand, but it is apparent from newspaper reports that there has been a further decline in production. Thus the "Financial Chronicle" of June 20th writes that

"business seems to be experiencing a further relapse rather than a revival". (p. 4461.)

The "Annalist" of June 19th remarks that

"current returns in general show a further restriction of business. Steel, automobiles, the building industry, and the output of electric energy record greater restrictions than warranted by the season".

The crisis, which has now lasted for two years, affords an occasion of critically analysing the former period of much-vaunted prosperity. It appears more and more clearly, (1) that prosperity of the United States was not general, since some very important branches of economy, such as agriculture, coal-mining, and the textile industry, did not participate in the boom; (2) that the boom was caused in part by artificial means, by an encroachment on future purchasing power in the form of a large-scale system of hire-purchase for commodities, which amounted to an artificial expansion of the consumptive power of society; and (3) that on the basis of this artificial expansion of consumption an extraordinary expansion of the productive apparatus ensued.

Production Index of the "Annalist".

	June 1931	May 1931	April 1931	March 1931	May 1930
Iron Output	52.8	58.3	59.7	59.0	95.9
Steel Output	48.4	54.2	56.9	60.5	86.9
Laden Freight-Cars..	73.7	76.2	79.1	77.0	91.7
Electricity Output ..	81.0	83.5	85.9	84.2	93.9
Hard-Coal Output ..	73.7	73.6	75.0	79.6	87.1
Automobile Output..	64.9	74.9	76.5	67.4	84.4
Cotton Consumption	81.1	77.0	84.0	80.3	76.7
Wool Consumption..	—	125.3	109.1	87.2	80.0
Footwear Output.. ..	—	111.1	105.1	97.2	93.8
Zinc Output	49.1	49.3	56.2	59.3	81.9
Combined Index .. .	76.5	78.7	80.8	77.9	89.0

We can observe that the most important of the light industries, cotton and wool and the production of footwear, reached and even surpassed the level of last year during the spring months. On the other hand, the industries producing the means of production, such as iron and steel, hard coal, and automobiles, in May fell short of the 1930 level by from 25 to 40 per cent. It is this great recession of the industries producing the means of production, which, together with the agricultural crisis, prevents any real development of the revival starting in the light industries.

If we take the iron and steel industry as the basis of Section I, a comparison of the last two years will show the tremendous extent of the crisis in this direction:

Iron (in 1000 Tons).

	1931	1930	1929
May	1994	3233	3898
April	2019	3182	3651
March	2032	3246	3714
February	1707	2539	3206
January	1714	2827	3443

Steel (in 1000 Tons).

	1931	1930	1929
May	2505	3983	5273
April	2722	4109	4950
March	3023	4300	5068
February	2527	4078	4329
January	2483	3796	4500

In May, both the iron and the steel output sank to one-half of the output of May 1929. In June and July, the iron and steel output continued to decline. At the commencement of July, the United States steel-works were occupied to no more than 33 per cent, of capacity, and the "Iron Age" predicts that there is some possibility of the slump level of December 1930 being reached in a few weeks.

In June, building activity sank to less than half that of June 1930. The daily average of building contracts was as follows:

June 1930	June 1931 (first fortnight)
24 million dollars	11 million dollars

Automobile Output of the USA.

	1929	1930	1931
	(Thousands of Cars)		
January	401	273	171
February	466	330	219
March	595	396	276
April	622	444	335
May	605	420	315
June	567	550	255
6 Months	3256	2413	1571

The production capacity of the United States automobile works is roughly 10 million cars per annum. At the present rate of output only about one-third of the productive capacity is exploited.

The shrinkage of profits of both industry and the railways, in comparison with former years, is extremely great; on an average, profits have sunk to about one-third of their extent in 1929. Certain lines, such as oil and automobiles, already record a deficit. The development in the different lines of industry, moreover, is extremely irregular. The paper industry has bigger profits this year than in 1929. The food industries have suffered hardly any reduction of their profits; nor yet have telephone and other public-utility enterprises. The profits of the steel-works, on the other hand, have been reduced to about one tenth their former extent. Alongside a great decline in the consumptive capacity of the home market, there is also a great restriction in exports.

Foreign Trade of the USA.

	Imports	Exports
	(In Millions of Dollars)	
Average 1929 .. .	362	430
Average 1930 .. .	260	315
March 1931	210	231
April 1931	186	215
May 1931	182	205
June 1931	176	187

In the last few months, exports thus figure at less than half the yearly average of 1929. Since at the same time capital exportation has greatly declined and the United States are constantly receiving the interest on their capital abroad and on the inter-Allied debts, the gold holdings have grown from month to month. Market difficulties at home and abroad and the impossibility of finding a profitable employment for the accumulating gold, are the main economic reasons for Hoover's action in the question of Reparations and inter-Allied debts.

Prospects of Future Development.

In the month of May, opinions in regard to the future were still fairly optimistic in general. But all the hopeful forecasts have proved fallacious. There is no improvement

observable in the United States. The revival in the textile industry has proved to be only temporary; in May, the consumption of cotton was again less than in April and March. What is more important, the sale of textiles is once more considerably smaller than the output, of which it amounted to 61 per cent. in April and 71 per cent. in May. Thus the material basis for hopes of a rapid improvement has disappeared.

The main objective features of the business development offer no foundation for an optimistic estimate.

In the first place, prices are on the downgrade. The following is the development shown by the

Index of the "Annalist" (on the Basis of 100 for 1913).

	Farm Produce	Textiles	Fuel	Metals	Cotton	Chemicals	Total
March 31st .. .	99	102	128	105	123	101	108
April 28th .. .	94	98	125	104	122	99	105
May 26th .. .	87	96	125	102	119	100	101
June 16th .. .	86	95	119	101	119	100	101

In two months and a half, the price index has dropped by another 7 per cent., which proves:

(a) That the presumption for a transition to depression, a new equilibrium between supply and demand, has not yet been attained.

(b) That the fact of a continual price-decline cripples all investment activity.

Secondly, stocks are not yet decreasing. The index of stocks of the Department of Commerce, published in the "Survey of Current Business" of June 1931, figures as follows:

Index of Stocks.

(100 representing 1923—25).

	1931			1930	
March	February	January	December	November	October
54	47	48	41	49	57

Stocks appear to have decreased somewhat, obviously owing to a seasonal revival.

Thirdly, the volume of orders, which is decisive for future development, likewise fails to point to any coming improvement.

Index of Orders²⁰.

(On the Basis of 100 to Represent 1923—25.)

	1931			1930	
April	March	February	January	December	November
145	151	154	157	164	162
					157

More recent returns are not available.

Fourthly, the agrarian crisis continues unabated. The Farm Board's tremendous stocks of wheat (300 million bushels) and of cotton depress the prices of these two most important staple products of United States agriculture.

Fifthly, capital exportation is reduced to a minimum by the universal crisis, which in Central Europe, South America, and Australia has assumed the form of a regular crisis of finance, banking, and credit. Without a big exportation of capital, however, no improvement can be looked for even from foreign trade, as we have already pointed out.

Thus everything points towards the crisis in the United States, the most powerful capitalist State, still lasting for a long while, at least till the spring of 1932. And without an improvement in the United States, an improvement in the other capitalist countries is highly improbable.

²⁰) Survey of Current Business, June 1931.