

INTERNATIONAL PRESS CORRESPONDENCE

Vol. 14 No. 49

17th September, 1934

Economy and Economic Policy

In the Second Quarter of 1934

(Concluded on July 21, 1934)

By E. Varga

I. From the First Round of Revolutions to the Second

Twenty years have passed since the beginning of the world war. These twenty years were probably the most eventful in the history of humanity. In no period of world history did social development make such immense strides as during this period.

These twenty years divide themselves naturally into the following periods:

- The world war itself;
- The first round of revolutions;
- The period of relative stabilisation; and
- The third post-war period.

In this last period the relative stabilisation of capitalism came to an end and the second round of revolutions and wars approached. There is no doubt that this third post-war period will end in a round of revolutions.

Under the circumstances it would appear useful to compare the first round of revolutions, whose events and experiences are now behind us, with the second round of revolutions in which the proletariat of many countries will engage in a bitter struggle with the bourgeoisie.

The individual periods naturally merge into each other. The Russian Revolution began in 1917, at a time when the world war was still in progress. The first round of revolutions ended, as the programme of the Communist International points out, in 1921, but it manifested itself for the last time in the revolutionary situation in Germany in 1923. The future historian who looks back on the events of the present day may perhaps come to the conclusion that the second round of revolutions opened up with the Chinese revolution, the Spanish revolution, and the fighting in Vienna. However, future history does not interest us now, but the struggle which is immediately before us. We shall therefore endeavour to give an analysis of the relation of forces in which the second round of revolutions will proceed. In order better to understand the situation to-day we shall refer to the events of the first round of revolutions for the purpose of comparison.

The problem of obtaining the victory in the approaching second round of revolutions will undoubtedly be the centre of the debates of the Seventh Congress of the Communist International. We shall confine ourselves to giving an analysis of the situation without going into any detailed discussion of the strategic and tactical problems.

The past round of revolutions and the coming round have one thing in common, namely, the rise of the revolutionary situation on the basis of the general laws of capitalist development. Capitalism is a mode of production which is historically evanescent and doomed to destruction. In this sense the final victory of the proletariat is certain, and no Marxist-Leninist can have any doubt at all about this. The existence of the general crisis of capitalism is synonymous with the existence of the **general historic preliminary condition for the overthrow of bourgeois class dominance and for the victory of the proletariat.** However, within the general crisis of capitalism there are periods in which the revolutionary crisis is acute and periods in which the prospects for a victorious proletarian revolution are less favourable. Therefore, it is not sufficient to say that in the period

CONTENTS

I.—From the First Round of Revolutions to the Second

- (1) The Economic Situation
- (2) The Antagonisms Within the Ruling Classes
- (3) The Imperialist Antagonisms
- (4) The Problem of the Proletarian Reserves
- (5) The Alteration in Character of the Revolutionary Movement in the Colonies
- (6) The Revolutionary Role of the Soviet Union
- (7) The Progress of the Subjective Revolutionary Factor

II.—Germany at the Turning Point

- (1) The Contradiction between Rising Production and Intensifying Crisis
- (2) The Catastrophic Situation of the Fascist State Budget
- (3) The Budget Deficit as the Starting Point of Internal Inflation
- (4) The Raw Materials Crisis
- (5) The Approaching Catastrophe
- (6) More Work for Less Wages

III.—Special Section

- (1) Great Britain
- (2) Italy
- (3) The United States
- (4) Japan

of the general crisis of capitalism the general preliminary conditions for the victory of the proletarian revolution are given.

When we examine the differences between the first round of revolutions and the second we shall find that the most important is the fact that **the first round of revolutions developed on the basis of the world war**, although the Russian Revolution might be considered an exception, as it was rapidly developing even before the outbreak of the world war. Without the world war and the terrible sufferings it brought in its train, the crisis of the ruling classes and the loss of their authority, particularly in the vanquished countries, and the mass revolt in Europe, both of which are the necessary conditions for a revolution, could not have occurred at that period.

Before the world war, once again with the exception of Russia, the problem of the conquest of power by the proletariat was nowhere raised as an immediate aim of the struggle. It is true that even before the world war great revolutionary struggles of the proletariat took place in Europe, but these struggles had aims which were realisable within the framework of capitalist society: the struggle for the general franchise, strikes for the improvement of wages and working conditions, etc. The conquest of power by the proletariat appeared to the workers and their social democratic leaders as a far off and hazy aim and not as a concrete task to be performed in the present. If we look at the pre-war social democratic literature, once again with the exception of the Russian, for instance, Kautzky's "Way to Power," the writings of the American revolutionary De Leon and others, we find interesting passages dealing with the necessity of the overthrow of the bourgeoisie and with the tasks which the proletariat would have to face after coming to power, but nowhere do we find, except in the literature of the Bolsheviks, the problem of the struggle for power considered as a concrete strategic and tactical task of the present. The slogan of Bernstein: "The movement is everything; the aim is nothing," showed clearly enough how negligible reformism, which finally practically dominated the social democracy, considered the final aim to be. Without the world war the first round of revolutions would not have taken place.

The decisive historic difference between the second round of revolutions which is now developing and the first round is that the present revolutionary crisis is developing before the second round of wars. This naturally does not mean that the second round of revolutions will not coincide in time in part with the new world war, that it will not merge into it. On the contrary, this is highly probable. However, the second round of wars will not be the preliminary condition for the second round of revolutions as the world war was for the first round of revolutions. The fact that at present the revolutionary crisis is developing before war and without war is a result of the intensification of the contradictions in the period of the general crisis of capitalism, a result of the unparalleled severity of the economic crisis of the last five years. Historically considered, therefore, the preliminary conditions for the victory of the proletarian revolution in the approaching second round of revolutions are much more favourable than they were during the first round. It would be premature to decide now whether the second round of revolutions will take place before the outbreak of the new world war, or together with the world war, or, what is not impossible, that victorious proletarian revolutions in various countries will replace the imperialist war by a class war between the countries in which the proletariat has come to power and those in which the bourgeoisie still maintains power. One thing, however, is certain: should the new imperialist world war begin before the second round of revolutions, then the war will tremendously accelerate the commencement of the revolutions. The possibility of transforming the imperialist war into a civil war to overthrow the bourgeoisie at home is at the present time incomparably greater than it was during the last world war.

The chief points in the comparative analysis of the first and the second round of revolutions would appear to us to be the following:

1. The economic situation during the first round of revolutions and the economic situation to-day;
2. The development of the contradictions within the ranks of the ruling classes;
3. The imperialist antagonisms;
4. The problem of the proletarian reserves;

5. The alteration in character of the revolutionary movement in the colonies;

6. The revolutionary role of the Soviet Union; and

7. The progress of the subjective revolutionary factor.

(1) THE ECONOMIC SITUATION

The first round of revolutions took place in the period of economic crisis immediately following on the world war. However, this crisis was not a typical crisis of over-production. The economic situation was strongly influenced by the world war which had just ended. The world war had caused an extremely uneven development of production according to countries and branches of industry. In the belligerent countries those branches of industry which served immediate war purposes, such as the metallurgical industries, the chemical industries, etc., had grown tremendously. In the formally or practically neutral overseas countries (both the United States and Japan belong in this category) there was a considerable extension of agricultural production and of industry. On the continent of Europe, on the other hand, the commodity stocks were almost completely exhausted, the productive forces to a large extent destroyed, basic capital and buildings, with the exception of the war industries, had not been replaced, and large areas had been devastated by the military operations. These circumstances gave the immediate post-war period its special character. Whilst in the neutral countries a real crisis of over-production developed after the war orders ceased, and the industries reorganised themselves for peace-time production, in large areas of Europe there was "under-production" as a result of the fact that the productive forces had been destroyed to a considerable extent and the population impoverished. The thesis of the Third Congress of the Communist International therefore declared: "The present economic crisis in Europe is one of under-production." And in his speech to the Sixteenth Congress of the Communist Party of the Soviet Union, Stalin declared deliberately: "The economic crisis which the world is at present experiencing is the first **world-wide** economic crisis since the world war."

The political significance of the fact that the crisis which developed immediately after the world war was greatly influenced by the world war is very great. This circumstance permitted the bourgeoisie and the social democracy to represent the crisis as entirely the consequence of the world war, to deny the existence of the general crisis of capitalism, and with the assistance of such pacifist slogans as "That was the war to end war!" "No more war!" and so on, to deceive the proletariat into the belief that an improvement of its situation within the framework of the capitalist system was possible.

The fact that the first post-war crisis was not an all-round crisis of over-production, and that in Europe the devastations caused by the war, the using up of basic capital, the standstill of house building, etc., that is "under-production" played a role, provided the basis for the great increase in industrial production which took place in the period of stabilisation. Although the crisis of 1920-21 touched a lower ebb than all previous crises measured by the volume of industrial production, it did not last very long.

In the United States the lowest point of the crisis was reached about a year after the end of the war. The recovery process went so quickly that in about eighteen months production had reached the level of the previous phase of prosperity. The restoration of the devastated areas, the increase and renewal of basic capital used up during the war, the resumption of building activity interrupted during the war, and the replenishing of stocks of goods which had gone down to zero during the war, all permitted an increase of industrial production in the period of relative stabilisation far beyond the normal.

As a result the bourgeoisie and the social democracy were able to spread illusions amongst the working class that the stabilisation was not a relative and temporary one, but a permanent advance to prosperity. It also provided the basis for Hilferding's theory that the capitalist mode of production was about to enter into a protracted phase of advance, and for the illusions of permanent prosperity.

The crisis of 1929-33 developed on the basis of the relative stabilisation, and which was brought to an end by tremors arising from inner causes. With this the correctness of the attitude of the Communist International, which contended that the stabilisation of capitalism was only temporary, was proved. The great

length of the crisis, unparalleled in the history of capitalism—it lasted three years before the crisis reached its lowest point in the most important countries in the middle of 1932—the unparalleled depth and intensity of the crisis, and the tremendous volume of unemployment never before experienced, put an end to the illusions about “permanent prosperity,” a new long phase of capitalist advance, and the possibility of improving the situation of the working class within the capitalist order of society in the present period of general crisis. This time the bourgeoisie and the social fascists have no possibility of placing the responsibility for the crisis on to the last world war,* and fostering the illusions created by them in the period of relative stabilisation. This is the great political significance of the fact that the economic crisis developed after the stabilisation and upon the basis of the stabilisation.

The following important question now arises: At the moment the world capitalist economic system is in a phase of depression “of a particular sort,” as Stalin puts it, after having overcome the lowest point of the crisis. Will not the development into the depression retard the further development of the revolutionary crisis? Is the thesis of the Thirteenth Plenary Session of the Executive Committee of the C.I., according to which the world is on the threshold of a second round of revolutions, still correct or not?

We are of the opinion that this question must be answered in the affirmative.

Decisive in this respect is that the situation of the working class and of the toiling peasantry has altered only very little as the result of the development into the period of depression, and that for the moment at least there is no basis for any phase of industrial prosperity, and still less is there a basis for a diminution of the agrarian crisis.

It is perhaps as well that we should examine more closely the character of the present phase of depression “of a particular sort” from the point of view of the further development of the revolutionary crisis in order to avoid wrong interpretations. The most important points would appear to us to be the following:

(1) The lowest point of the crisis measured by the volume of industrial production is still lower than the **lowest point** of former crises in the majority of countries. For instance, in the United States and in France the level of industrial production is still 30 per cent. under the level of the prosperity period, or far lower than the depth of any previous crisis.

(2) The development into the phase of depression is proceeding very unevenly in the various countries. Whilst in Sweden, for instance, according to official figures, industrial production to-day is already back to the level of 1929, and in Great Britain industrial production is only from 3 to 4 per cent. lower than the average of 1929 (although it must be remembered that Great Britain did not enjoy any period of prosperity following on the war), there are a number of countries, such as France, Belgium and Switzerland, where industrial production is still declining, and there are also some countries, such as China, where the crisis is still intensifying. And despite all the optimistic official reports of improvement there can be no doubt that the economic situation in Germany is proceeding towards a catastrophe.

(3) The improvement of the economic situation which showed itself in the most important capitalist countries, the United States, Great Britain and Germany, came to a standstill at the beginning of summer 1934, and a new decline has set in. The second half of 1934 will undoubtedly see a worsening of the economic situation of capitalism. The special character of the depression shows itself here clearly.

(4) The situation of the working class and of the peasantry in the phase of depression is decisive. In his speech Comrade Stalin pointed out that the improvement in industry had taken place at the cost of the workers, the peasants and the colonial peoples. This alone is sufficient indication that the depression will not retard the development of the revolutionary crisis.

One of the most important factors in this connection is that unemployment shows no tendency to drop back to normal limits. The increase of industrial activity in certain countries and the shortening of the working week in the United States by law, have raised the number of those employed, but the process of

rationalisation which was continued throughout the crisis has caused the reduction of unemployment to be tremendously less in proportion to the increase in production. According to bourgeois statistics (“Wirtschaft and Statistik,” May, 1934), the movements of unemployment and production during the last year or so were as follows:—

December, 1932	December, 1933	March, 1934
28 millions	23.5 to 24 millions	22.5 millions
Index of production of capitalist world		
	76.2	82.2

These figures are valuable dynamically and not as absolute volumes.

This disproportion in the development of production and the reduction of unemployment can be seen still more clearly in the statistics of individual countries. In the United States, according to the figures of the Federal Reserve Board, industrial production in 1923-25 was 100. Between March, 1932, and March, 1934, it rose by 28 per cent. According to the figures of the American Federation of Labour there were 11 million unemployed workers in the U.S.A. in April, 1932, and in April, 1934, 10.6 millions. Despite an increase in production by 28 per cent. there was hardly any decrease of the volume of unemployment.

Swedish figures give us a similar picture. According to the official statistics industrial production in Sweden rose in April, 1934, to the level of 1929. However, according to official figures, there were at this period still 160,000 unemployed workers and 24 per cent. of the workers organised in trade unions were unemployed. Whilst the index of industrial production rose between March, 1933, and March, 1934, from 85.6 to 102.9, the percentage of unemployed workers organised in trade unions fell from 28.6 to 24 per cent. only in the same period. In the first quarter of 1934 industrial production in Great Britain was only 4.4 per cent. below the highest level of 1929, but still there were 2.5 million unemployed workers registered at the labour exchanges and 18 per cent. of all insured workers were unemployed.

These figures show that the volume of chronic mass unemployment is much greater than it was before the crisis, that it is much greater than it was at the lowest point of the crisis, and that it remains in existence even when in individual countries the level of industrial production rises to 1929 heights or even higher.

The cause of this phenomenon is the further development of rationalisation during the crisis, which has increased the intensity of labour-power to an extent far in excess of the extension of the demand on the labour market. The following table* clearly shows us the development in the United States:—

Year	Index of Production Per Worker Per Hour	Index of Hourly Wages	Index of Weekly Wages	Wage share in Value of Com- modity Unit
1929	100	100	100	100
1930	100.9	100	90.6	101.3
1931	110.2	93.8	79.2	90.6
1932	119.6	84.4	60.2	79.5
1933	130.1	83	61.9	69.9

The whole development of the past five years proves the correctness of the thesis which we put forward even before the crisis, according to which in the period of the general crisis of capitalism in the highest developed capitalist countries there is a tendency to dismiss for good and all many of the workers employed by industrial capital in the Marxian sense. (By industrial capital Marx means capital invested in industry, in agriculture, run on capitalist lines, in the building industry and in goods transport.) The number of those workers who are exploited by industrial capital, those who directly create value and surplus value shows a tendency to decline absolutely in the highly developed countries of capitalism. At the same time there is a tendency for labour-power to drift into the sphere of distribution and into the service of the consumers, whilst a growing section of the working class, apart from cyclical vacillations, is unemployed. This process shows most clearly the rottenness of capitalism and its incapacity to utilise the most important productive force, the labour-power of the people, productively.

The development into the depression in the present situation of tremendous chronic unemployment has also led to no increase in the real wages of the fully employed worker. On the contrary the rising prices, the rising cost of living, have led during the past eighteen months to a further deterioration of the situation of even the fully employed worker. From the side of the working class therefore we need expect no retarding of the development

* The bourgeois economist Ayres attempts, in his book “The Economics of Recovery,” to represent the present crisis as a belated effect of the world war.

* Figures of the Conference Board Service Letters.

of the revolutionary crisis. This is proved best by the tremendous labour struggles at present taking place in the United States, France and Spain, and even in "peaceful" countries such as Switzerland and Holland.

The development into the phase of depression has also not brought about any improvement in the situation of the broad masses of the peasants. The prices of certain agricultural products such as wool and rubber have risen, it is true, but on the other hand the prices for cattle and cattle products have in general continued to fall. The bad harvests caused by the drought in wide areas of the northern hemisphere, the United States, Canada and the Basin of the Danube, will accelerate the process of the mass ruin of the small and middle peasants. Although the prices of grain commodities have risen as a result of the drought, the small and middle peasants are not in a position to benefit from this at all because, generally speaking, their harvests are no more than sufficient to supply their own needs. This deterioration of the situation of the broad masses of the peasantry as a result of the drought will undoubtedly accelerate the process of revolutionisation in their ranks.

Further, there is no doubt that the present phase of depression will not develop evenly into a general period of recovery. In this connection it is of particular importance that just those qualitatively new elements of the economic crisis which were not present in earlier crises will continue to operate throughout the period of depression. This is true above all of the **collapse of the international money and credit system.** The process of currency depreciation has not come to a stop with the transition to the phase of depression. In the half-year from December, 1933, to May, 1934, the currency quotations of 35 States have altered on the world markets. In only two cases, Venezuela and San Salvador, was this alteration one for the better; in the 33 other cases there was a further depreciation. The most important cases are the following:—

Japan	U.S.A.	Gt. Britain	Canada	Argentine	Hungary
9.2	7.1	7.4	8	9	10.3
	Czechoslovakia	Uruguay	(Maximum)		
	16	27			

When considering the significance of these figures we must remember that before the war a variation of a few per cent. from gold parity was considered to be an event of tremendous importance.

This table does not take into consideration depreciation such as has taken place in Germany and Roumania, but which is not officially admitted, the gold parity being maintained in State-regulated operations with foreign countries.

The failure to respect international obligations also still continues. Great Britain has now finally stopped all war-debt payments to the United States, whilst Germany has declared a moratorium for all foreign debts. The retaliatory measures now being adopted by Great Britain and France will undoubtedly lead to a further diminution of international trade and accelerate the process of the disintegration of the world market into individual countries shutting themselves off from all other countries to an increasing extent.

The progressive failure to fulfil foreign obligations naturally retards the export of capital. It is indicative of the depth of the present crisis of capitalism that that decisive element which Lenin declared characteristic for imperialism, i.e., the export of capital, has practically been at a standstill for years. However, without a resumption of capital exports those countries which are weak in capital will not be able to improve their economic situation.

From all these factors it follows that there is no improvement of the economic situation to be expected for the second half of 1934, but rather new reverses in many countries. The depression will undoubtedly deepen instead of developing in the normal course into a period of general recovery. From this it also follows that the situation of the workers and peasants will not improve and that in consequence the development of the revolutionary crisis is assured from this quarter.

(2) THE ANTAGONISMS WITHIN THE RULING CLASSES

In the period of the first round of revolutions there was, as Lenin pointed out, undoubtedly a crisis in the "upper layers," particularly in the vanquished countries, and without such a crisis there can be no revolutionary crisis. However, this crisis was above all a result of the war and it expressed itself above all in the collapse of the apparatus of power and in the loss of the authority

of the ruling classes. It was less a consequence of struggles within the ranks of the ruling classes over the division of the surplus value, because during the war the ruling classes pocketed huge sums in war profits and therefore had large reserves at their disposal despite the general impoverishment of the belligerent countries. Further, as we have already pointed out, the post-war crisis was a relatively short one.

During the course of the present economic crisis, however, the antagonisms between the individual sections of the ruling classes have become very acute. As Marx pointed out, the fight over the division of the losses is always much fiercer than the fight over the division of the gains. The depth of the crisis has led to a diminution of the sum of surplus value to be divided, because the number of workers exploited fell to half and the increase of the rate of exploitation was not sufficient to make up for this great diminution in the number of workers exploited. In addition, there was the heavy drop in prices, which caused commodities to be sold at below their production price. The sum of profit realised was therefore smaller than the sum of the appropriated surplus value. As this surplus value was divided very unevenly according to the strength of the monopolies, as the strongest monopolies took the lion's share of the diminished sum of surplus value, fierce struggles developed within the ranks of the ruling classes and evinced a tendency to develop still further into a crisis within the upper classes.

The decisive sections and groups in the ranks of the ruling classes attempted to utilise the State power, in order to influence the division of the profits in their own favour. A fierce struggle therefore developed to obtain influence on the State between all classes, sections and groups of the ruling classes. The political form which these struggles took was the atomisation of the bourgeois parties, the parliamentary confusion, the permanent chaffering between the parties, the formation of short-lived coalitions, the rapid succession of Cabinet crises, and the more or less permanent crisis of the parliamentary form of the bourgeois dictatorship. Fascism is striving to overcome this developing crisis in the ranks of the ruling classes by violently forcing unity on them under the leadership of finance capital and by abolishing parliament altogether.

Fascism is naturally unable to do this, and the more serious the economic situation becomes the less become its chances of doing so. All that fascism can do is to prevent these struggles within the ranks of the ruling classes from being fought out openly. The struggle then takes on various ideological cloaks, such as the church struggle and the monarchist movement in Germany. These internal struggles in the ranks of the bourgeoisie are proceeding to-day in all capitalist countries, and we can see them in a particularly intense form in France Austria and Spain, and they are showing a tendency in connection with the growing discontent of the oppressed classes to develop into an "upper class" crisis. The development of the economic crisis into the phase of depression has produced no change in this respect, as we can see with particular clarity from the examples of the United States, Austria and Japan. Considered from this angle, therefore, the maturing of the revolutionary crisis is still continuing.

(3) THE IMPERIALIST ANTAGONISMS

In the first post-war period the foreign political situation was comparatively simple. There was a block of the victorious States, the vanquished States and the Soviet Union. For the moment the victorious imperialist powers were sated. They occupied themselves with the digestion of their booty and with measures to secure them in its possession. The vanquished States were helpless. On this basis and with a view to soothing the masses who were in revolt everywhere as a result of the war sufferings, the democratic-pacifist era developed under the slogan: "No more War!" To consolidate the peace of the world, or, in other words, to consolidate the re-division of the world which had taken place as a result of the war, the League of Nations was founded. The League had a second aim, and that was to serve as an organising centre for the counter-revolutionary war against the Soviet Union.

Naturally, the antagonisms within the block of the victorious States had not been reconciled. The formation of a block of capitalist States never does any more than postpone the final settlement of their differences. Even during the war antagonisms had existed within both of the belligerent blocks. The British

attack on the Dardanelles, for instance, was directed not only against Turkey, but also against Tzarist Russia. The United States government hesitated a long time before it finally decided which side it would support. Strong antagonisms between Germany and Austria also existed during the war, and this was clearly seen in the Austrian effort to abandon Germany and secure a separate peace. However, the victorious States succeeded in composing their differences for the moment in the Washington Agreement and in the Dawes Plan. The agreement to exploit Germany jointly, to plunder China, and not to interfere with each other in their "own" colonies was, as Comrade Stalin has pointed out, the foreign political basis of the temporary stabilisation of capitalism.

Within a decade the uneven development of the productive forces and the lack of any corresponding extension of the capitalist markets destroyed the hardly constructed peace.

The process of the disintegration of the Versailles system is approaching its end. Two of the three main pillars of the Versailles system, the payment of reparations and the disarmament of the vanquished countries, have already crashed. There remains only the territorial limitation of the vanquished countries. Reparations are no longer being paid.* Germany and Hungary are rearming, and the whole conflict at the disarmament conference is not whether Germany should rearm or not but whether this rearmament should proceed with formal international sanction or without it.

In point of fact, Germany's re-armament cannot be prevented by resolutions. The only way to prevent Germany's re-armament would be by war. Sections of the French bourgeoisie seriously considered the possibility of a "preventive war" against Germany immediately after Hitler came to power. Such a war at that time would undoubtedly have been successful. However, the war did not take place because both Great Britain and Italy were opposed to it because its success would have meant the strengthening of the military hegemony of France on the Continent, and because it would have increased the danger of a proletarian revolution in a defeated Germany, and further because a mutual weakening of the two great continental powers would have increased the relative strength of the Soviet Union, a circumstance which the world bourgeoisie would gladly avoid.

All that is left of the Versailles Treaty is the territorial clauses. These territorial clauses can hardly be changed by the interested parties without a new war.

The second main contributory factor to the relative stabilisation of capitalism on the foreign political field, the Washington agreement concerning the territorial inviolability of China and the maintenance of the policy of the "Open Door" for all countries, has been liquidated in effect by the Japanese invasion of Manchuria and by the constant Japanese attacks on North China.

The re-division of the colonies which took place at the end of the world war is still in force, but a further division is now a burning question.

The lack of uniformity in the development in the post-war period prevented the League of Nations from fulfilling the role mapped out for it by the victorious powers at the time of its foundation. The League of Nations showed itself incapable of preventing the practical annexation of Manchuria by Japan, the re-armament of Germany and the outbreak of a series of small wars: Bolivia-Paraguay, Colombia-Peru, Hedjas-Yemen, etc. The League of Nations also showed itself incapable of carrying out the disarmament of the powers so solemnly promised at the end of the war. The disarmament conference of the League of Nations proceeds from one crisis to the next and is not able to secure even a limitation of armaments.

* With the exception of the compulsory deliveries which took place immediately after the signing of the armistice, Germany has paid no reparations at all from its own resources. Between 1924 and 1930 Germany imported about twenty milliard marks of foreign capital and paid about ten milliards of it back again as reparations. Now that Germany has stopped paying interest and amortisation on foreign loans even this reorganised payment of reparations on a commercial basis has ceased. The very considerable adverse balance of Germany's foreign trade in the years 1924-27, which represents the commodity form of capital imports, means that during this period and despite the reparations payments Germany imported a further ten milliard marks from abroad.

The present situation is characterised by the following factors:

(a) The system according to which the world was carved up following on the last war is now in process of disintegration;

(b) All the capitalist States are arming against each other at an unparalleled rate and their preparations for the coming imperialist war are growing rapidly more intense;

(c) The world is approaching the threshold of a new round of wars; and

(d) The imperialist antagonisms are so intertwined that the formation of any firm blocks amongst the imperialist powers encounters great obstacles.

Armaments and the preparations for war are occupying an increasing role in the economics and the economic policy of all capitalist countries. There is no doubt that armaments and other preparations for war played a great part in the increase of industrial production which took place in the years 1933-34. Naturally, it is not possible to calculate exactly the weight these preparations play because:

(1) Apart from the expenditure on armaments admitted in the war budgets of the imperialist powers, many other items in the budget actually represent expenditure for war purposes; and

(2) It is very difficult to calculate in how far the consumptive capacity of society is increased as a result of increased war expenditure. The latter problem depends above all upon the manner in which the expenditure is financed. If this expenditure is financed chiefly from taxation, then there is no effect on the consumptive capacity of society because the population receives back from war expenditure only that sum which was previously taken away from it in taxation. However, if war expenditure is financed by the floating of loans, that is to say, if idle loan-capital is brought into action, then the result is a temporary enlivenment of industrial activity as the result of increased armaments. According to calculations we have made, but which we shall not repeat here owing to their extreme complication, one can assume that anything from ten to forty per cent, of the increased industrial activity which took place in 1933 in the various capitalist countries was due to increased war expenditure, the figures varying according to the size and importance of the war industries in the various countries. There is, further, no doubt that the armament race increased in intensity in 1934. In Germany and Japan all economic forces are being strained to the utmost in the preparations for imperialist war. The press outside Germany brings new details of Germany's armaments almost every day. Great Britain has announced its intention of doubling its fighting air force, and it is building a new chain of naval bases from Singapore to Australia in order to cordon off the Indian Ocean from the Pacific Ocean. The United States is working feverishly to bring the strength of its fleet up to the limits of the Washington agreement and it is preparing air ports in Alaska for an attack by air on Japan. In France a supplementary credit of three milliard francs has just been voted for armaments, etc.

The preparations for war are increasingly dominating the economic policy of the capitalist countries. Each capitalist country is doing its utmost to provide itself with the necessary raw materials and foodstuffs in case of war. This explains the efforts being made in Germany to cultivate oil-bearing plants, in Great Britain to cultivate beetroots for sugar, in Hungary to extend the sheep-breeding industry, etc. At the same time all countries, even the small agricultural States, are doing their best to build up at least a minimum of heavy industry, in order in case of war to be able to produce at least a part of the necessary arms and equipment at home. These efforts strengthen the process of the dissolution of the international division of labour, a process which was set in motion by the fierce struggle for markets. The ideological reflection of this process is the theory of autarchy, or economic self-sufficiency.

Parallel with all this, all countries are engaged in preparing their economic system organisationally for the stress of war. All capitalist countries have worked out a detailed plan for the mobilisation of their industries and their transport systems for war. In Japan and in Germany considerable progress has already been made with the governmental organisation of the supply of raw materials. In Germany almost all raw materials are already controlled by State boards. The political significance of these open preparations for war is that the masses are being clearly shown the misery which a new war will bring down upon them. As during the world war, the masses are once again faced with the inexorable alternatives: **Either they will permit themselves to**

be led to the slaughter in the interests of the bourgeoisie or they must take up the revolutionary struggle for the overthrow of the bourgeoisie.

The fact that up to the present there has been no war on any considerable scale is due, apart from the weight flung by the Soviet Union into the scale on the side of peace, to the fact, as already pointed out, that the imperialist antagonisms are so complicated that they have so far prevented the formation of any firm blocks amongst the imperialist powers. The formation of a block between Japan, Germany and Great Britain is going on, although perhaps no formal agreements have been made, with a view to a counter-revolutionary war against the Soviet Union. However, there has as yet been no clear alignment amongst and between the imperialist powers, owing to the variety and the complication of their antagonisms. The bourgeoisie of each capitalist country is manoeuvring on all sides. Continually new combinations are being made, negotiations are proceeding all the time, Cabinet crisis follows Cabinet crisis, and conference follows conference, but the net result is that even the French system of military alliances in the East of Europe, which was the only firm block formed since the end of the last war, and which aimed at defending with armed force the territorial provisions of the Versailles Treaty, is now showing signs of crumbling. The intricate and labyrinthine state of the imperialist antagonisms was well described in the "Fuehrer-Briefe," of April 17, a publication intended for a small and select circle of the German bourgeoisie:

"The characteristic feature of the latent strain in Europe is that no country can give a satisfactory affirmative to one side without all the other partners in the game suspecting that the affirmative contains a negative against themselves." It is impossible to give any satisfactory analysis of these imperialist antagonisms here, but the following are a number of characteristic examples:

Great Britain and Japan are undoubtedly potential allies, both against the Soviet Union and against the United States, but Japan also threatens Great Britain's Asiatic colonies. Japan threatens Great Britain's interests in China directly, and in the last resort Great Britain's position in Asia in general and in India in particular. The activity of Japanese diplomacy in Central Asia, in Siam and in Abyssinia, the slogan, "Asia for the Asiatics!" and the slogan, "Down with the White Conqueror!" are dangerous to Great Britain. Great Britain has the greatest difficulty in keeping its Dominions safely within the British Empire, and they are hostile to any alliance with Japan, and in such an event there would be a danger of their going over to the United States. And, further, Japan is the most dangerous competitor of Great Britain in the manufacturing industrial market. This complicated situation reflects itself in the fact that Great Britain is in effect the ally of Japan against the Soviet Union and the United States, but that at the same time it is speeding up its naval preparations to prevent any Japanese penetration into Australia, the Dutch East Indies and India itself.

Great Britain's relations to Germany and France are just as complicated. Great Britain's traditional policy on the Continent is the balance of power, a constant striving to prevent any one power gaining complete hegemony. In pursuance of this policy, therefore, Great Britain has supported Germany to a certain extent against France since the end of the war. However, Germany's strong industrial power is the basis of a potential strong military power. If the rearmament of Germany, particularly naval and air armaments, continues at its present rate, Germany will soon be economically and militarily just as dangerous an opponent of Great Britain as it was before the last war. The pre-war situation would be re-enacted again in all its essentials, providing, of course, that a proletarian revolution in Germany does not put a stop to this development. On the other hand, France is strategically far more dangerous to Great Britain than it was before the last war. The advantage of its island position to Great Britain has been tremendously reduced by the development of the air arm and the development of the submarine arm. This means that Great Britain dare not enter into any war unless it is previously sure of at least the benevolent neutrality of France. The alternative is therefore: an alliance with France or the prospect of a war against France.

The relations of France to Germany and to Italy are just as complicated. Germany and Italy are both opposed to French military hegemony on the Continent, but at the same time Italy

is opposed to Germany's expansionist tendencies in Central Europe, and in particular to any *Ausschluss* with Austria. The significance of Italy's agreement with Austria is that in the event of Germany trying to force the *Anschluss* by military means Germany would find itself faced with Italian troops on Austrian territory. In this question there is undoubtedly a united front between France and Italy.

Together with this extreme complication of the imperialist antagonisms the unswerving policy of peace pursued by the Soviet Union has been one of the chief factors which have prevented the outbreak of a new world war up to the moment. The international position of the Soviet Union to-day is incomparably stronger than its position during the first round of revolutions. At that time Winston Churchill was in a position to boast that he had succeeded in uniting 14 States in an intervention against the Soviet Union. To-day the Soviet Union is the centre of attraction for all those small countries which have nothing to gain and everything to lose by war, for all those countries which have no use for war at the moment, and for all those countries which are threatened with degradation to the level of imperialist colonies as a result of the next world war. The unswerving policy of peace pursued by the Soviet Union has led to the conclusion of a system of pacts of non-aggression containing a clear definition of the aggressor. When calculating the importance of these successes we must avoid two contrary errors. We must not over-estimate the importance of these pacts. The bourgeoisie of the capitalist countries would not hesitate to tear up any treaties providing that the moment was favourable. The Triple Alliance of the pre-war period was not concluded between social enemies, but between three capitalist countries in which the same social system existed and three kings signed the agreement. However, this did not prevent Italy from ignoring its undertakings and actually waging war against its allies.

On the other hand it would be wrong, proceeding from this example, to under-estimate the importance of the pacts. These pacts form an important hindrance to the ideological preparation of a war of intervention against the Soviet Union. If the bourgeoisie of the neighbouring States conclude pacts of non-aggression with the Soviet Union and solemnly proclaim their intention of co-operating with the Soviet Union in the maintenance of peace, they cannot immediately begin a war against the Soviet Union. They would need a certain amount of time in which to prepare their own peoples for an altered foreign policy and for a war against the Soviet Union. Although this period of time may not be very long in view of the monopoly which the bourgeoisie has of the press, etc., in all capitalist countries, at least the pacts do guarantee a certain breathing space. Further, they strengthen the influence of those elements in the countries in question, and above all the proletariat, which are interested in the maintenance of peace.

Another important factor which holds up the outbreak of the next imperialist war is that the bourgeoisie in all capitalist countries is afraid that the imperialist war might develop into a civil war. And in fact this danger is incomparably greater than it was during the last world war, because the new round of wars would begin in a period in which the revolutionary crisis is rapidly developing. War, together with the inevitable arming of the proletariat, would naturally greatly accelerate the development of the revolutionary crisis.

(4) THE PROBLEM OF THE PROLETARIAN RESERVES

On the eve of the second round of revolutions the situation of the peasantry is undoubtedly much worse and its discontent much greater than they were during the first round. The peasants, it is true, suffered greatly during the last war, but as a compensatory factor the prices of agricultural commodities were very high everywhere. The inflation had reduced the indebtedness of the peasants and the agricultural crisis was in its first stages only. By promising the peasants new land and by a bourgeois agrarian reform in a number of countries (Roumania and Czechoslovakia), reforms whose character the peasants did not grasp immediately, the bourgeoisie succeeded in pacifying the peasantry.

Since the end of the first round of revolutions the chronic agrarian crisis has developed tremendously and has been aggravated greatly by the industrial crisis. This has led to the mass ruin of the small and middle peasants (and in part even to the ruin of many of the former rich peasants) in all capitalist countries. On this basis powerful peasant movements developed. In a few countries (Bulgaria, Poland and Greece) the leadership of these

movements was in the hands of the Communists, but in other countries the fascists succeeded in obtaining the leadership of these movements and turning what should have been a reserve of the proletariat into a reserve of the bourgeoisie. However, this success of the fascists can be no more than temporary, for the bourgeoisie is not in a position to solve the chronic agrarian crisis which is an essential part of the general crisis of capitalism. Where fascism comes to power all it can do is to assist a small upper strata of the peasantry, but it can never help materially the masses of the poor and middle peasants.

The result of this is that the Communist Party has the possibility of winning these vacillating sections for the revolution. The hegemony of the bourgeoisie over the peasantry which was formerly a matter of course, because the peasants represent the broadest section of the property owners in capitalist society and were prepared to defend not only their own peasant property, which they used as an instrument to fructify their own labour power, but also the private property of the capitalist in the means of production which was used for the purposes of exploitation, has now been considerably shaken. The great mass of the peasants has come into movement and the possibility of winning them for the revolution with a correct policy and strategy on the part of the Communist Parties is much greater to-day than it was in the first round of revolutions.

The situation with regard to the various strata of the petty bourgeoisie in the towns, the small artisans and small traders, etc., is similar. These sections have been robbed of their livelihood, ruined and driven into bankruptcy on a large scale by the rapid development of monopoly capitalism, or, whilst apparently maintaining their independent existence, they have sunk to the position of paid agents of monopoly capitalism. The "new middle class," the officials and clerical employees, suffer from the chronic mass unemployment no less than do the workers. The rationalisation in clerical activity which has taken place during the crisis, the adoption of labour-saving devices of all sorts, have undoubtedly greatly increased the chronic mass unemployment amongst these sections. With regard to the intellectuals and the professional men, their avocations are so overfilled that in almost all capitalist countries attempts are being made to cut down the number of students permitted to enter the universities. The possibility of winning sections of the vacillating urban petty bourgeoisie away from the bourgeoisie and over to the side of the proletariat is undoubtedly much greater to-day than it was during the first round of revolutions.

(5) THE ALTERATION IN THE CHARACTER OF THE REVOLUTIONARY MOVEMENT IN THE COLONIES

As a result of a big increase in the demand for agricultural raw materials, the world war improved the economic situation of the colonial countries. As the industries of the belligerent countries were concentrated on the production of war supplies and as there was little shipping available for anything but war purposes, the supply of industrial commodities to the colonial countries diminished. As a result, the development of local industries was greatly encouraged and facilitated. In some cases, for instance, in India, British imperialism itself deliberately encouraged the development of local industry in order to solve the problem of providing the British troops in the Asiatic war area with the necessary supplies. The necessity for the colonial imperialist powers to withdraw their white troops from the colonial countries and even to ship colonial troops to the various theatres of war, caused them to make certain economic and political concessions to the native colonial bourgeoisie. On this basis the theory of decolonisation took on a new life.

In the crisis of 1920-21 the situation altered rapidly. The colonial markets were flooded with industrial goods and the prices for colonial raw materials fell rapidly. The imperialist powers began to adopt their old tone towards the native colonial bourgeoisie, and as a result the colonial revolution developed almost exclusively under the leadership of the native bourgeoisie (Kemalism, Ghandism, the Kuomintang under the leadership of Sun Yat-sen, etc.). In the first round of revolutions the proletariat in the colonial countries played, on the whole, the role of a subordinate factor to the bourgeoisie. Since then, however, the situation has changed radically. The agrarian crisis has dealt heavy blows at the native colonial bourgeoisie, particularly in those countries which rely chiefly on one product. The monopolies formed for the purchase of raw materials deliberately and arti-

ficially depressed prices still further. The degradation of agriculture and the mass ruin of the colonial peasantry has set in quite openly.

The revolutionary struggle of the colonial peoples for emancipation is developing on a broad front not only in Asia, but also in South and Central America, and it is taking on more and more the character of a class struggle not only against the imperialist bourgeoisie, but also against the native exploiters, the feudal landowners and the bourgeoisie which as a result are turning to an increasing extent to the imperialists for protection against the rebellious peasant masses.

The hegemony in the national revolutionary struggle for freedom is passing more and more into the hands of the proletariat. Communist Parties have developed in almost all the colonial countries, and they are fighting to secure the hegemony of the proletariat in the struggle. This movement has progressed farthest in China, where a democratic dictatorship of the workers and peasants under the leadership of the Communist Party has been set up in wide areas.

This alteration in the character of the revolutionary movement in the colonies is one of the most important factors rendering the prospects of victory of the proletarian revolution in the coming second round of revolution more favourable than they were in the first.

(6) THE REVOLUTIONARY ROLE OF THE SOVIET UNION

The decisive factor amongst those favouring the victory of the proletarian revolution in the coming second round of revolution is the tremendous increase in the revolutionary role played by the Soviet Union.

During the first round of revolutions the Soviet Union was hard pressed by great economic difficulties which had arisen partly as a result of the imperialist war and partly as the inevitable payment which had to be made for the revolution. It was the period when the proletariat of the Soviet Union appealed to the international proletariat for help against the famine. Although the international proletariat gallantly supported the Soviet Union in its struggle against the intervention, the bourgeoisie and the social democrats were nevertheless able to exploit the economic difficulties of the Soviet Union. The slogans of the bourgeoisie and of the social democracy, "Without the bourgeoisie the productive forces cannot be kept at work!" "The dictatorship of the proletariat means starvation and misery for the masses!" had their effect on the less class-conscious sections of the workers, and hampered the development of the subjective factors of the revolutionary crisis.

Since then the situation has completely changed. In the struggle of the two systems, the Soviet socialist system has proved its superiority beyond the shadow of a doubt. Whilst the industrial production of the world is still about 10 per cent. below the pre-war level, the industrial production of the Soviet Union is at least three times as great as the industrial production of the former tsarist Empire. In the capitalist world there is hunger and chronic mass unemployment, whilst in the Soviet Union there is a shortage of labour power. In the capitalist world the masses of the peasants are ruined, and agriculture itself has slid into a state of degradation, whilst in the Soviet Union the peasants are advancing to well-being on the basis of the collective agricultural system, whilst agriculture itself is making rapid strides. Under capitalism there is a decline of culture everywhere, whilst in the Soviet Union there is a powerful cultural advance. Under capitalism the masses are condemned to impoverishment and misery, whilst in the Soviet Union the masses are joyfully engaged in the building up of a classless socialist society.

Under these circumstances the example of the Soviet Union exercises a far more revolutionary effect, not only on the workers, but also on the masses of the peasantry than it did during the first round of revolutions. The bourgeoisie and the social democracy are now no longer in a position to deny the tremendous advance made by the Soviet Union on all fields. They are at their wits end to find new arguments to use against the dictatorship of the proletariat.*

*Hitler, who is undoubtedly one of the cunningest of the bourgeois demagogues, could find nothing more damning to say against the Soviet Union than that the work of construction there had been carried on with the assistance of foreign engineers. This is a very poor argument against the dictatorship of the prole-

Because the revolutionary role of the Soviet Union is incomparably greater to-day than it was in the first round of revolutions the world bourgeoisie is feverishly preparing for a counter-revolutionary war of intervention against the Soviet Union, whereby Japan and fascist Germany, supported by Great Britain, represent the front line troops of capitalism.

Only the fear of the powerful military defensive power of the Soviet Union, and the fear of the proletariat at home, which is far more prepared to transform the imperialist war into a civil war than it was in the first imperialist war, has held back the imperialists up to the present.

Soviet China is also acquiring an increasing revolutionary significance. The fact that the Chinese bourgeoisie, under the leadership of Chiang Kai-shek and with the support of the foreign imperialists, has not succeeded in crushing the Chinese Soviet districts, despite the infinitely better military equipment of the counter-revolutionary forces and despite six carefully organised campaigns, clearly shows the social superiority of the Soviet system. Even bourgeois writers cannot ignore the fact that the situation of the masses in the Chinese Soviet districts is much better than in the other districts, and that self-sacrificing and heroic men and women are at the head of affairs in the Chinese Soviet districts and are prepared to sacrifice everything for the good of the people, whilst opposed to them are a thoroughly corrupt clique of militarists who have sucked the Chinese people dry from time immemorial. Even in "**The Round Table**," one of the semi-official mouthpieces of British imperialism, which can certainly not be accused of any sympathy with Communism, we can find passages like the following:

"Here in Kiangsi there is a real Communist State comprising more than half of the province. During the past three years Chiang Kai-shek has made very little progress against this State, despite his military strength, and he recognises now what every observer is compelled to recognise, namely, that the Communist problem can never be solved except on the basis of an improvement in the economic situation of the Chinese peasantry. Considered generally the Communist revolution is an agrarian revolution. . . . In Kiangsi a handful of convinced and devoted Communists, led by a man with a certain genius for military matters, have maintained themselves for years against all the efforts of their enemies to crush them, and they have maintained the strictest discipline even in an economic situation of extreme difficulty. The real Communists, those who believe in the tenets of Marx and in the Soviets, were never very numerous, although as far as their personal qualities are concerned they are probably amongst the best elements in China. Their supporters are peasants who have been driven to desperation by economic necessity."

If the bourgeois press itself is compelled to write about Soviet China in this tone then we can easily realise what a tremendous revolutionary influence Soviet China must have on the masses of the oppressed and exploited peasantry in the colonial countries, in China, in India, in the Dutch East Indies and in Asia in general. **This revolutionary influence of the dictatorship of the workers and peasants in Soviet China under the leadership of the Communists is a very important factor making for the victory of the proletariat in the coming second round of revolutions.**

(7) THE PROGRESS OF THE SUBJECTIVE REVOLUTIONARY FACTOR

The chief reason for the defeat of the proletariat outside the Soviet union in the first round of revolutions was the weakness of the Communist Parties, a weakness which permitted the social democracy to pacify the revolt of the masses after the end of the war and to give the bourgeoisie sufficient time to reconstruct its apparatus of coercion.

During the first round of revolutions the Communist Parties were very often no more than sects without any real influence

tariat, for first of all the capitalist countries also assist each other in technical matters, and, secondly, and still more important, the foreign engineers, technicians who come to the Soviet Union to assist in the work of socialist construction, do so very often because they are unable to find any scope for their capacities under capitalism. That which Hitler produces as an argument against the Soviet Union is in reality an argument in favour of the Soviet Union.

on the masses, or they were mass parties strongly hampered by the survival of social democratic traditions. In many cases persons were at the head of the Communist Parties who had come to Communism temporarily under the pressure of the masses, only to return to the camp of the enemies of the proletarian revolution after the first wave of revolution had subsided. If we look down the lists of the names of those present at the Second and Third Congresses of the Communist International we shall see the names of many people who are to-day in the camp of the counter-revolution, or the names of comrades like Bordiga, who whilst being honest and courageous revolutionaries are unsuited for Bolshevik leadership.

If we take up the book written at the time by Lenin, "Left-wing Communism," we find what problems he thought it necessary to explain to the delegates in his inimitable and clear fashion: the necessity of party discipline, the relations between the leader and the party, between the party and the class, the necessity of revolutionary work in the reactionary trade unions, the necessity of participation in bourgeois parliaments, the difference between compromises which would mean a betrayal of the interests of the working class and compromises which are necessary in the interests of the further development of the proletarian revolution under certain circumstances. We are given a clear picture of the primitive state in which most Communist Parties were in the period of the first round of revolutions. During the first round of revolutions the Communist Parties gained much experience and made much progress towards their Bolshevisation, **but the progress in the development of the subjective factor of the revolution could not overtake the deterioration in the objective conditions of the revolution.** This was the chief reason for the defeat of the proletarian revolution outside Russia during the first round of revolutions. One of the most important factors making for the victory of the proletarian revolution in the approaching second round of revolutions is the process of Bolshevisation which has taken place in the Communist Parties during the past ten years. Although the Communist Parties are still weak in a number of countries and although many defects are still present in the work of the parties, particularly with regard to the work in the trade unions and in the work for the winning of the masses, **there is no doubt whatever that with regard to quality the Communist Parties of to-day are considerably better than the Communist Parties which existed in the first round of revolutions.**

It is not our task to deal here with the various Communist Parties, but as an example of such progress we should nevertheless like to point to the example of the **German Communist Party**, which succeeded prior to the seizure of power by the fascists in winning six million votes and the majority of the working class in a number of important industrial districts, and which has since succeeded, despite the fierce fascist terror, in reorganising itself for illegal work and in maintaining its organisations intact. We should like to point also to the example of the **Chinese Communist Party**, which hardly existed in the first round of revolutions, but which is at present successfully leading Soviet China, which has organised and is leading the victorious Chinese Red Armies and which is working illegally in the non-Soviet districts of China to win the masses for the revolution. We should also like to point to the heroic fight put up by our **Japanese Communist Party**, which has found the correct Bolshevik path in the struggle against Japanese imperialism, despite the terror and a tremendous wave of nationalist and chauvinist demagoguery.

However, despite the progress made in the Bolshevisation of the Communist Parties, the subjective factor of the revolution is still lagging behind the development of the objective conditions for the revolutionary crisis. This is the reason why the proletariat has not yet succeeded in forcing a revolutionary solution to the economic crisis.

Summing up, we can say the following:—

The prospects for the victory of the proletarian revolution in the approaching second round of revolutions are more favourable than they were in the first round of revolutions. The most important factors determining this are:—

The full development of the general crisis of capitalism, which was only just beginning during the first round of revolutions.

The continuation of the agrarian crisis, which results in the mass ruin and the mass revolutionisation of the peasantry.

The very considerable weakening of the influence of social-fascism on the masses.

The alteration of the character of the revolutionary movement in the colonies in that the hegemony in the national revolutionary struggle is gradually passing from the hands of the native bourgeoisie into the hands of the proletariat.

The great increase in the revolutionary influence exercised by the Soviet Union upon the proletariat, and the great increase of the revolutionary influence of Soviet China upon the masses in the colonial countries; and

The Bolshevisation which has taken place in the ranks of the Communist Parties since the first round of revolutions.

These factors are faced on the other side of the balance by a number of factors which militate against the prospect of a proletarian victory in the coming second round of revolutions. These are:—

The lack of the surprise factor in a historical sense.

The increase in the strength of the apparatus of oppression at the disposal of the bourgeoisie.

The counter-revolutionary influence of fascism on the peasantry and on the urban petty-bourgeoisie and even on certain sections of the working class.

There can be no doubt that in comparison with the period of the first round of revolutions the factors making for the success of the proletarian revolution in the approaching second round of revolutions outweigh the unfavourable factors. Should the new world imperialist war break out before the beginning of the approaching second round of revolutions, the approach of the revolutionary crisis would undoubtedly be greatly accelerated.

This, however, does not mean that the victory of the proletariat in the second round of revolutions will be automatic. The existence of a revolutionary situation does not necessarily mean the victory of the revolution. The bourgeoisie might very well win a victory once again in such a situation, as was the case in Germany, Austria, and Hungary during the first round of revolutions.

Referring to this point, Comrade Stalin declared in his speech to the Seventeenth Congress of the Communist Party of the Soviet Union:—

"Some comrades seem to think that immediately a revolutionary crisis occurs the bourgeoisie necessarily finds itself in a blind alley, that the end of capitalism is predestined and the victory of the revolution already guaranteed, and that therefore all they have to do is to wait for the collapse of the bourgeoisie and in the meantime draft victory resolutions. That is a grave error. The victory of the revolution never comes of itself. It must be prepared and fought for. Only a strong proletarian revolutionary party can prepare and win the victory. There have been moments when the situation was undoubtedly revolutionary and when the power of the bourgeoisie was shaken to its foundations, and still the victory of the proletarian revolution did not come, because there was no revolutionary party of the proletariat in existence strong enough and with sufficient authority to lead the masses to victory and seize power. It would be wrong to assume that such situations cannot be repeated."

It is probable that the struggle for power will take place in many countries during the next imperialist war and in the closest relation with the latter in the form of the transformation of the imperialist war into a civil war for the overthrow of the bourgeoisie. The tasks of the Communist Parties will be tremendous and very complicated. If the Communist Parties prove themselves capable of dealing with the tasks facing them, then the victory of the proletarian revolution in a number of countries during the coming round of wars and revolutions seems fairly certain.

II. Germany at the Turning Point

The Hitler clique has announced repeatedly that "the Marxist class struggle in Germany has been 'liquidated'" and that the German people are now a homogeneous people under the glorious leadership of Hitler. The slaughtering of hundreds of people on the 30th June and the subsequent days, including a Minister still in office, a former Reich Chancellor and numerous others who but a week before were regarded as the pillars of the fascist regime, indicates the sharpness of the internal antagonisms in Germany.

The theory put forward by the Second International according to which the massacre of the 30th June and the subsequent days had nothing to do with the class struggle, but was merely

a struggle for power between rival cliques of bandits,* shows how far the leaders of the Second International have veered away from Marxism and how they have become incapable of seeing beneath the surface of events. Even bourgeois newspapers show a much greater level of understanding when dealing with the German events than do the leaders of the Second International.

An example of this is offered by an article in the "Temps" of the 12th May, 1934, from the pen of the well-known French publicist d'Ormesson on the difficulties of the Hitler regime in Germany. This writer is very far from being a Marxist, but he does not fail to observe the march of class forces in Hitler Germany, the growing discontent of the working class, the increasing influence of the Communist Party, the dissatisfaction of the disappointed petty-bourgeoisie, the insistence of the bourgeoisie that "law and order" should be finally secured, and the rivalry between the Reichswehr and the fascist storm troops (S.A.). His analysis of the situation is miles above the empty phrases of the social-fascist Kern and of the "Neuer Vorwaerts," which completely fail to grasp the class background of the events of the 30th June.

The National Socialist Party in Germany mobilised the masses of the petty-bourgeoisie by means of demagogic and anti-capitalist slogans, but it did not seize power in Germany by virtue of its own strength. It was permitted to enter the government by the most reactionary section of the bourgeoisie. Since the beginning of the Hitler regime in Germany the original programme of the National Socialist Party has been gradually abandoned and the resultant dissatisfaction of the masses which supported national socialism has steadily increased. High-sounding phrases, "radical" manoeuvres, and petty concessions to certain strata of the national socialist supporters are no longer sufficient to hold back the advancing tide of discontent. The slogan of the "second revolution" became more and more popular amongst the petty-bourgeois masses who supported Hitler.

The "Pester Lloyd" of the 3rd August writes:—

"The struggle for power between the supporters of the 'second revolution' and the protagonists of 'law and order' within the national socialist ranks became more and more bitter. The legitimist supporters were recruited chiefly from amongst Germany's industrialists, rich landowners, the higher officers of the Reichswehr and the old Prussian bureaucracy. These circles wanted a restoration, but not the simple restoration of the powers of the old Germany. They wanted no putschist attempts to restore the monarchy, but they undoubtedly wanted a gradual extension of the powers of all those circles which did not regard a dictatorship of the National Socialist Party as an ideal arrangement."

The demands of these elements were formulated in the startling speech of von Papen to the students of Marburg University: **No revolution in permanence**; the abandonment of the principle of the sovereignty of the people, and a return to the natural and divinely ordained rule. The dominance of a single party, von Papen declared, was a historically passing phase. The German State should be crowned with a head removed once and for all from the turmoil of the political struggle. In other words, a "normal" bourgeois dictatorship in the form of a reactionary Christian monarchy.

No one who has studied the career of Hitler at all carefully could doubt for one moment that, placed before the alternatives, he would go over immediately to the side of the bourgeoisie. The bourgeoisie, allied with the Reichswehr placed him sharply before the alternatives: either you put a stop to the agitation for a second revolution in your ranks, or we shall do it without you, and if necessary against you. When Hitler allied himself with Goering, the bourgeois black-uniformed special detachments (S.S.), the police and the Reichswehr, and staged a massacre without legal trial of those leaders of the brown-shirted storm detachments (S.A.) who represented the discontent and longings of the petty-bourgeois masses he carried out, historically considered, the orders of German monopolist capitalism.

It was clear from the beginning for every real Marxist that the Hitler regime was a dictatorship of monopolist capital, that it would not and could not carry out its "revolutionary programme" and that in consequence the disappointment of the petty-bour-

* See the article of Kern (probably Hilferding) published in the "International Information" issued by the Secretariat of the Second International on the 7th July, 1934.

geoisie and its abandonment of Hitler were inevitable. We dealt with this question fully in these columns immediately after the accession of Hitler to power.* We shall now attempt to analyse the economic background of this determined drive of German monopolist capitalism, always remembering that the inadequate and faked statistics provided from German official sources make any such attempt extremely difficult.

(1) THE CONTRADICTION BETWEEN INCREASING PRODUCTION AND INTENSIFYING CRISIS

Since the middle of 1932 industrial production in Germany shows a steady rise, according to the figures of the official Institute for Economic Research †:—

Index of Industrial Production (1928=100)						
	1930	1931	1932	1933		
Total production	90.1	73.6	61.2	69		
Means of production	88.7	65.4	50.2	58.5		
Goods for immediate consumption ..	92.3	85.7	77.7	84.8		
	1934					
	Jan.	Feb.	March	April	May	
Total production	79.1	82.4	84.2	86.4	89.1	
Means of production	72.1	75.4	77.6	80.0	84.3	
Goods for immediate consumption ..	89.6	93.0	94.1	95.9	96.3	

If we are to accept these figures as correct, then it would follow that of all the capitalist States Germany has left the lowest point of the economic crisis farthest behind it. However, despite these figures, it is clear that Germany's economic situation is catastrophic. This is clearly shown by the complete bankruptcy declared by Germany as far as its foreign obligations are concerned, the depreciation of the mark which is still being cloaked on the foreign exchange markets, the complete stagnation of the capital market, the beginning of the production of substitute materials, and the panicky buying and hoarding of foodstuffs, etc.

What is the basis of this contradiction between the steady increase in industrial production and the crisis of Germany's economic system as a whole?

The increase of industrial production in Germany is due only in part to the action of those internal factors in capitalism which make for the overcoming of a cyclical crisis. It is clear that in view of the **unfavourable general situation of Germany** as compared with other industrial countries: the lack of colonies, the lack of possibilities for the export of capital, the deep indebtedness to foreign countries, the compulsory maintenance of the gold parity of the mark in foreign trading relations, etc., make it quite impossible that the normal internal capitalist forces in Germany could produce an increase of production as compared with the lowest point of the crisis greater than that which had taken place in all other capitalist countries. There is no doubt that a very considerable part of this increased production in Germany was due to "artificial" stimuli. These artificial stimuli were:—

- (a) The increase of armaments; and
- (b) State measures to increase production.

These two factors are closely related. The building of motor roads and the unnecessary orders of the German State railways for rolling stock were undoubtedly part of the general preparations for war. It is naturally very difficult to weigh up the special effect of each of these three factors making for an increase in production, and we shall have to content ourselves with rough estimates.

According to the Weekly Report of the Institute for Business Research, issued on the 3rd May, the turnover value of industrial production (including handicraft production) was as follows:—

- Monthly average 1932 first six months: 3.1 milliard marks
- Monthly average 1933 first six months: 1.5 milliard marks
- Monthly average 1934 first five months: 4.1 milliard marks

At a rough estimate, therefore, we can say that an annual increase of 12 milliard marks has taken place. How much of this can we ascribe to increased armaments?

* See "International Press Correspondence," No. 27, June 21, 1933, "Results and Prospects of the German Fascism Now in Power."

† Weekly Report of the Institute for Business Research issued on the 11th July, 1934. The figures of this report show certain minor deviations from figures published in the Bulletin of the League of Nations from the same source.

The official figures* give us no information of any use. As is generally known, Germany's military expenditure was officially increased only in the budget for the current year 1934-35, the increase admitted being 250 million marks for the regular forces plus 250 million marks for the storm troops (S.A.). However, in fact every budgetary department contains hidden armament items, and in addition the whole labour service scheme serves the war preparations to a great extent.

The obvious fact that the armament expenditure figures admitted by the German government have little relation to truth is confirmed by the fact that the big armament firms Krupp, Daimler-Benz (tank production), Junkers and the other aeroplane factories have greatly increased the number of their workers, and that these undertakings are working in three shifts night and day. In order to attract as little attention as possible the various parts are being manufactured in separate factories far removed from each other and as far as possible the workers are being kept in ignorance of the use to which the products they are turning out are to be put. In order to discourage the workers from interesting themselves in the production of armaments warning circulars have been issued to them by their employers. The following is an example of such a circular which was published in the press outside of Germany:—

"Let no worker concern himself with what his neighbour is producing, nor with the individual parts produced by each individual, nor with the purpose these parts may be serving, otherwise there is a danger that inquisitive workers may come under suspicion of espionage."

If we assume roughly that the expenditure in Germany for armaments is about twice as high as the current 1934-35 budgetary estimates admit, that is to say that it is about a **milliard marks** higher than it was in 1932 (and that is certainly not an exaggerated estimate), and if we assume further that the value of the industrial raw materials and half-finished products used for armament production represent one and a half times the value of the finished armament products, then we come to the conclusion that 2.5 milliard marks of the increased volume of industrial production is accounted for directly by increased armament expenditure. This calculation does not include the sums expended for the building of military motor roads and other works.

With regard to civilian labour provision schemes, about 5.4 milliard marks were provided by the State in the years 1932-34. About 2.2 milliard marks of this were allotted to transport (motor roads 550 million marks, State railways 1,068 million marks, roads and bridges other than the main motor roads 240 million marks, inland water transport 100 million marks, etc.), 3.2 milliard marks were given as supplementary grants and credits for building purposes. In addition to this last sum we must take the sums expended by the houseowners and employers themselves. If we assume that the two sums were equal (this calculation is in all probability too high †), then we arrive at a sum of 8.6 milliards in two years, or 4.3 milliards a year. As the expenditure for building materials and the means of production in the building industries were comparatively low, we can round off the above figure at 5 milliards. We should then have the following relation:—

Increase of industrial production	12 milliard marks
Including increased armaments	2.5 " "
labour provision (chiefly war preparations)	5 " "
operation of the internal capitalist forces making for recovery	4.5 " "

We must stress once again that the above is a rough estimate only and is intended to give no more than an approximate picture of the situation.

* "The Statistical Annual of the German Reich" gives the following figures as expenditure under the heading of "Armed Forces." The figures up to and including the year 1931-32 are the actual expenditure. Those for the last two years are budgetary estimates.

In millions of marks					
1927-28	1928-29	1929-30	1930-31	1931-32	1932-33
705	757	683	676	614	674
					671

† The "Deutsche Volkswirt" of the 15th June calculates that houseowners in Germany have invested a sum amounting to about four times the State grant of 536 million marks for house repairs and maintenance, but this calculation is certainly too high.

Approximately half of the increase of industrial production in Germany therefore was caused directly or indirectly by the intensified preparations for war and serves no productive purposes. A very considerable part of the remaining figure is accounted for by long-term building credits. Taken altogether this forms the economic basis of the severe crisis in which the German economic system finds itself, despite the increase in its industrial production. The military expenditure plus the values withdrawn from current consumption in the form of buildings are considerably greater than the actual accumulation. This accounts for the tremendous burden on the State budget, the passivity of Germany's foreign trade balance, the complete stagnation of the capital market and the factual depreciation of the mark.

Considered from the angle of the distribution of the national income the German working class has no share at all in the increased industrial production. The increase is divided between the military and the bourgeoisie, as we shall show upon the basis of official figures. The working class performs much more work, but it receives less wages. Such a development must inevitably lead to intensified class struggles. The repressive fascist terror makes it impossible for the discontent of the working class and of the petty-bourgeoisie to express itself in a normal fashion, but this discontent finds an outlet in a roundabout fashion and in the form of religious struggles, the monarchist movement, "conspiracies" in the storm detachments (S.A.), etc.

(2) THE CATASTROPHIC SITUATION OF THE FASCIST STATE BUDGET

The labour provision scheme, that is to say the withdrawal of milliards of marks in values from the volume of current production and their application for unproductive purposes, is financed by the State in the form of direct grants and by the mortgaging of income expected to accrue to the State in the future.

According to figures published in the "Deutsche Volkswirt," on July 15, 1934, this mortgaging of the future income of the State was as follows:

In Millions of Marks				
1934-35	1935-36	1936-37	1937-38	1938-39
917	700	780	750	715

However, quite apart from these sums, it is quite certain that the Reich budget is burdened with heavy debts to the various armament firms for supplies which are not listed in the official estimates.

The State budget of the German Reich concludes therefore with a tremendous deficit. We do not know how high this deficit really is. According to the "Statistical Annual of the German Reich," for 1933, a total accumulated deficit of 1,690 million marks is admitted for the budgetary year 1931-32, but this deficit was incurred long before the tremendous increase of expenditure for armaments and for the labour provision scheme.

A much better gauge of the deterioration of the State finances during Hitler's reign is the increase of the Reich debts.

Reich Debts (in Millions of Marks)

	End of		plus	minus
	1932	1933		
Long-term debts in marks	7,083	7,764	681	
Long-term debts in foreign exchange	2,638	1,900		738
Floating debts	1,832	2,033	201	
Tax coupons in circulation	—	1,215	1,215	
Tax coupons in the Reich's Bank	—	600	600	
Total				2,697

The first year of fascist rule therefore increased the State debt by 2.7 milliard marks. The reduction of the State debts in foreign exchange was due to the depreciation of foreign currency, and in particular the dollar. If the increase in State debts continued at the same rate in 1934 (and there is every reason to assume that it did) then the volume of new State debts incurred by the Hitler regime already totals about 4 milliard marks.

It is clear that under these circumstances the Reich has no credit at all, either at home or abroad.

The fascist government has economised large sums in respect of the unemployment insurance payments. In the budgetary year 1931-32 1,098 million marks were expended by the State for unemployment support, whilst the 1933-34 budget provides only 521 million marks for this purpose, and in fact the State is expending even less than this.

However, the economies of the fascist government in this respect are being more than wiped out by the increasing tax rebates and grants to the bourgeoisie. This policy of relieving the bourgeoisie in practice from the payment of taxes reaches its consummation in the new programme of tax reform, announced by the Secretary of State, Reinhardt, on June 26. From the year 1935 onwards the income tax (or corporation tax in the case of limited liability companies) is to be practically abolished, that is, if the fascists are still in power then. Reinhardt declared in his speech:

"Taxpayers who keep all their accounts regularly may deduct all expenditure for short-lived articles (a short-lived article within the meaning of the tax authorities is one which will not last longer in use than ten years.—E. V.) from the volume of profit subject to taxation in the year of the purchase or the production of the same. . . . This provision will not be limited to such articles bought or produced prior to December 31, 1934, but it will have a permanent application.

"The new income tax law will apply to all income which is assessed for the year 1934. As a result all taxpayers who are business men and agriculturalists with normal bookkeeping can see to it that they are freed from all income and trading taxation on their incomes for 1934. (Where limited liability companies are concerned they are freed from the corporation tax, which in their case takes the place of income tax.) All they need do is to replace or extend their invested capital to the value of the estimated profits. The momentary advantage which they will obtain in this way, calculated according to the new income tax rates and the accompanying diminution of trading taxation, will be from 10 to 45 per cent. of the expenditure for replacements and extensions of invested capital.

"I appeal, therefore, to all taxpayers who come into question to take action immediately and place the necessary orders, and I advise all machinery, tool, office furniture and similar factories to get ready for an increase in orders during the coming weeks and months. The replacement or extension of invested capital must have taken place by December 31, 1934, if the corresponding sums are to be deducted from the assessed income for 1934."

The intention of this measure is to encourage the capitalists to purchase machinery, tools, etc., at the expense of the State, and at the same time give industrial production in Germany a new impetus. This aim is to be achieved at the price of freeing in effect the bourgeoisie and the rich landowners from the income tax. Naturally, small peasants and handworkers do not keep normal accounts in the meaning of the taxation authorities. The bourgeoisie and the rich landowners will pay income tax only on that portion of their income which they use for their personal needs and which they have not the courage to deny altogether. However, even this remaining taxation is to be considerably reduced. The income tax rates which formerly began with 12 per cent. and went nominally to 50 per cent. in the case of large incomes, are now to be reduced to 8 and 33.33 per cent., and the super tax on all incomes over 8,000 marks is to be abolished, etc.

It is clear that a finance policy which runs up a new volume of floating debt to the tune of 4 milliard marks in eighteen months, whilst at the same time reducing the burden of taxation on the ruling classes, must inevitably lead to bankruptcy. And, in fact, that credit of the German Reich has been completely undermined. The picture offered by Hitler Germany is similar to the situation in 1922-23: the bourgeoisie is plundering the State treasury under various forms; it is paying little or no taxes, and it refuses to invest its money in long-term State loans.

This was seen most clearly in the attempt to convert the 6 per cent., so-called Hilferding loan into a new 4 per cent. loan; 169 million marks of these loan shares were in private hands. Only 67.5 millions was handed in for conversion, whilst 101.5 million marks worth was handed in for redemption in cash.

As the new investments in the converted loan were minimal the net result to the Reich was neither a revenue in cash nor a saving in interest. This attempt and the attempts at conversion which preceded it in the case of a small Prussian State loan and a post-office loan, show that the bourgeoisie systematically refuses its State any credit, and that no one is prepared to invest his money in long-term State securities for fear of a new inflation.

(3) THE BUDGET DEFICIT AS THE STARTING POINT OF INTERNAL INFLATION

The impossibility of turning the floating debt which results from the deficit in the State budget into a long-term loan and the impossibility of financing the labour provision scheme with loans means that it is essentially the Reichsbank which bears the cost of the labour provision scheme. The financial mechanism is the following:

The capitalist who is prepared to carry out a labour provision action receives the necessary money for the purpose from the proper State or semi-State bank (Bank for Labour Provision, Reich Credit Association, etc.), and gives in return a bill of exchange which is given the form of a normal commercial bill by receiving the signature of the bank concerned, but which, according to law, must be prolonged for five years. These bills are then discounted by the Reichsbank and take the place of real commercial bills.

According to the Weekly Report of the Institute for Business Research of June 27:

"The present volume of labour provision bills in circulation is from 2.2 to 2.4 milliard marks, and about a milliard marks of these bills is in the hands of the Reichsbank, whilst about 600 or 700 millions are probably in the hands of other banks. As neither the total bill volume in the hands of the Reichsbank nor that of the other banks has increased accordingly the result is that the volume of so-called real bills, that is to say, commercial bills which liquidate themselves in the normal fashion, has decreased."

The meaning of this is clear enough: the banknotes in circulation in Germany have had no real backing for a long time. They have also no backing in ordinary commercial bills which liquidate themselves in the normal course. In other words, in reality they are not banknotes at all, but State paper money without any other backing than the promise of a bankrupt State to pay at sight. The notes can fulfil the function of means of circulation so long as their volume does not exceed the sum of money—money or real banknotes—normally necessary to deal with commodity circulation. If the sum of these notes in circulation becomes any larger than that means inflation, the compulsory depreciation of the mark at home measured in terms of commodity prices. As the Reich is not in a position to float any long-term loans to cover its floating debt with the Reichsbank and the other State and semi-State banks, or to meet the "labour provision bills," an inflation for internal reasons is inevitable if the military armament expenditure and the labour provision scheme are continued. Faced with the alternative of stopping armament expenditure or accepting inflation, the decisive section of the German bourgeoisie will undoubtedly risk the latter alternative.

(4) THE RAW MATERIALS CRISIS

The maintenance of industrial production in Germany is seriously threatened by the incapacity of the German bourgeoisie to import foreign raw materials to the necessary amount.

As is generally known, the German balance of trade which was favourable in 1929 has again become adverse, and very adverse at that.

Favourable Balance of Germany's Foreign Trade per Month

(in Millions of Marks)				
1929	1930	1931	1932	1933
3	137	239	89	56

The strong favourable balance of Germany's foreign trade in the years 1930 and 1931 was the expression of the big withdrawals of foreign capital invested in Germany. Germany paid back the debts which it had contracted abroad in the years from 1924 to 1929 in commodities and in gold until its gold reserves were exhausted and until the foreign markets were no longer in a position to absorb a quantity of German goods necessary to provide a surplus for the payment of interest and amortisation charges on the volume of Germany's foreign debt. The natural result of this situation was the bankruptcy of Germany as towards its foreign creditors and the ensuing standstill agreement and the stopping of all transfer payments on long-term loans.

Until recently the German bourgeoisie succeeded in passing a portion of its debt burden on to the shoulders of its foreign creditors and the depreciation of the pound sterling and of the dollar resulted in a diminution of the burden of Germany's foreign debts. The stoppage of the transfer payments saved German capi-

talism from the necessity of parting with a portion of the values produced to foreign countries without any return.

Since the beginning of 1934, however, the situation has altered to the disadvantage of German capitalism. Germany's balance of foreign trade became passive once again as it had been in the years from 1925 to 1928. At that time the passivity of the foreign trade balance was not dangerous; it was the form in which foreign loans came into the country. In the present situation, however, Germany has no credit abroad and in consequence a passive balance of trade must lead to the depreciation of the mark.

The passivity of Germany's balance of foreign trade in the first half of 1934 was 216 million marks. The interesting point here is that it was just the increase of Germany's industrial production which led to this catastrophic change in the balance of foreign trade. As a result of the increased industrial production in Germany the demand for foreign raw materials increased whilst the urge of the German industrialists to export goods decreased, a process referred to as "export lassitude."

According to the calculations of the Quarterly Report of the Institute for Business Research, German industry (including the peasants and handworkers) used home raw materials to the value of 10 milliard marks and foreign raw materials to the value of 7.5 milliard marks in 1928.

It is clear that the increase of industrial production which took place in Germany from the lowest level of the crisis in 1932 up to May, 1934, made a corresponding rise in the import of foreign raw materials necessary, and in fact the import of raw materials did increase, as the following table shows:—

(in Millions of Marks)

First half-year, 1932	...	...	...	1,211
First half-year, 1933	...	...	...	1,193
First half-year, 1934	...	...	...	1,426

At present, however, the supply of foreign raw materials is seriously threatened because Germany has no means of foreign exchange to pay for its imports.

For a long time the national socialists played with the slogan of autarchy, but economic facts cannot be put out of action by slogans. Without the import of raw materials from abroad a number of German industries would have to close down altogether. According to the calculations of the Weekly Report of the Institute for Business Research issued on May 30, 1934, the share of foreign raw materials in the supply of the individual branches of German industry is as follows:—

Cotton	...	...	...	...	100 per cent.
Silk	...	...	...	...	100 per cent.
Wool	...	...	...	...	91 per cent.
Flax	...	...	...	...	83 per cent.
Non-ferrous Metals	...	...	...	...	55 to 72 per cent.
Heavy Industry	...	...	...	...	60 per cent.
Leather	...	...	...	...	60 per cent.

No amount of bombast about autarchy can alter these economic facts.

It may be possible by various organisational measures, by increasing the home production of flax and oil-seeds, by substituting in part waste fibres from the production of artificial silk and paper, for cotton and wool, etc., to reduce the demand for foreign raw materials, but there can be no question of any autarchy.

Modern technical means can produce various substitute stuffs to replace natural raw materials, but the technical solution of this problem is not identical with the economic solution. Although they must be of a similar quality the technical substitute stuffs must not be more expensive than the original natural raw materials unless German industry is to lose still more ground on the world market. An article by Max Drews published on June 29 in the "Wirtschaftsdienst" sums up the problem very well:—

"The economic situation of the German people demands that all possibilities for a continuation of the purchase of raw materials abroad should be explored. At the moment Germany is not producing merely to satisfy its own needs. A very considerable portion of its total industrial production is still being exported. In order to maintain the competitive capacity of German industry on the world market it must be supplied with the cheapest possible raw materials. Any increase in the price of raw materials means a diminution of the competitive capacity of German industry on the world market, which has already been considerably affected by the currency policy of various foreign countries. A transfer from the purchase of

foreign raw materials to the production of home substitute materials would also mean very considerable dislocations in our home economic system. On the one hand, the methods of obtaining raw materials would be quite different and in consequence our trade and transport system would be flung into a chaotic state, and on the other hand we should run the danger of having considerable sections of German industry closing down with a consequent incalculable loss of capital and working possibilities. Therefore all the facts speak in favour of a search for further possibilities of continuing our purchase of foreign raw material supplies as before."

The passivity of the balance of Germany's foreign trade and the resultant raw material crisis is a consequence not only of the increased necessity to import foreign raw materials, but also of the diminished export of German industrial goods, of the "export lassitude" of German industry.

The following table shows the export of German industrial goods in millions of marks:—

First half of 1932	...	...	...	...	2,397
First half of 1933	...	...	...	...	1,854
First half of 1934	...	...	...	...	1,605

Although the total value of Germany's industrial production considerably increased, the export of industrial goods declined. In the spring of 1934 the Institute for Business Research wrote: "At the moment about 16 per cent. of our industrial production (not including foodstuffs, etc.) is for export as compared with 27 per cent. in 1932."

The economic basis of the "export lassitude" of German industry is the following:—

During the crisis rationalisation was carried out in Germany on a large scale with the result that the cost of production declined despite the drop in production. The result of this was that the incentive for the capitalists to dump goods on the foreign markets grew less for the following reasons:—

The monopolist capitalists who controlled the home markets did not sell at a loss on the foreign markets for fun and also not in order to provide "the economic system" with foreign means of exchange. They sold their goods at a loss because the increased sales they obtained in this way permitted a better utilisation of the productive capacity and thus a reduction in the costs of production for the whole volume of goods produced—home and foreign sales together. In other words, considered by itself the export trade was being conducted at a loss, but calculated together with home trade the net profits are greater when dumping abroad is indulged in than when nothing at all is exported. The rationalisation which took place in Germany during the crisis resulted in the reduction of the costs of production although the utilisation of productive capacity had grown less, therefore, as soon as the home market has risen to a certain minimum it is no longer profitable for the capitalists to sell their products abroad at a loss.

The interests of German capitalism as a whole demand urgently that industrial export should be extended in order that the import of raw materials may be secured, but for the individual capitalist the export trade is not profitable so long as the present market possibilities at home exist. And, in fact, it is the interest of the individual capitalists which turns the scales, particularly as it is not the same capitalists who need raw materials and who obtain foreign means of exchange by the export of industrial commodities. The German chemical industry is a great exporter, but it needs hardly any foreign raw material supplies. On the other hand, the German textile industry needs very much foreign raw material, but it can obtain only a fraction of the necessary foreign means of exchange to pay for it by the export of its own commodities.

Thus we see that the peculiar situation has arisen that the improvement of trade at home (in connection with the rationalisation carried out during the crisis) had led to a decline in Germany's exports and to a catastrophic raw materials crisis. The "export lassitude" of German industry can be remedied only when the antagonism of interests between the bourgeoisie as a whole and the individual exporters has been overcome, when the export trade has become once again profitable. Months ago the Institute for Business Research indicated the solution in very careful language:—

"With the growing capacity of the home market the demands of the exporters on the profitability of the foreign market will naturally grow. The objective limits of the export possibilities which are set by the foreign markets

themselves are strengthened by the subjective limits which the exporters themselves set. Any measures to encourage the export trade must therefore aim at building a bridge between the yield of the export trade and the yield of the home trade."

Translated into plainer language the "bridge between the yield of the export trade and the yield of the home trade" means State subsidies for the exporters. There is no other solution. The government of monopolist capitalism cannot adopt the method of forcing down home prices by compulsion in order to encourage the export trade.* On the other hand, any attempt to grant the exporting industries State subsidies would accelerate the bankruptcy which is already threatening the State.

(5) THE APPROACHING CATASTROPHE

The catastrophic situation of the State finances and the transformation of the banknotes in circulation into uncovered State paper money works towards inflation from within whilst the passivity of the balance of foreign trade works towards inflation from without.

It is becoming increasingly difficult for the German authorities to maintain the artificial stability of the mark. Prices on the home market are rapidly rising (the official wholesale trade index rose from 95.8 in April to 98.8 in the middle of July). Foodstuffs and textile goods are being hoarded. The textile houses are almost depleted of goods. Queues are forming in front of the food shops. In June the quotations of the mark on the foreign exchanges fell to from 10 to 15 per cent. below gold parity. There can be no question of any new foreign loan to restore the active balance of Germany's foreign payments. The note of the British government which was handed over in Berlin on June 20 practically accuses the German Government of swindling its foreign creditors.† It would seem, therefore, that a further depreciation of the mark is inevitable either in the form of devaluation or in the form of an uncontrollable inflation. But an inflation will not be able to solve the problem of Germany's balance of payments even temporarily. In the inflation period from 1920 to 1923 foreign speculators invested milliards of marks in marks in the hope that the mark quotations would improve, but to-day such fools would surely prove to be rare. Although an inflation would temporarily restore the profitability of exporting for Germany, there is no doubt that Germany's exports would very soon meet with defensive measures adopted by the importing countries.

The harvest failure in Germany, which is certainly much more serious than the German authorities care to admit, means a new burden for Germany's balance of payments. Germany will have to import cereals unless there is to be an extreme shortage of food, and at the moment the situation in Germany is already so strained that the ruling powers cannot lightly risk doing anything which would increase the strain.

The Hitler regime boasts that it has increased industrial production and reduced the ranks of the unemployed. To a certain extent this was true, but its success was built on sand. An analysis of the economic situation in Germany reveals deep-seated contra-

* Fascist legislation is clearly directed towards monopoly building and the maintenance of a high price level at home. The last half-yearly report of the Reich Credit Institute contains a list of such measures taken since the beginning of March, 1933:—

It has been prohibited for a long time to come to build new works, to re-open works which have been closed down, or to increase the capacity of the existing and working undertakings in the following industries: watches, jute, electric bulbs, high-voltage cables, zinc products, salt, cigarettes and cigars, paper, wireless apparatus, clay and china articles, turf and superphosphate.

The same regulations apply to the milling, fishing and fruit and vegetable trades and industries, but they may be waived if special application is granted.

Compulsory cartels have been formed in the following branches of production: cigars and cigarettes, tobacco, soap, cement and hollow glass.

† The German authorities contend that the state of Germany's balance of foreign payments does not permit the transfer of even the interest on the Dawes and Young Loans, but the note of the British government points out that up to the end of February, 1934, German foreign obligations in the sum of 767 million marks had been bought back by Germany at very low quotations.

dictions and indicates the approach of an economic catastrophe.* The approach of this economic catastrophe formed the background for the massacre which took place on June 30 and the subsequent days.

(6) MORE WORK FOR LESS WAGES

The German fascist leaders are never tired of recounting their successes in the struggle against unemployment. It is not our intention here to prove again what we have already proved on several occasions, namely, that the statistics issued on the subject by the German authorities are shamelessly faked. This time we shall proceed on the assumption that the figures given by the German authorities concerning the number of workers employed, according to the statistics of the Health Insurance authorities, and concerning the level of wages are correct. The result is that more workers have worked for less wages, no doubt a highly satisfactory result for the German capitalists.

	In Millions		
	Average, 1932	Average, 1933	March, 1934
Workers regularly employed (according to health insurance figures)	12.77	12.76	13.92
Supplementary employment at low pay (labour service, land helpers, task-workers, etc.) .....	.22	.55	1.04
Totals	12.99	13.31	14.96

On an average, therefore, there were 620,000 more workers exploited in 1933 than in 1932.

On June 2, 1934, the "Voelkischer Beobachter" published the following figures in a prominent place concerning the distribution of the national income in Germany:—

	1932	1933	
(in milliard marks)			
Land and forestry	2.75	4.35	+1.60
Trade and commerce	5.85	6.30	+0.45
Wages and salaries	25.80	26.20	+0.40
Capital	2.25	2.00	-0.25
Leasing and renting	0.80	0.70	-0.10
Pensions, etc.	9.22	9.15	-0.07

The demagogic contention of the "Voelkischer Beobachter" that the income on "capital" decreased by 200 million marks whilst the income from "productive activity"—trade and commerce—increased by 400 million marks is senseless. The profits of industrial, commercial and loan capital increased by 200 million marks, whereby a certain tendency in favour of industrial capital and to the disadvantage of loan capital took place. Further, everyone knows that the increase of 1.6 milliard marks in the income from land and forestry did not go into the pockets of the agricultural workers and peasants, but into the pockets of the rich landowners. The situation of the working peasants in Germany was never so desperate as it is to-day.

And what about the working class?

In the year 1933 620,000 workers more were exploited than in the year 1932. The whole of the working class, together with the officials and clerical employees, received a nominal increase of about 400 million marks in income. But over 400 million marks less were paid out in unemployment insurance alone in 1933 than in the previous year. And what about the innumerable deductions from wages and the "voluntary contributions" which were forced upon the workers? And what about the salaries paid to the swollen ranks of the fascist bureaucracy? They are also contained in these figures. The final result is that about 600,000 more workers were exploited; the working class as a whole worked longer hours than before, but the working class as a whole received less wages for more work as compared with 1932. This fact is recognised also by the official "Economics and Statistics," which writes the following

* After this review had been written the German government issued a new decree prohibiting the import of raw materials for the textile industry altogether and reducing the number of hours worked weekly in the textile industry to 36 a week as from August 1.

in a leading article entitled "Financing the work provision scheme":—

"Particularly important is the movement of income for consumption. The new wages replace for the most part only the sums which were previously paid out in unemployment support, just as in part the public funds used for the work provision scheme were taken from the sums economised in unemployment insurance and other payments."

This means that the wages of the fully employed worker have dropped absolutely and the accounts issued by a number of big undertakings show this clearly. The following table is taken from the American publication "Current History," which publishes an article by R. L. Baker entitled "Is Germany Facing Bankruptcy?" in its July number:—

	Number of Workers employed		Wage sums in millions	
	1932	1933	1932	1933
Krupp	35,647	43,409	69	67
Hoesch	19,960	20,289	43	38
Average Wage per Year				
J. G. Farben ..	67,000	77,000	2,267	1,809
Siemens	4,000 more		18.7 less	

Any comment on these figures would be superfluous.

To sum up: eighteen months of national socialist rule in Germany have brought the country to the verge of bankruptcy. The economic basis is: The withdrawal of values for unproductive and military expenditure and for long-term investments is considerably in excess of the national economic accumulation. Upon this basis: the increase of the public debt, the transformation of Germany's banknotes into uncovered paper money, the passivity of the balance of foreign trade, the inevitable depreciation of the mark which has already begun in a cloaked form, the disappointment of the peasantry and of the petty-bourgeoisie, the rising bitterness of the working class, ferment in the ranks of the storm troops (S.A.), and longing for a hazy "second revolution." The orders of capitalism and the Reichswehr to Hitler: create order amongst your rebellious followers, and as a result the massacre of the 30th June and the subsequent days. The result is therefore a rapid crumbling of the mass basis of national socialism and the beginning of the crisis of the Hitler regime.

III. Special Section Great Britain

"Even if recovery is resumed and goes on as it theoretically can, we shall still be a very depressed nation. . . . There is a world of difference between genuine prosperity and making the best of a bad job, and it is a very bad job of which we shall have to make the best if international trade continues to be regarded as fair game for the restrictive tendencies of all the world's politicians." ("The Economist," June 30.)

As in the United States and in Germany, the improvement which showed itself in the economic situation of Great Britain came to a standstill during the past few months and even gave way to a certain reverse, although up to the present the latter has been inconsiderable. It is therefore desirable to draw up a balance of the process of improvement which has taken place during the past two years and to examine its peculiarities.

In the first place, there is the fact that when in May the number of workers employed and insured reached 10,187,000, the highest point since 1929, the chronic mass of unemployment remained practically stationary. At the topmost point of the period of improvement there were still 2,090,281 workers registered at the labour exchanges as fully unemployed. In June there was a slight increase in the numbers of workers fully unemployed. In reality the number of unemployed workers in Great Britain is considerably larger than the figure officially admitted, because as a result of the operation of the "Means Test" many workers have lost all claim to support, and therefore do not bother to keep up their visits to the labour exchanges, and are in consequence struck off the official lists.

The depth of the general crisis of capitalism in Great Britain is shown by the fact that there are over two million workers unemployed at a time when industrial production has practically reached the 1929 level again, two millions of workers for whom it

is obvious there will never again be any work, at least in peacetime. This is the weakest point in the present situation in Great Britain. It shows clearly that the improvement which has taken place in Great Britain during the past two years, and which has brought the level of production nearer to pre-war level than in all other capitalist countries with the exception of Sweden and Japan, was due largely to temporary causes and not to the effect of those internal forces in the mechanism of capitalism which make for the liquidation of an economic crisis.

The fact that Great Britain definitely abandoned its old commercial policy of free trade and began to adopt wide-scale protectionism had a lot to do with the increase in industrial production in Great Britain. All the economic reports issued in Great Britain from various sources are in agreement that the improvement in trade and industry is almost exclusively due to a better utilisation of the home market. Other capitalist countries—for instance the United States, which had already protected their home markets by high tariff walls—had no possibility of assisting themselves in this fashion. For Great Britain the adoption of protectionism was a one-time historic change.

However, not only was the improvement which had taken place in Great Britain due chiefly to the better utilisation of the home market, but it showed corresponding deviations from the normal course of a cyclical depression, in that there has been very little renewal or extension of basic capital. If an economic improvement is confined to the home market, then it is confined to Section II of the productive system. The increase in building activity and the increase in the production of iron and steel were due, chiefly, apart from the increase in armaments, to the imposition of a 33 per cent. tariff on imported iron, a tariff imposition which has now been declared permanent. The increased building activity is chiefly due to housing and not to industrial building.

The following table is taken from "The Economist" of the 26th May, 1934:—

Industrial Building in Great Britain

	1932	1933
New factories, etc.	636	463
Extension of factories, etc.	174	95
Factories closed down	418	409

"The Economist" remarks in the same number that the greater part of the new investments reported would seem to have been in housing activities.

The considerable housing activity in Great Britain is the result of the following conjunction of factors: (1) The Housing Bill practically put an end to municipal building for "economy reasons," and thus kept up the level of rents; (2) there has been no considerable rise in the price of building materials in Great Britain, unlike the United States; and (3) the considerable amount of liquid capital on the market for investment in medium-term loans.

The following "business barometer" issued by the Federation of British Industries shows that the improvement was confined to Section II of the productive system:—

Movement of Consumption and Capital Goods in the United Kingdom

	Change 1929-31	Change 1929-33
Consumption Goods		
Artificial silk production	- 4	+48
Electricity	+11	+32
Wool, raw, retained imports	+21	+24
Cocoa entered for home consumption ..	+ 5	+16
Grain and flour, retained import	+17	+11
Meat, retained imports	+18	+ 8
Sugar, retained for home consumption ..	- 2	+ 5
Tobacco, retained for home consumption ..	- 2	+ 1
Coffee entered for home consumption ..	+ 5	- 7
Cotton, raw, retained imports	-28	- 8
Tea, home consumption	- 9	- 9
Rubber, raw, retained imports	-31	-41
Capital Goods		
Dwelling-houses plans passed, in value ..	- 9	+41
Lead, net imports	+ 9	+ 4
Copper, net imports	-14	- 6
Coal production	-15	-20
Steel production	-40	-32

	Change 1929-31	Change 1929-33
Consumption Goods		
Factories and business buildings plans passed in value	-35	-34
Other buildings plans passed, in value ..	-13	-21
Pig-iron production	-40	-32
Ships launched	-67	-91

("Manchester Guardian," May 5, 1934.)

The statistics concerning the emission of capital also confirm this conclusion. In the first half of 1934 less capital was issued than in the corresponding period of the previous year: 96,880,200 pounds sterling a compared with 110,806,500 pounds sterling (according to the report of the Midland Bank there were only 69 million pounds sterling apart from conversions). It is interesting to observe the items which show an increase:—

("Manchester Guardian," v. 5, May, 1934.)

	1st six months 1933	1st six months 1934
Estate and land	30,000	516,100
Rubber	2,500	299,500
Iron, coal, steel and engineering	nil	5,462,500
Motor traction and manufacturing	nil	2,153,600

It is possible to give the exact reasons for the increases:—

Estate and land: The abolition of the land tax imposed in 1931 by the national government. This was one of the most monstrous actions of the Tory MacDonald government.

Rubber: The Anglo-Dutch agreement to limit the production of rubber and bring about an increase in prices.

Iron, Coal, Steel and Engineering: The decision to make the tariff on imported iron permanent.

Motor Traction and Manufacturing: The big increase decided upon in the British air fleet.

On the other hand the two great staple industries of Great Britain, coal and textiles, are still suffering from a chronic crisis of over-capacity which could be overcome only by a widespread destruction of the existing productive forces. However, this solution is held up by the antagonistic interests of the various groups of capitalists in these two branches of industry.

At the moment a great plan for the reorganisation of the cotton industry is being propagated, and the "Times" heads its leading article of June 16 on the subject with the title, "The Last Chance for Lancashire." The essence of this plan is to concentrate industry and to destroy systematically a part of the surplus productive capacity. The "Times" writes in the article mentioned: "The remaining part of the cotton industry can be made profitable only by the elimination of over-capacity, probably by the elimination of 15 million spindles." This is the condition which the big banks are making for their part in the financing of the reconstruction. Imagine the state of decay into which capitalism has slid when its only hope or "last chance" is to destroy systematically 15 million spindles! However, it is only fair to add that a considerable part of the equipment of the British cotton industry is obsolete. An investigation which was conducted in 1930 revealed the fact that 248 out of 252 factories had been constructed before 1910, and that 69.1 per cent. of all carding machines, 77.5 per cent. of all spindles, and 67.7 per cent. of all looms had been manufactured before 1910.

However, even the "elimination" of 15 million spindles could do no more than alleviate the crisis of the British cotton trades for a short time only. Over 30 million spindles would remain, and their capacity would still be far in excess of home needs. The news that 15 million spindles were being destroyed in Great Britain would undoubtedly accelerate the development of the textile industry in the agricultural countries, a development which did not stop even during the crisis. Before long the sale of British cotton products abroad would meet with the same difficulties again.

The standstill in the process of recovery in Great Britain and the beginning of a reverse is admitted on all hands. The "Economist," of June 9, 1934, writes:

"Certain important sections of industry have been favoured by extra-economic developments. It would be false, for instance, to suggest that activity in the aviation industry a direct consequence of recovery, although it certainly influences its development, and the importance of the tariff to primary steel producers must not be overlooked. Recovery so

far has been a matter of parochial expansion."

It is admitted that during the period of recovery a considerable part of production was intended for stock, and the "Economist," of June 30, 1934, writes:

"A great deal of the 'stocking-up' which has contributed so largely to the recovery, must have been unconsciously based on the assumption that a return to the level of prosperity at least of 1929 was merely a matter of time; and the realisation that even if recovery is resumed and goes as far as it theoretically can, we shall still be a very depressed nation may have had something to do with the current recession."

In a speech delivered on June 11, Sir Josiah Stamp declared:

"Recent weeks, especially if allowance was made for seasonal movements, showed a distinct slackening in the rate of improvement. This was characteristic of the country as a whole, and the indications were that in certain industries the immediate limits of demand in the domestic market were being reached. The time was fast coming when we must look increasingly to a revival of foreign trade for further advance in our trade activity, and here the outlook was as uncertain as ever."

The May report of the Midland Bank points out:

"The expansion of business during last year has not been maintained, and there is a feeling of uncertainty regarding the immediate limits of demand in the domestic market were being reached. The time was fast coming when we must look depend on better conditions in overseas countries."

And the "Manchester Guardian," of June 30, 1934, declares:

"The trade recovery has certainly slackened, and may even be giving place to definite recession."

The recession which has already taken place can be seen in figures in the index published by the "Economist," in a supplement to its issue of June 30, 1934. The figures given for April and May are in part provisional:

Business Index of the "Economist" (1924=100)

	1933			1934		
	Jan.	Feb.	March	April	May	
Imports of:						
Raw materials ..	105	107	116	110	112	109
Non-ferrous metals ..	85	116	104	111	118	111
Consumption of:						
Iron and Steel ..	53	87	85	96	97	90
Cotton ..	91	96	87	88	84	93
Coal ..	82	95	85	89	88	80
Electricity ..	106	103	109	117	126	126
Export of finished goods ..	67.5	69	67	72	72	70
Index of business ..	99.7	109.4	108.7	109.2	107.8	107.4

Since January, 1934, the business index shows a definite if slow tendency to fall.

The British bourgeoisie is seeking to perpetuate the recovery process in a number of ways:

(a) By the adoption of political measures against foreign competition, both in Great Britain itself and in the colonies; for instance, the introduction of the quota system against Japanese imports in the colonies;

(b) By speeding up the production of armaments;†

(c) By a big plan for the construction of cheap houses;‡

*The quotation of Rolls-Royce shares (at the moment the Rolls-Royce works are engaged chiefly in the production of aero-engines) rose from 76s. at the beginning of the year to 102s. in June. At the general meeting of the shareholders of the Hawker Aero Company the president of the board declared that in 1933 the works constructed more aeroplanes than it had done during any year since the end of the war. The products of the firm were being sold in all parts of the world. In 1933 India, Egypt, Canada, New Zealand, Sweden, Norway, Denmark, Esthonia, Greece, Yugoslavia and Japan had purchased the products of the firm. During 1934 four further foreign powers had placed orders.

†A committee under the chairmanship of Lord Amulree and with such important members as Basil Blackett and S. Rowntree, has proposed to the government that it should build no less than a million new houses during the course of the next ten years for workers, and that the weekly rents for flats, etc., should not exceed 10s. a week. The estimated costs of this scheme would

(d) By reducing the costs of production at the expense of the workers.

The last-mentioned is being carried out in a number of ways: By increasing taxation, by increasing the price of food for the benefit of the rich farmers* by increasing the intensity of labour in the factories, etc., by the introduction of a system of fines. The following utterances express the bourgeois point of view on the matter:

The "Economist" admits that the new British budget burdens the working class in particular, and it writes in its number of April 14, 1934, the following:

"We are merely concerned to point out that from the budget point of view it means that there has been what some would call a broadening of the basis of taxation, but what others would quite correctly describe as imposing a larger proportion of the burden of government upon the poor. While it might be argued that in 1931 all classes of the community were asked to share and share alike, the present fiscal system of the government is designed to bear most heavily on the wage-earning classes."

Special pressure is being put on the workers in the great export industries—coal and textiles. The rate of exploitation in the coalmining industry has greatly increased during the crisis, as the following table shows:

Year	Production in millions of tons	Wages in millions of pounds	Workers employed in thousands	Profits in millions of pounds	Production per man per shift in cwis.
1930 ..	214.2	99.7	3.7	931.4	21.6
1931 ..	195.9	90.5	2.8	867.9	21.6
1932 ..	185.5	84.0	1.5	803.2	22.0
1933 ..	184.9	81.3	2.2	772.6	22.4

In the textile industry the intensity of labour is being steadily increased, whilst wages are being steadily reduced. In many places agreements have been secured for the introduction of the more-loom system together with slightly increased wage scales. However, in many cases the more-loom system was introduced, but the employers failed to keep their promise to raise wages so that the workers must work harder for the same wages. The fine system has been reintroduced in the cotton trades for workers turning out defective yarn. When buyers return yarn on the grounds that it is defective, a thing which is constantly done in view of the price vacillations, the employer places the loss on the shoulders of the workers and makes deductions from their wages. The following is taken from the semi-annual report of the Weavers' Union:

"What is happening at the moment is worse than anything which has happened in the past. The employers demand that the weavers should produce perfect materials irrespective of whether the raw materials are perfect or not. Workers are called before the management for matters over which they have no control. Weavers who have worked for years and produced consistently good cloth have been dismissed of late for defective production." (Taken from "The Manchester Guardian" of the 26th June, 1934.)

A memorandum demanding the introduction of the 40-hour week drawn up by Sherwood of the Shipbuilders' Union gives interesting material concerning the development of labour productivity in the shipbuilding trades. The following is taken from "The Times" of the 30th June, 1934:—

"The tonnage built per worker employed was 6.6 in 1920

be 400 million pounds over a period of ten years. Interest and amortisation charges would amount, it is estimated, to 16 million pounds a year, as the necessary capital could be obtained at 3.5 per cent., provided the State would back up the loan with its guarantee. The houses, it is proposed, should be built by the municipalities and by the special public utility companies.

*The latest action is a subsidy of three million pounds sterling to cattle breeders.

and 10.4 in 1930. The increased mechanisation of labour since 1923 has thrown at least 40,000 shipbuilders on the streets for good. In the year 1924 the net value produced per worker was 169 pounds sterling, but in 1930 it was 210 pounds sterling. The production per worker rose in the period from 1924 to 1930 by 24 per cent. in value and 75 per cent. in volume."

The impoverishment and pauperisation of the working class is steadily increasing. Although the official figures for unemployment show a reduction, the number of workers applying for poor relief is increasing steadily. "The Economist" of the 23rd June, 1934, writes the following, under the title: "Growing Pauperism":

"In spite of improving employment and general economic conditions, the number of persons in receipt of poor relief continues to increase. . . . The total number of those receiving relief at the end of March was 1,409,089, the highest figure recorded on that date in any year except 1922, and an increase of 40,117 (2.9 per cent.) as compared with December, 1933, and an increase of 51,853 (3.8 per cent.) as compared with March, 1933. . . . It is only in the more prosperous districts that it (recovery) is as yet affecting the statistics of poor relief, for in others the depletion of all reserves of savings and the continued depression of many industries is still throwing more people on to poor relief than can be absorbed by expanding employment."

The University of Liverpool has published the results of an investigation into conditions on Merseyside. The report (quoted from "The Manchester Guardian" of the 21st June, 1934) declares:—

"Sixteen per cent. of all the families sampled failed to reach up to the poverty line, whilst an additional 14 per cent. (or over 30 per cent. in all) failed also to reach the 'Human Needs' level. It is an ironical reflection that although production has in recent years so enormously increased, yet in one of the most important areas of England, a country which boasts of a relatively high standard for its workers, in round numbers some 3,000 families out of a random sample of 7,000 that were investigated failed to secure what Rowntree termed 'the bare essentials of a civilised life.'"

Italy*

The hopes that the Italian bourgeoisie and the Italian government had placed on the transition to the period of depression during the past eighteen months have been completely disappointed. The official bulletin of the Italian Industrial Federation declares in its May number:—

"A certain enlivenment has made itself felt in a few branches of industry which were seasonably favoured; in other industries, however, the tendency towards improvement which manifested itself in the last quarter of last year has not been maintained."

This report of the Italian industrialists' association refers to the first quarter of 1934, and we must correct it in so far as the final quarter of last year also showed a falling-off as compared with the earlier months of 1933. In view of the inadequate and very delayed publication of industrial statistics in Italy it is not yet possible to gain any real idea of the development in the second quarter of 1934. However, individual reports and a number of governmental measures which we shall discuss later on, indicate that in the second quarter of the current year the tendency to the bad continued and apparently at an increased rate.

With regard to industrial production, we observe that iron and steel dropped in the first quarter of 1934 as compared with the last quarter of 1933, and is now about 10 per cent. under the level of the first quarter of 1933. The following table gives us the figures:—

(In tons)	Pig-iron	Cast steel	Rolled iron
First quarter, 1933	123,169	404,485	331,765
Fourth quarter, 1933	127,856	461,295	385,942
First quarter, 1934	123,791	448,803	362,839

It must be remembered, of course, that the production of iron and steel does not play the same role in Italy that it does in other industrial countries, but the movement in these two branches of production reflects fairly accurately the general trend of the economic system.

* The report on Italy in this number was made by Comrade Aquila.—E. V.

No production figures are published for the textile industry (with the exception of artificial silk), which plays a big role in the Italian economic system, so that we must rely on other indications, such as the number of spindles and looms at work, etc.

The silk industry is most seriously affected, and at the end of March, 1934, only 198 out of 779 factories were working, or 25.4 per cent. In March, 1934, only 13,331 out of a total of 54,423 spindles were working, or 24.5 per cent. of the total number. The silk weaving mills were a little better off. In the same month about 66 per cent. of the looms were at work, or 15,960 out of a total of 24,193 looms. However, even these looms were working only to 74.4 per cent. of their capacity. The Italian silk industry is being hard pressed by Japanese competition, and not only in its traditional markets abroad, but even at home. This fact caused Mussolini to declare in horror last autumn: "Japanese silk is being sold in Como!" The province of Como is the centre of the Italian silk industry.

In the other branches of the Italian textile industry the situation is not quite so bad as it is in the silk industry. However, here, too, the crisis is very deep, as can be seen from the following figures, which refer to the end of March, 1934:—

	Linen &		
	Cotton	Hemp	Jute
Percentage of active spindles	83.5	61.2	75.8
Percentage of capacity worked	75.8	72.9	80.4
Percentage of active looms	68.6	64.9	69.9
Percentage of capacity	71.6	60.7	74.0

A number of other important industries which occupy a big place in Italy's economic system (automobile production and shipbuilding) have experienced no improvement, but the chemical industry and the artificial silk industry are not doing so badly. The consumption of electric current shows a steady upward tendency, but this is at the expense of the coal industry.

All these figures need an important addition if their economic importance is to be correctly estimated, and this addition is provided by the foreign trade statistics. If one examines the Italian foreign trade figures for the first quarter of 1934 and compares them with the figures for the same period of last year we arrive at the following:—

Raw Materials and Finished Goods:

	(in millions of lira)					
	Import		Differ- ence	Export		Differ- ence
	1933	1934		1933	1934	
Textiles (raw materials and finished goods)	519.6	609.9	+90.3	478.5	444.4	-34.1
Metal ores, metals and by-products	271.9	286.2	+14.3	203.9	125.7	-78.2
Non-ferrous ores, stone and glass	223.4	232.3	+ 8.9	72.7	51.6	-21.1

These foreign trade figures show that there has been an increase in the imports of raw materials for industry and an increase of industrial production (as compared with the first quarter of 1933), but a considerable reduction of the export of finished goods, and that this reduction is particularly great compared with the increase of imports in the metallurgical and textile industries.

Theoretically, of course, this could be due to an increase in the purchasing power of the home market—that is to say, a favourable sign—but, in fact, all other figures unanimously demonstrate that, far from having increased, the purchasing power of the home market has diminished still further to a noticeable degree. Even the industrialists' report, which has already been quoted, is compelled to admit:—

"Business on the home market showed a very definite break. The process of bringing the prices into relation to the purchasing power of the masses is proceeding by degrees."

The report declares that the process of establishing a balance between prices and the purchasing power of the masses is going on gradually; but, in fact, during the second quarter of 1934 the balance received a further heavy dislocation by a new attack on the standards of living of wage and salary earners, as we shall show in figures later on. For the moment we shall confine ourselves to pointing out that an increased import of raw materials for industry is faced with a reduction in the export of finished goods and with a further reduction in the purchasing power of the home market. This fact is not only of political importance, in that it

shows clearly the increasing material preparations of Italian imperialism for war, but it will also have economic results of a far-reaching character, in that it will intensify the crisis of the Italian economic system, and in particular of Italian finance-capital.

From this point of view, therefore, the movement of import and export not only in the branches of industry mentioned, but relating to Italian foreign trade as a whole must be examined. In the first four months of 1934 Italian foreign trade was as follows:—

	Import	Export	Import Surplus
	(in millions of lira)		
1933	2,531	1,978	553
1934	2,644	1,680	964
Difference ...	+113	-298	+411

In the years 1928 to 1933 Italian foreign trade diminished to an extent corresponding with the general diminution of world foreign trade. Imports fell from 22.3 milliard lira to 7.4 milliard lira, whilst exports fell from 15 milliard lira to 6 million lira. The official fascist press consoled itself by pointing out that this diminution of exports and imports resulted in a reduction of the annual passivity of the balance of foreign trade which naturally represented an important factor from the standpoint of the stability of the Italian lira. However, as we have seen, the current year has brought about a change in this respect. In the first four months of 1934 the passivity of Italy's balance of foreign trade not merely did not diminish, but it increased from 553 million lira in 1933 to 964 million lira in 1934. If this rate of development continues then the balance of Italian foreign trade in 1934 will end with a passive factor of about three milliard lira as against 1.4 milliard lira in 1933.

The significance of this fact is enhanced by the fact that this year the Italian balance of foreign payments will be passive for the first time. Italy's balance of foreign trade was always passive, but its passivity was covered by the sums remitted to Italy by Italian emigrants, by the receipts of the Italian mercantile marine and by the large volume of tourist traffic in Italy. Since the economic crisis, however, all these sources of Italian revenue have shown a diminishing tendency.* This year they will no longer be large enough to make up for the passive balance of Italy's foreign trade. This is a fact which even the fascist press can no longer ignore, and the Turin "Stampa" of June 26 writes: "In the first half of 1934 our balance of foreign payments will be passive."

The immediate effect of this situation has been that in the first few months of 1934 no less than 700 million lira in gold and foreign means of exchange left the funds of the Italian State Bank for foreign destinations. The gold cover of the lira is still officially very high, being 53 per cent. as compared with the legal minimum of 40 per cent.,† but this is obtained thanks chiefly to the greatly reduced note circulation which could hardly stand any further reduction. On top of all this comes the very difficult state of public finances. In the financial year 1930-31 the budgetary deficit was half a milliard lira, but since then it has been growing rapidly and the current budgetary year, for which a deficit of 2.7 milliard lira was estimated, will actually end with a deficit which will be much nearer 4 milliard lira. In accordance with the increase in the budget deficit the State debt increased from 88.1 milliard lira in the middle of 1930 to 96.4 milliard lira at the end of March, 1933, and to 102.2 milliard lira at the end of March, 1934. In order to diminish the burden on the budget represented by this enormous mass of debt—the budget has to provide for net interest amounting to 5 milliard lira in a total budgetary expenditure of 20 million lira—in March of this year 61.4 milliard lira five per cent. loan was converted into 3.5 per cent. loan. However, the loan holders were paid the difference between the old and the new rate of interest up to 1937 (the year to which the Italian State had guaranteed the five

* In 1929 Italian emigrants remitted 2.1 milliard lira to Italy, but by 1932 this sum had fallen to 900 million lira. In 1923 foreign tourists spent 2.3 milliard lira in Italy, in 1925 3.6 milliard lira (the "Holy Year" organised by the Catholic Church), but in 1933 they spent only 1.3 milliard lira.

† In reality the gold cover is not so large when 2.1 milliard lira in the form of change is added to the official 12.9 milliard lira officially in circulation.

per cent.) immediately as a premium. This operation burdened the State treasury to the tune of 3 milliard lira which had to be raised by a new loan.

The strained situation in which the Italian State finances find themselves is due in great measure to the wide-scale "financial reorganisation" which the Italian government has carried out during the past three years with the assistance of various so-called semi-State financial institutions. The big Italian banks which had invested big amounts in industry found large sums frozen up when the economic crisis came. The three biggest Italian banks: Banca Commerciale, Credito Italiano and Banca di Roma, controlled over two-thirds of Italy's joint-stock companies by holding shares, debentures and credits, etc. In autumn, 1931, the Banca Commerciale was the first of the three to find itself in difficulty and in fact this great Italian bank was faced with complete collapse. The Banca Commerciale was saved by the State, which founded a financial institute (keeping the majority of its shares in the hands of the State), and this institute, thanks to credits guaranteed by the State, took over all the industrial shares and obligations of the Banca Commerciale. During the past few years the same operation has been performed to save the other banks, and the government has since announced that all the industrial shares, etc., which were formerly in the hands of the three big banks, are now concentrated in the semi-State financial institute I.R.I. (Istituto Ricostruzione Industriale). Thus all the losses resulting from the rotten industrial shares and frozen credits have now been covered by the State. The semi-State financial institutes also take over industrial shares apart from the commitments of the big banks, place credits at the disposal of industry (at the disposal of the big trusts, naturally), and carry out expensive State actions in support of shaky undertakings. The burden imposed on the Italian State treasury as a result of these operations is now over 8 milliard lira, and by the time these operations have been concluded it will be double that amount, and all of it has been taken from the pockets of the taxpayers, that is to say, of the toiling masses, and placed in the pockets of the Italian finance capitalists.

The increasing demands for armament purposes are burdening the State finances still more. At the end of May Mussolini announced in a speech to the Italian parliament that, apart from the military expenditure provided for in the State Budget, the government must provide a further milliard lira for the strengthening of the Italian air fleet, and a further milliard lira for the building of warships. An official announcement has already been made to the effect that work will begin this year on two new armoured cruisers of 35,000 tons displacement each and that the ships will be amongst the biggest and most up-to-date in the world.

And finally, there is a further important factor which will aggravate still further the precarious situation of the Italian State finances. In 1934-35 Italy will have to import considerable quantities of cereals. Italy was always an importer of cereals. Before the war Italy imported about a third of its total requirements of cereals. During the last seven or eight years of the fascist regime, however, Italian finance capital has turned its attention to agriculture in the much heralded "grain battle," and as a result the production of wheat in Italy was so increased that the harvest of 1933, which was greatly favoured by climatic conditions, was able to cover almost the whole of Italy's wheat requirements. The import of cereals stopped therefore almost completely. This year, however, climatic conditions were so unfavourable that the harvest will not satisfy the demands of the home market and large quantities of cereals will have to be imported, and as a result the condition of Italy's balance of foreign trade will become still more unfavourable and the critical financial situation will become still more critical.

The Italian bourgeoisie and its fascist government are now adopting a number of measures with a view to finding a solution for the dangerous situation in which they find themselves, a situation whose chief factors we have already described above. These measures can be roughly divided into two groups.

During the last few months the cotton and silk yarn industries have been subjected to a State control of production and distribution, and a compulsory cartel under State control has been founded for the cotton trades. Considerable premiums have been provided for the silk industry representing a kind of export subsidy. In order to slow down the depletion of Italy's gold and foreign exchange reserves a State control of these means of payment was instituted in May of this year. The provisions of this law give the Italian State Bank, the Banca d'Italia, the right to examine the

books, registers and other documents of all banks, industrial and trading undertakings. At the moment the Italian press is discussing the advisability of introducing an import prohibition on all raw materials, half-finished goods and other goods, providing such raw materials, etc., can be replaced by home-produced substitutes or such goods can be produced in Italy, even if the quality would be poorer.

Apart from such measures, which are dependent on the result of the struggles between the various bourgeois industrial groups and which are admitted by the government to be no more than supplementary and temporary measures, the Italian government and the Italian bourgeoisie are aiming at re-establishing the competitive capacity of Italian trade and industry on the world market by further wage and salary cuts.

The Italian government has already much experience in reducing wages and salaries. Apart from the policy of the Italian trade unions, if such they can be called, which represents a continuous and organised attempt to depress wages, all wages and salaries have been reduced by from 8 to 20 per cent. by government decree in the years 1930 to 1932.

The last general attack on the standards of life of all wage and salary workers was made in April of this year, when, by government decree, the salaries of all State officials and the wages of all workers employed by public bodies were reduced by from 6 to 12 per cent. This was followed in June and July, after the speech of Mussolini in parliament, by the reduction of wages in all branches of industry by from 7 to 12 per cent.

What this general reduction of wages in June and July meant to the Italian workers can be appreciated when it is realised that even in the preceding months wages were rapidly falling. This fact can be demonstrated on the basis of fascist statistics. The following is the monthly report of the Association of Italian Industrialists concerning wages paid in March and April of this year. The figures refer to 22,017 factories, etc., in which 52.26 of all the industrial workers in Italy are employed:—

	Daily average No. of Workers employed	Wages paid out in Lira
March	1,042,702	337,818,500
April	1,067,927	325,070,279

From March to April therefore the monthly wage of the individual Italian industrial worker fell from 324 to 304 lira. Reckoning 25 working days a month, that would be an average daily wage of 12.96 lira in March and 12.16 in April. The wage reduction was thus about 6 per cent., but this reduction has nothing to do with the general wage reduction of from 7 to 12 per cent. which took place in June and July following.

Two remarks must be made in connection with this report of the Italian industrialists. First of all this report compares the wage sum paid out with the daily average number of workers employed. In reality the factories, etc., embraced by the report had a total of 1,114,689 workers in April of this year, and of these, on each working day, approximately 47,000 were idle. The wage sum which was paid out should therefore be spread over the total number of workers employed, and the result would then be that the average monthly wage of the individual worker would amount in April to only 291 lira or 11.64 lira a day.

Secondly, the wages given in the report are gross wages from which many deductions are made before the worker finally pockets his net wages: 10 per cent. wage tax, health insurance contribution, fascist trade union contribution, which every worker is compelled to pay whether he likes it or not, unemployment insurance contribution. In other words, according to the official figures of the Italian fascist employers, the average daily wage of an industrial worker in Italy in the month of April, 1934, was less than 10 lira after all deductions had been made. And this miserable wage was cut still further in June and July by from 7 to 12 per cent.

It is true that the Italian government has at the same time staged a campaign for the reduction of the cost of living, but even the fascist press has been compelled to admit that the actual reduction in the prices of foodstuffs amounted to no more than one or two per cent.

After Mussolini's speech to the Italian parliament, one of the biggest Italian employers and one of the most influential leaders of the Italian industrialists, Pirelli, sent a telegram of loyalty to

Mussolini, in which he assured the latter of the enthusiastic discipline of the Italian employers towards the fascist government and of the strict carrying out of the instructions given in Mussolini's speech. The Italian press had sufficient nerve to publish this telegram. The increasing number of reports concerning strikes and bloody collisions between the workers and peasants on the one hand and the fascist police and militia on the other which have come from all parts of Italy of late to such an extent that even the fascist press can no longer completely ignore them, would seem to indicate that, no matter how "enthusiastically disciplined" the Italian employers are, the masses of the workers and peasants have other ideas. **These reports show that the resistance of the Italian workers and peasants against the new attacks of Italian capitalism and its fascist servants is again on the increase.**

The United States

"The first period of the New Deal which was inspired by liberal and left-wing thinkers is now at an end. The second period in which an attempt will be made to organise the self-administration of American industry along the lines of the fascist corporations has now begun."

(*"The Manchester Guardian, July 29, 1934."*)

Whilst we are writing these lines hundreds of thousands of workers in the United States are on strike. The great increase in the strike movement under the Roosevelt era despite the fact that, with the assistance of the leaders of the American Federation of Labour, Roosevelt succeeded in preventing strikes in the steel and motor-car industries, shows clearly that the situation of the working class has not improved despite the wave of demagoguery and despite the fact that Roosevelt's advisers have been accused of being secret Communists intent upon guiding the country unawares into Communism by means of legislative enactments.

The following is an official table of strikes, although it is obviously incomplete and does not contain a series of so-called "wild" strikes:—

Year	No. of Strikers	Lost Working Days (in thousands)
1929	230	9,975
1930	158	2,730
1931	279	6,386
1932	243	6,463
1933	775	13,456
1934 (First Quarter) ...	188	3,880

Figures are not yet available for the second quarter of 1934, but the wave of strikes is obviously higher to-day than it was a year ago.

The disappointment and bitterness of the American workers at the results of the New Deal are growing rapidly, although for the moment President Roosevelt's personal popularity is still very great. What has the New Deal brought to the American workers?

Unemployment is still enormous. Despite the spread-over in the form of the reduction of working hours, no one estimates the numbers of the unemployed at less than ten millions even now.

The following figures issued by the American Federation of Labour (which, however, are not particularly reliable) give a picture of the state of unemployment:—

March, 1933 (maximum)	13.69 millions
May, 1933	12.90 "
January, 1934	11.76 "
February, 1934	11.44 "
March, 1934	10.85 "
April, 1934	10.55 "
May, 1934	10.27 "

According to these figures the successes of the New Deal have found work for no more than 2.5 million workers, or about one-third of the total number of unemployed, and even this minor success was obtained at the price of less work for those workers already employed.

The Federal Reserve Board publishes an index concerning the volume of employment and the wages paid out in the manufacturing industries, based on undertakings in all branches of the manufacturing industries employing together about three million workers. This index (which does not go beyond March of this year) gives us the following picture:—

the American working class is much too good to justify strikes and labour troubles. We find this idea expressed very well in the following quotation from "The Financial and Commercial Chronicle" in a leading article published on the 16th June, 1934:—

"The earlier history of industrial relations in this country undoubtedly contain instances where wages and working conditions were so bad that the only possible hope for improvement was by means of the strike. To-day there are very few branches of industry in the United States where that could be said with any honesty. To-day the strike is very seldom the result of real economic and social injustice or hardships. In the great majority of cases we can trace the origin of strikes to demands which have been put forward and popularised by labour leaders who are themselves no longer workers: the recognition of the unions, the establishment of the closed-shop principle, the abolition of the company unions, the shortening of the working day (which is already short enough), or an increase in wages, though no one can say that wages in the United States are low."

There is no doubt that the struggles between capital and labour in the United States are taking on much sharper forms to-day than ever before.

The dissatisfaction with the N.R.A. is general. The standpoint of the petty-bourgeoisie was expressed in the Darrow report, which correctly showed how the N.R.A. encourages the development of monopolies and the suppression of competition, but which naturally indicated no way out. Any logical consideration of the situation leads naturally to the conclusion that there is no possibility of any improvement in the situation of the working masses within the framework of capitalism. One of the members of the Darrow Commission, W. C. Thompson, did actually arrive at this conclusion, and he expresses his point of view in a letter written to the authorities resigning from the National Recovery Review Board. He expresses the conviction that the development of the N.R.A. is showing "day for day a clearer tendency towards fascism in the United States," and concludes:—

"The only solution presupposes a change in the relation of the classes. Only a government of the workers and farmers could plan production and produce goods for use and not for profit, abolish poverty and raise the standard of living of the whole population."

This was answered by General Johnson, in a speech in Charleston attacking the report of the Darrow Commission and describing it as follows:—

"An open attack on our whole system in favour of the semi-barbarous violence of semi-civilised Russia." (Quoted in the "Nation," on June 27, 1934.)

The demands of American capitalism are best formulated in the programme of action drawn up by the Durable Goods Industries' Committee, and forwarded to Roosevelt on May 27, 1934:—

"Industrial relations on a basis which will ensure co-operation instead of strife.

"Assurance to private enterprise that the profit incentive will continue to receive public approval as an energising motive for economic activity.

"Public recognition that the only legitimate purpose of taxation is to provide the necessary revenue for government and not to effect a punitive redistribution of wealth which paralyses business initiative, or for any other purpose.

"Removal through the permanent balancing of the budget of the threat of uncontrolled inflation.

"The clarification of the government's policies towards measures and trends which are inconsistent with our economic system."

As we have already pointed out once in these columns, the practical economists of the United States with Mr. Ayres at their head have discovered, two generations after Marx, that constant capital, they call it durable goods, forms the material basis of the industrial cycle, and that without an extension and renewal of fixed capital the improvement which has taken place and which was in part due to artificial measures cannot be permanent.

However, the general crisis of capitalism has produced a permanent surplus of constant capital which represents a serious hindrance to any extension and renewal, and just for this reason the capitalists are now discovering its importance. The year 1933 produced no noteworthy improvement in this respect. If we

take building activity as a measure of the extension and renewal of constant capital we get the following picture.*

The total sum of building contracts concluded amounted in millions of dollars to:—

Year	Total	Housing	Factories	Commercial Buildings	Public and Municipal Buildings
1928	6828	2788	635	885	1338
1929	5754	1916	756	933	1248
1930	4523	1106	257	629	1651
1931	3092	811	116	311	1171
1932	1351	280	43	123	590
1933	1256	249	128	99	604

As early as the year 1929, before the outbreak of the crisis, building activity decreased considerably, and since then the decrease has been permanent. When we remember that the reduction of building activity by five milliard dollars a year is accompanied by a similar reduction in the production of iron, timber, cement, etc., and results in a wage loss of about a milliard dollars a year, then it is clear that so long as building activities continue to decline in this way there can be no question of any permanent improvement in the economic situation. The lack of activity in the building of new factories indicates that there has been no noteworthy renewal or extension of constant capital.

The year 1934 has so far produced no important change. According to figures issued by the Dodge Corporation and published in the "Annalist," on June 29, 1934, the total sum of building contracts amounted in millions of dollars to:—

Jan.	Feb.	March	April	May	June	Together
187	97	177	131	135	121	848

On this basis the value of building contracts in the whole of 1934 may be estimated at approximately 1,500 million dollars.

The lack of improvement in investment activity is the chief cause of the new recession which set in in the United States in the middle of the year. The improvement which began in November gradually ceased, and in May production was no higher than in April. There are as yet no production figures for June but it is known that a new recession began and that it continued in July.

The "Annalist" Index (Normal=100)

	1933		1934		
	July	Nov.	March	April	May
Goods Wagons, loaded	66.2	59.4	69.0	64.7	63.8
Raw Steel Production	92.7	41.9	60.1	70.7	78.7
Pig-iron Production	64.4	37.2	50.9	54.5	63.1
Electricity Production	96.9	88.4	93.6	96.1	96.7
Cotton Consumption	138.3	83.8	89.9	90.8	92.0
Wool Consumption	144.0	92.3	77.4	72.6	—
Silk Consumption,	85.2	59.2	69.6	71.6	71.8
Boot and Shoe Production ..	133.0	95.4	118.7	127.0	115.3
Automobile Production	67.8	28.6	77.9	78.5	70.1
Building Timber Production ..	71.1	48.3	60.6	53.3	51.9
Cement Production	56.2	33.9	51.4	54.4	52.6
Zinc Production	66.4	65.7	62.1	59.1	59.6
Total Index:	89.5	68.5	79.0	80.0	80.4

This table shows:—

(a) That with the exception of the automobile industry all other branches of production in May remained below the July level; and

(b) That without the considerable increase in production of iron and steel in May as compared with April the total volume of industrial production would have declined.

Now this increase in the production of iron and steel was undoubtedly due to the fear of a strike in the industry. When the strike danger had passed production in the steel industry fell rapidly from 60 per cent. to 30 per cent. of capacity. A parallel decline is now proceeding in a number of other branches of industry.

The "Annalist," of June 29, sums up the situation as follows:—

"The prophesied decline in the production of steel is now in full swing. The limitation of production is also proceeding in a number of other leading industries, including the automobile and the building industries. To-day we are faced with the question, is it a mild and temporary recession, or is it a

* The figures are taken from the index of the New York Trust Company, and were issued in June, 1934.

recession which will last to the next elections?"

Writing in the Bulletin of the Cleveland Trust Corporation, on June 25, the American economist Ayres declares:—

"Business activity and industrial production have definitely slowed down during the past month. . . . This is the third time since the bottom of depression that the progress of recovery has been checked by reversal. The first upturn from the bottom began in the summer of 1932 and lasted four months. The next advance began in the spring of 1933 and also continued four months. The latest upward movement started last December and continued four months, and now production has turned downwards again without having equalled the volume reached last year."

If we examine the reasons for this phenomenon we find that as a result of the lack of investment activity* the extension of sales was limited generally speaking to the consumption goods (government subsidies to the farmers, public works, etc.). Such an extension of sales must however soon peter out. The peculiar character of the present phase of depression can be seen clearly

An important factor is further that the market itself did not absorb all that was produced and that, in fact, the stocks of finished goods showed a tendency to increase. Unfortunately, there are no figures available beyond April. The "Survey of Current Business" gives the following figures in June, 1934:—

Index of Commodity Stocks (1923-25=100)

	1933			1934	
	April	July	Dec.	Feb.	April
Industrial finished goods ...	95	104	110	111	109
Iron and steel goods ...	82	101	94	99	104
Textiles ...	81	123	192	166	167

In April stocks were 35 per cent. higher than the previous year. Iron and steel goods were up 23 per cent. and textiles up more than 100 per cent.

There is no doubt that the stocks of iron and steel commodities still further increased from May to June of this year. Under these circumstances a further decline in production is inevitable.

An additional factor is the failure of the harvest in large areas of the United States this year. According to the estimation of President Roosevelt 125,000 families will be absolutely without means owing to the failure of the harvest and they will have to be assisted with public means. The purchasing power of hundreds of thousands of others will be seriously diminished as the result of the bad harvest.

This second harvest failure has achieved what a year-long policy of "planned limitation of production" could not achieve, namely, a rapid rise in the price of wheat, fodder and cotton.

This increase in prices will benefit the government, which will be able to get rid of its stocks, the speculators and the mills who have large supplies from last year's harvest, and the richer farmers who will be compensated by the higher prices for the lesser quantities they will be able to put on the market after they have deducted their own needs. On the other hand, however, the situation of the poor farmers, the agricultural labourers and the cattle-breeders will greatly deteriorate.

All these facts indicate that the recession which began in June will continue for several months and that the second half of 1934 will be worse than the first half.

Japan

Six months ago we dealt in detail with the development of the economic system of Japan and we came to the following conclusion:—

"To sum up, therefore, although the 'big' war has not yet begun, the Japanese economic system already shows all the signs of a military deformation, signs of a widespread impoverishment and of a deep dislocation which is temporarily covered up by the apparent inflationist boom. This situation has already caused widespread discontent amongst all sec-

* The emission of capital which is the preliminary condition for any new investment of capital is still very low:

New emissions of capital in millions of dollars (in the first five months of each year): 1930 4158, 1931 1970, 1932 583, 1933 170, 1934 480.

Three hundred and forty-eight millions was accounted for by State and municipal loans. Capital for joint stock companies was only 90 million dollars as compared with 3,200 million dollars in 1930.

tions of the working population and in the not all too distant future it must lead to revolutionary upheavals." ("International Press Correspondence," Vol. 14, No. 22, April 10, 1934, Page 577.)

The past six months have brought no change in this development. The depreciation of the yen is continuing, though at a slower rate and subject to oscillations.

Disagio of the Yen as compared with Gold Parity

Average in 1933	January, 1934	May, 1934
59.65	61.89	64.07

All other constituent elements of the sphere of circulation are gradually adapting themselves to the depreciation of the yen. Between April, 1933, and April 1934, the nominal value of the bank-notes in circulation rose from 1,126 million yen to 1,272 million yen, that is an increase of approximately 15 per cent. The index of share quotations has risen even more, i.e., from 157 in April, 1933, to 223 in April, 1934. The total index of wholesale prices shows no increase, a circumstance caused by the big drop in the prices of two of the most important products of Japanese agriculture, silk and rice. On the other hand, however, according to the figures of the Bank of Japan, the cost of living has risen inside a year from 143.4 in May, 1933, to 149 in May, 1934.*

As against this rise in the cost of living admitted by official Japanese sources, the already terribly low wages of the Japanese workers have not increased. According to the figures of the Tokio Chamber of Commerce given in the Monthly Report on Current Economic Conditions, the wage index in March, 1934, was 96.9 as compared with 96.4 in March, 1933.

We see, therefore, that it is the Japanese worker who has to bear the main brunt of the Japanese dumping. The preparations for war which the Japanese ruling classes are conducting at full pressure with all the economic forces of the country, demand that Japanese exports should be forced up at all costs in order to secure the necessary foreign exchange to purchase important raw materials for war purposes, machinery and armaments. The economic mechanism with which the preparations for war are being made is the following: According to various computations the national income of Japan is somewhere between nine and thirteen milliard yen, and of this about a milliard and a half yen are taken in taxation. As, however, this sum is by no means enough to cover all the State expenditure the remaining sums are covered by means of internal loans. The internal public debt of Japan has therefore increased by leaps and bounds during the past few years.

Internal Public Debt of Japan in Billiards of Yen

April, 1932	April, 1933	April, 1934
4.7	5.6	6.7

As we observe, the increase is approximately a milliard yen annually. The State obligations are taken up almost exclusively by the State and private banks and kept in their hands because, in view of the widespread poverty of the Japanese population, it would be impossible to dispose of them amongst the "general public." Grants are made from the State funds under various headings to the big capitalist concerns, and this, together with the very low wages of the Japanese workers, makes it possible for the Japanese capitalists to sell their products widely on the world market despite the fierceness of the competition they have to face. In this way the Japanese bourgeoisie is able to obtain the necessary foreign exchange for the purchase of raw materials and armaments. The increase of production and the relative improvement of the Japanese balance of foreign trade is based socially on a tremendous exploitation of the workers and peasants, and economically on a non-equivalent exchange, because—as is the case with all economic systems employing inflated currency—greater value is given in exchange for foreign imports than is received.

In many respects the situation of the Japanese economic system is similar to the German economic system in so far as both of them are dependent on a considerable importation of raw materials for the maintenance of industrial production. Apart from silk, which is exported chiefly as raw silk, almost all the Japanese industrial export commodities are made with foreign raw materials. This is the case above all in the Japanese textile industry, which plays such an important role. With the exception of the artificial silk industry, the Japanese textile industry works exclusively with imported wool and cotton.

* Figures taken from the Bulletin of the League of Nations, June, 1934.

the world market with their other products. Japanese industry is encroaching more and more on the American market. Now that Japanese penetration into British colonial markets has been compulsorily restricted this Japanese attack on the American market will undoubtedly increase in intensity, and as a result the antagonism between the United States and Japan will be aggravated. For a long period these two countries hardly met at all on the world markets as competitors because the United States exported chiefly raw materials and the means of production, whilst Japan exported chiefly finished consumption goods. In 1933 complaints began to become louder about the encroachment of Japanese goods on the United States and Central and South American markets.

According to "The Journal of Commerce" of September 20, 1933, the Art Metal Company in New York formally protested to the Tariff Commission of the United States government that Japanese cigarette lighters with the trade mark of the Art Metal Company on them were being sold in the United States at far below the regular prices.

"The Journal of Commerce" on the 20th September, 1933, publishes the following complaint of the American textile industry:—

"The offers which are at present being made on our markets show that the present import tariffs represent no hindrance to the stream of textile goods from Japan which is pouring over our country. . . . Japanese prices are low enough to permit the Japanese to surmount our tariff walls with ease. Japanese factory prices are so low that they are from one-half to a third below the prices which are quoted from our harbours."

At the beginning of 1934 American manufacturers demanded the prohibition of the import of Japanese cotton carpets, pencils, matches, tinned goods, etc.

The United States can defend itself on its own market with special tariffs and prohibitions, but on the world market it cannot use these weapons, and it is compelled to stand by and watch Japanese goods driving American goods off the South American and Asiatic markets.

Mr. Colt, the secretary of the American Textile Export Association, declares that the export of textiles has fallen from an average of 130 million dollars in the years 1925-29 to a level in 1933 which would be approximately one million dollars.

"The American exporter is in a hopeless situation, and he is threatened with complete extinction by the Japanese weavers and spinners who have over eight million spindles at work at the moment and who have sold over two milliard square yards of cotton material this year out of a total world sale of five milliard square yards, and who are systematically undercutting American exports in Brazil, Colombia, and other South American countries."

The complaints of the American exporters are particularly frequent in connection with the killing competition of the Japanese in South and Central America, and on all chiefly peasant markets. The agrarian crisis which has already lasted ten years, and which is steadily growing worse, has reduced the purchasing power of the peasant masses to a minimum. As a result the cheap Japanese goods find an easy market, despite the fact that they are of inferior quality as compared with the more expensive but better quality British and American goods.

"The Chicago Daily Tribune" of the 2nd March, 1934, publishes the following from a correspondent in Panama:—

"During the past few months Japan has increased its exports to Mexico by 115 per cent. and to Panama by 275 per cent. The goods at present being offered by Japan on the Central American markets are intended chiefly for the poorer classes and represent a great advantage for the latter. An importer tells us that after having paid import duties, the Japanese goods cost only 60 per cent. of the price of similar American goods, not including the transport costs. For about a dollar the Indian in Central America can buy a complete outfit in the bazaars: jacket, trousers and canvas shoes. . . . Japanese competition is terrible, and it is affecting an increasing number of categories of goods. The opinion of competent

observers is that if Japan improves the quality of its goods its competition will become still more general and still more difficult for American goods."

The same complaints recur time and time again in the reports of American correspondents from Chile, the Argentine, Uruguay, Peru and Brazil, and also from the American colonies Cuba, the Philippines and Hawaii. Since British capitalism has restricted Japanese imports by increased import duties and prohibitions Japanese capitalism has flung itself with redoubled strength on to the South and Central American markets which American capitalism has long regarded as its own special preserves. The intense and successful competition of Japanese capitalism on these markets against United States capitalism is undoubtedly a new and aggravating factor in the antagonism between Japan and the United States.

In these difficult circumstances the Japanese capitalists are utilising any and every possibility of strengthening their position. An example is offered by Japan's attitude towards Australia. During the crisis Japan's imports from Australia grew by leaps and bounds. In millions of yen they totalled:—

1930	1931	1932	1933
34	114	134	205

Japanese exports to Australia grew at a slower pace and were (in millions of yen) as follows:—

1930	1931	1932	1933
26	28	37	51

The chief articles which Japan imports from Australia are wool and wheat. Industrially treated they are then exported again. During the past few years Japan has developed into one of the biggest exporters of wheat flour. Japan's exports of wheat flour in 1933 totalled 35 million yen. Owing to the big passive balance of Japan's trade with Australia Japan is in a position to exert considerable pressure on Australia. The peculiar situation results that Australia, which is the chief enemy within the British Empire of Great Britain's pro-Japanese attitude, is itself greatly dependent on Japan for the maintenance of its export trade, and in consequence is unable to take part in the measures against the import of Japanese industrial goods. Up to the present Japan has succeeded, under conditions of great difficulty, in maintaining its position on the world market. The forcing of the export trade, coupled with the great demand for armaments, continue to keep industrial production at an unusually high level. In March, 1934, the index of industrial production was 138.9, as compared with 130 in March, 1933 (1928=100).

Whilst wages are steadily declining and their purchasing power is also sinking, as the result of the increasing cost of living, the profits of the Japanese capitalists are rapidly growing. According to the figures of the Mitsui Company profits during the past three half years were as follows:—

(In Millions of Yen)

	Number	2nd half	1st half	2nd half
		1932	1933	1933
Banks	250	72	74	78
Industrial Concerns	1,000	198	242	284

These figures show that with the assistance of inflation the Japanese bourgeoisie is not only maintaining its profits, but even increasing them. The tremendous costs of the Japanese preparations for war are thus falling completely on to the shoulders of the Japanese workers and peasants. The longer this state of affairs goes on the more intense the class contradictions will become, and the more rapidly the revolutionary crisis in Japan will come to a head.

CORRECTION

In our report for the first quarter of 1934, the first table, the index of industrial production in the most important capitalist countries on page 914, the figures for 1932 and 1933 were given incorrectly in part.

We repeat the figures as they were given in the June Bulletin of the League of Nations:—

Year	U.S.A.	Gt. Britain	Germany	France	Japan	Poland	Canada	Belgium
1932	57.7	88.4	61.2	75.6	107.9	53.7	62.8	69.9
1933	68.5	93.4	68.9	84.6	128.4	55.4	65.2	79.7

Published weekly. Single copies, 2d. Subscription rates: Great Britain and Dominions, 12s. per year; U.S.A. and Canada, five dollars per year. Remittance in STERLING per International Money Order, Postal Order or Sight Draft on London.

Published by WILLIAM MASSEY, 249, King Street, Hammersmith, London, W.6, and Printed by THE MARSTON PRINTING CO. (T.U.), 44, Worship Street, London, E.C.2, England.