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Economics and Economic Policy in the Third Quarter of 1928.

(Down to October 25th, 1928.)

By E. Varga.

I. The Accentuation of Differences among the Imperialists and the Question of Reparations.

a) A New Stage of the Reparations Problem.

The outcome of the negotiations regarding the evacuation of the occupied territory in the Rhineland has led to the official recognition of the necessity of a new regulation of the Reparations question. The six Powers primarily interested in the Reparations question, Great Britain, France, Italy, Belgium, Japan, and Germany, recognise

"the necessity of a complete and definite regulation of the Reparations problem¹⁾ and to this end consent to the institution of a Committee of Financial Experts, to be appointed by the six Governments".

The significance of this communication lies in the fact that it embodies the recognition on the part of all interested Powers, including France, that the Reparations problem has not yet been definitely settled. Hitherto the French statesmen occupied the formally juridical standpoint that the Reparations Commission, by its London Ultimatum of 1921, had definitely established the sum owing by Germany at 132,000 millions²⁾. In their opinion, the Dawes agreement merely established the modalities of the provisional payments without changing the sum total in any way, which indeed only a unanimous resolution of the Reparations Commission was authorised to do.

It is true, it was obvious to every one that a payment of interests on the entire total of 132,000 million marks, i. e. 66,000 million gold marks per annum at a rate of 5 per cent., was not to be thought of. This was indirectly recognised when the original sum was divided into 50,000 millions of interest-bearing and 82,000 millions of "provisionally non-interest

¹⁾ "The necessity for a complete and definite settlement of the Reparation problem" (Communication by the Six Powers, dated September 14th, 1928).

²⁾ Nominally, the interest on this entire sum, in so far as it is not covered by the German payments in keeping with the Dawes plan, is periodically added by the accountants to the debt total, so that, in spite of heavy payments, Germany's indebtedness grows from year to year. See Sehring's "Germany under the Dawes Plan". Berlin, 1928. Page 37.

I. The Accentuation of Differences among the Imperialists and the Question of Reparations.

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bearing" indebtedness. From the formally juridical standpoint, however, the obligation to pay the entire interest continues to obtain.

We may well ask what has induced the Allies in general and France in particular to recognise the necessity of a final settlement of the Reparations problem.

The reason is to be sought not in an acute crisis in regard to the Dawes plan but in the aggravation of the differences among the imperialists. The convocation of a new commission of experts does not in the first place serve the purpose of actually solving the Reparations problem; its main object is rather that of making the United States responsible for the delay in the solution of this problem by means of connecting the Reparations question with the question of inter-Allied indebtedness, of disturbing the good relations between the United States and Germany, and of bringing about a united front of the imperialist debtor States against the United States. In short, the Reparations problem is to be made into an element of the two great differences, between Great Britain and the United

States and between the capitalist world and the Soviet Union, respectively.

b) No Acute Crisis in regard to the Dawes Plan.

The recognition of the necessity of definitely settling the Reparations problem is not the outcome of any acute crisis in regard to the Dawes Plan. Indeed, there is no acute crisis in this regard, nor could there well be one for the next three or four years in view of the nature and mechanism of the said plan.

Such a crisis could only occur

1. if it were to prove impossible to raise within Germany the sum required for the payment of the annual instalment, or
- 2) if the transfer of the money were to prove unfeasible (Transfer Problem).

At the time when the Dawes plan was first brought forward we expressed it as our opinion that it would undoubtedly be possible to raise the required sums within the country, but that their transfer would meet with the greatest difficulties and would be bound in time to lead to a crisis. That the sums provided for can be raised within the country is apparent, not only in view of experience to date but also by reason of quantitative considerations.

Wagemann, Director of the Institute for Business Research, puts the "value creation" of Germany for 1925 at 53,000 million marks. This figure comprises "services" valued at 6,000 millions and forming a derivative income which must thus be deducted, as must also certain sums to represent the "faux frais" of the capitalist method of production. We can thus estimate the value-product for 1925 at roughly 45,000 millions and that for the current year, in view of the increase in the number of persons gainfully employed, the intensification of work, etc., at 50,000 millions of marks. The full yearly achievements thus figure at roughly 5 per cent. of the annual value-products.

The real accumulation (accretion of material goods) was estimated before the war at 8,000 million marks per annum; now it may also be put at something between 7,000 and 9,000 millions. The entire Reparations onus thus amounts to from 25 to 30 per cent. of the accumulation.

The Reparations onus, whether collected as transport taxes, industrial dues, interest on railway debentures, or what not, forms part of the value-product withdrawn by the State from private economic objects. A comparison of the total onus shows that such part of the value-product as is withdrawn by the State is relatively no greater in Germany than it is in Great Britain or France. In round figures, the State budgets for 1928/29 figure as follows:

Great Britain 756 million pounds sterling,
 France (budget) 45,000 million francs,
 France (amortisation-fund) 7,000 million francs,
 France (total) 52,000 million francs = 426 million pounds sterling,
 Germany (appr., with railway dues) 12,000 million marks = 600 million pounds sterling.

Germany, which has half as many inhabitants again as Great Britain or France, occupies the middle position between these two countries in regard to the extent of its budget. The Reparations are therefore undoubtedly bearable from the standpoint of taxation.

As regards the class significance of the Reparations onus, there can be no doubt but that the burden in question falls before all upon the proletariat.

No special aggravation of the class struggle can be said thus far to have been entailed by the Reparations onus (as was

expected in the circles with which we are connected). After the terrible privations of the war and inflation periods, the re-attainment of the pre-war standard-of-living represented a very great improvement for the German proletariat and thus had a mitigating effect upon the class relations.

At the same time we cannot omit to make a very significant restriction to these considerations which tend to prove the inner-economic and social bearability of the Reparations onus. The increase in the annual value-product which has come about while the Dawes Plan has been in operation and which has reduced the relative gravity of the Reparations onus from 10 to 5 per cent., has, together with a real accumulation of almost pre-war dimensions, been rendered possible by the wholesale influx of foreign capital. Without this foreign help, which has rendered possible not only the transfer of the Reparations but also the reconstruction of German economy, so profoundly shaken in the year 1923, the Revolutions would undoubtedly have been harder to bear, while the class struggle would unquestionably have become acute much more rapidly and the entire Reparations problem would have proved far more difficult and would far more speedily have led to an acute crisis than is actually the case.

Nor yet has the transfer of the Reparations payments thus far led to a crisis of the Dawes Plan, neither will it lead to one for the next few years. The Dawes Plan and the London agreement stipulate that, supposing the transfer cannot be adequately effected by reason of some danger to the stability of the mark, the amounts raised within the country must, up to an extent of 2,000 million marks, be placed at the disposal of the German bourgeoisie by mediation of the Reichsbank in the form of short-termed capital, while a further 3,000 millions may be invested in German securities. Only if the non-transferrable amounts exceed 5,000 million marks, or two full years' payments, is such a supply of capital to be temporarily suspended until a transfer is again possible.

At the close of the fourth year of the Dawes Plan, however, there are not yet any non-transferrable Reparations funds in the hands of the Reichsbank. Moreover, it may be assumed that part of the full yearly payments will also be transferrable in the course of the next few years (in the form of deliveries in kind). An attainment of the five-thousand-million limit, entailing an acute crisis of the Dawes Plan, is by no means possible within the next three years and will probably not ensue in less than five years hence.

We thus see that it is not economic motives and not any acute crisis under the Dawes arrangement that has induced France to recognise the necessity of a final solution of the Reparations question and therefore a revision of the Dawes Plan, but simply considerations of power-policy and imperialism. Before entering upon a discussion of the problem, however, we have still something to say on the matter of the transfer.

c) Is there such a Thing as the Transfer Problem?

The Dawes report was based upon the consideration that only experience could show whether any of the Reparations payments could be transferred, and if so what proportion of them. And so far experience has shown that the Reparations payments can be transferred without the least difficulty.

The following survey, published in the "Frankfurter Zeitung" on August 31st, 1928 (reproduced here in an abbreviated form), shows the manner in which the Reparations payments were transferred.

The Development of Transfers

Millions of Gold Marks	Monthly Average				In Percentage of Total Payments			
	1st Rep. Yr.	2nd Rep. Yr.	3rd Rep. Yr.	4th Rep. Yr. ³⁾	1st Rep. Yr.	2nd Rep. Yr.	3rd Rep. Yr.	4th Rep. Yr.
Occupation Expenses	15.62	7.18	6.12	55.22	20.84	7.28	5.28	3.99
Deliveries in Kind	35.01	54.66	51.41	58.47	46.83	55.43	44.41	42.27
Repar. Recovery Act	15.02	20.25	24.18	29.03	0.09	20.53	20.89	20.99
Cash Remittances	—	5.42	21.66	34.06	—	5.50	18.61	24.62
Service of Rep. Loan	6.46	8.10	7.61	7.39	8.64	8.22	6.57	5.34
Smaller Payments	2.37	3.17	5.06	3.39	3.17	3.61	4.22	2.43
Total of Payments	74.75	98.60	115.75	138.33	—	—	—	—
Cash Status at End o. Yr.	107.01	93.70	180.94	161.09	—	—	—	—

³⁾ Eleven months' average.

These facts have encouraged certain writers in Great Britain and the United States to deny the existence of any transfer problem whatsoever. The main representative of this opinion is the former chief accountant of the Reparations Commission, P. Auld⁴). The political significance of Auld's campaign lies in the desire to prove that the United States are very well able to enforce payment of their claims by the other Allies. This is thus a campaign against a further reduction or cancellation of inter-Allied debts. Its main train of thought is as follows:

Before the war, Great Britain had a yearly income of 200 million pounds from claims on foreign countries. But no mention was ever made of a transfer problem. Nay, even at present Great Britain is doing its utmost to re-establish this state of affairs by means of capital exportation. Why should the United States therefore recognise the existence of a transfer problem?

On the other hand we should like to draw attention to the following point.

Great Britain is a thickly-populated industrial country, which requires enormous quantities of foreign foodstuffs, textile raw materials, hides, timber, metals, and the like, and therefore permits the duty-free importation of these goods. The United States, on the other hand, is an agrarian-industrial country, fully supplied with foodstuffs and raw materials (with few exceptions). It can accept payments from foreign countries only in the form of gold, luxury articles, and luxury expenses. As a matter of fact, the United States balance of payments shows that the revenue from capital investments abroad, if not re-invested in foreign countries, is consumed abroad by American tourists. As long as the prosperity, and thus also the luxury expenditure of the American bourgeoisie increase, it will really be possible to spend the revenue from capital investments abroad on the purchase of pictures, antiquities, jewellery and the like.

But even if we assume that the United States have the possibility of receiving the payments due to them on the inter-Allied debts, so that there are no difficulties in the way of a transfer in so far as the receiving party is concerned, that by no means proves that Germany is also in a position to effect the transfers in question. In this connection it must be pointed out that the fact of the transfer payments having been found feasible hitherto is no guarantee at all for the future. So far, no real transfer has taken place, but merely a "bogus transfer", which expression I employ to denote that the Reparations payments have been covered not out of the value-product of the country itself but out of foreign loans.

This was hitherto to case. Apart from the Reparations Loan, Germany raised in the first four years (September 1st, 1924, to August 31st, 1928) a sum of 4,670 million marks, which it also transferred to its creditors, all but the insignificant running balance of 160 million marks. This was, however, only possible by the negotiation of foreign loans, the sum total of which was double as great. The September report of the Diskonto-Gesellschaft states as follows on this subject:

"There results for the entire capital investments of foreign countries in Germany a total of between 8,800 and 9,300 million marks, which is confronted by Reparations payments to the amount of 4,700 million marks. Germany has thus received approximately double as much money from foreign countries as it has itself been obliged to pay."

It is obvious that a real transfer can only result from the surplus of the balance of payments. And that only if the surplus in question is genuine and not "borrowed", as was hitherto the case. Since the "invisible exports" of Germany, i. e. its revenue from capital investments abroad from navigation, and from international bank and agency business, amounts at most to a few hundred million marks per annum, Germany can only pay with the surplus of its goods exports, which means that its commercial balance would have to show a balance of several thousand millions in its favour. As a matter of fact, however, Germany's commercial balance shows a decided deficit,

⁴) v. Former articles in the "Annalist", his book "The Dawes Plan and the New Economics", 1927, and his recently published pamphlet "The Mythical Transfer Problem".

as it did before the war. Since the coming-into-operation of the Dawes Plan, this deficit has figured as follows⁵):

Pure Goods Traffic		Millions of Marks
1924 4th Quarter		1102
1925		2563
1926		189
1927		3887
1928 1st Half		1667
1928 July & August		326
		9734

In the absence of returns for September, this gives a yearly average deficit of 2500 million marks.

Actually to cover the Reparations liabilities, Germany's foreign trade would have to develop somewhat as follows:

2500 millions to balance the deficit

2500 millions for Reparations

500—785 millions for interest on foreign loans⁶)

5500—5785 millions

From this total, approximately 600 millions per annum would be deducted to represent the deliveries in kind, by the value of which the deficit is actually smaller: there would thus remain 4900—5185 million marks.

Germany can only augment its exports in industrial goods. Apart from coal, potash, and nitrogen (gained from the air), Germany has no very important article of exportation which does not contain foreign raw materials⁷).

It is difficult to estimate, how many per cent. of the value of the finished-goods exports actually represent the foreign raw and accessory materials contained therein. If we follow Wage-mann in estimating the value-product of German industry (exclusive of building, which does not export and employs very few foreign materials) at 22,000 million marks, this sum is faced by raw-material and semi-finished imports to the value of 5000 or 6000 millions, which is roughly 20 per cent. If we assume that the exported industrial goods contain the same percentage of imported value as the entire industrial output, an augmentation of exports by 5000 million marks would necessitate an additional importation of foreign raw materials to the value of at least 1000 millions. If these imports, again, are to be covered by exports, yet another 1000 millions are added to the requisite export value. We thus arrive at the result that Germany would have to export goods to an additional value of at least 6000 million marks (the said addition being composed almost exclusively of finished industrial products), so as to render possible a genuine transfer of the Dawes tribute of 2500 millions!

Is this possible?

In the following table the reader will find a comparison of the finished-goods exports of the most important capitalist countries in the year 1927. Only Italy is missing among the important industrial-export countries, seeing that the Italian

⁵) According to the verified calculations of the Statistical Office, which do not include the Reparations deliveries in kind. Data culled from the "Vierteljahreshefte zur Konjunkturforschung" and from "Wirtschaft und Statistik".

⁶) Sehring's estimate for September, 1924, is roughly 500 millions (Page 89), but the well-known American economist, Professor David Friday, puts the September returns at 785 millions (Quoted from "Frankfurter Zeitung" of Oct. 5th, 1928).

⁷) On Page 95 of his new book, Sehring gives a very detailed study of the foreign trade balance of the most important German industries, with the following result:

"The export surplus of finished industrial goods before the war was large enough to cover the entire raw-material imports besides one third of the entire foodstuffs imports in 1909/12 and one half thereof in 1913. In 1925 and 1927, the export surplus just sufficed to supply German industry with such raw materials and semi-finished materials as it lacked. For the greatly increased surplus of foodstuffs imports there is therefore no counter-item on the export side."

foreign-trade statistics make no differentiation between raw-material and finished-goods exports⁸⁾).

International Trade in Finished Products. 1927.

	Imports in Millions	Exports in Millions	Exports in Millions, Piand Ste
Great Britain (Pounds Stl.)	297	—	564
United States (Dollars)	878	1,981	408
Germany (Marks)	2467	7,550	309
France (Francs)	5784	31,043	255
Belgium (Francs)	6595	15,311	88
Czechoslovakia (Crowns)	4908	13,246	57
Japan (Yens)	290	831	81
Holland (Florins)	964	694	81
			1843
Minus German Imports			123
			1720

This table shows that the total absorbing capacity of the world market as regards the finished industrial goods of the countries here enumerated amounts to some 38,000 million marks. The finished-goods exports of the countries not mentioned here, Italy, Poland, and some smaller countries, may be supposed at a liberal estimate not to exceed 6,000 million marks, making a total of 44,000 millions. The absorbing capacity of the world market for German industrial goods would therefore have to increase by roughly 15 per cent., or else German industry would be obliged to oust its competitors from the world market to the extent of one sixth of their total turnover, so as to make room for the increased exportation of German goods to a value of 6,000 million marks.

There are writers who assert that the necessity of Reparations payments must needs lead to a corresponding appreciation of exports. They argue as follows⁹⁾:

The collection within the country of the sums due for Reparations means that the purchasing power of the home market is reduced by a corresponding amount. This entails a relative surplus of goods, which is offered for sale on the world market. The receipt of Reparations payments by the Allied countries, again, entails an increased purchasing power there, corresponding to the increased supply of goods on the world market. In this sense there would appear to be no transfer problem. Protective duties cannot impede the transfer either, for they would simply result in smaller purchases abroad on the part of Germany. Practically, Germany is not only able to bear the onus of the Dawes Plan but also to pay interest and amortisation on the entire 132,000 millions.

We here see the general thesis of the "doctrine of harmony", which says that there is no production of goods without there being at the same time a purchaser for these goods, in its application to the special problem of Reparations. This problem is far more complicated. The diminished purchasing power in Germany means a diminution of sales not in regard to all goods, but for such goods in particular the consumption of which can be more easily restricted, as clothes, shoes, furniture. Diminished home sales, however, mean diminished competitive ability on the world market, since with the present system of competition between monopolist organisations the profits secured on the monopolised home market form the basis of a competitive capacity abroad.

For the purpose of achieving a competitive capacity on the world market in spite of diminished sales at home, the costs of production would have to be further diminished and wages further reduced, which would necessarily again restrict the absorbing capacity of the home market, and so forth until the accentuation of the class struggle again led to an acute revolutionary situation, thus frustrating the social purpose of the Dawes agreement. Ultimately, the transfer problem, like every economic problem, is in the last resort a problem of the class struggle, not only in Germany but also in the countries receiving the Reparations payments. Speaking generally, it is naturally of advantage to France to receive Reparations payments,

but it is no advantage at all to the French industrial capitalists, if a mass of German industrial goods, unduly cheapened by reason of the transfer, floods the French market in spite of all protective customs-barriers. In a class society there can be no general interests.

In summing up we may say though a transfer problem undoubtedly exists it is by no means acute at present, seeing that for the time being Germany is still in a position to continue its present "bogus transfers" by the negotiations of foreign loans. The consent of the Allied Powers, France in particular, to open negotiations anent a new settlement of the Reparations problem is attributable neither to a crisis of the Dawes Plan nor to any acute difficulties attending the transfer, but to the alteration which has come about of late years in imperialist differences and relations of power. To comprehend this fully, we must briefly sketch the formation of imperialist differences in post-war times. To avoid too many repetitions, we shall be obliged in this connection to make a mechanical partition of these differences, which are in reality naturally closely interwoven.

d) The Franco-British Difference.

The world war resulted in a predominance of France on the European Continent. At the same time the development of war technics, with long-range guns, aeroplanes, and submarines, strategically put an end to the insular position of Great Britain. Economically, there was the danger that, by bringing pressure to bear on Germany, France might subordinate to its influence the entire West-European heavy industry and thus oust the British heavy-industry from the market. The policy of Great Britain was therefore directed towards putting difficulties in France's way on the European Continent, pitting Germany against France in particular. The military preponderance of France, however, forced Great Britain, as soon as the position had reached a somewhat more critical stage, to revert to the support of France and to abandon Germany. Let us review the most important factors of this policy.

Inclusion of the pensions in the Reparations payments. In accordance with Wilson's 14 points, which served as the basis of the armistice, merely the costs of restoring the occupied territory and the damage done to civilian parties were to be reimbursed. When Great Britain had received "ton for ton" compensation for the ships sunk by the Germans, in the form of the surrendered German merchant fleet, its demands in the above sense would have been insignificant. It would at most have received a very small percentage of the Reparations payments and would thus have come to play quite a subordinate rôle in the Reparations question, which would therefore have become a Franco-German matter.

For this reason Great Britain managed to get the pensions included in the Reparations debt, the nominal sum total of which thereby advanced from between 30,000 and 40,000 to 132,000 millions, the British quota advancing to 22 per cent. Great Britain thus became more vitally interested in the Reparations question and was placed in a position to undermine any Franco-German agreement. Materially, this means that, Germany's solvency being small, France stands to receive less than would be the case were the pensions not included in the debt.

Sabotage of the attempts aiming at the solution of the Reparations problem. In the first half of 1922, Poincaré had made various attempts at a peaceful solution of the Reparations claims and its claims on the Allies and thus force the United States to do likewise, in which case France would pursue a policy in regard to Germany which would render possible the negotiation of an international loan¹⁰⁾.

Great Britain answered in the Balfour Note of August 1st, 1922, in which it declared its desire to receive as much from Germany and the Allies as it would be forced to pay to the United States. Since Germany was just then about to apply for a moratorium of its reduced payments, and since among Great Britain's debtors France appeared to be the only solvent one, the Balfour note practically shifted the liabilities of Great

⁸⁾ From "Account relating to Trade and Commerce", H. M. Statistical Office, 1928.

⁹⁾ v. R. C. Long's "Mythology of Reparations", 1928.

¹⁰⁾ A few months earlier a bankers' conference, in which Morgan took part, had declared that Germany could be granted no loan as long as the Reparations question remained unsettled.

Britain towards the United States onto the shoulders of France without any guarantees for the receipt of Reparations payments from Germany. The Balfour Note completely upset Poincaré's plans. Similarly, the negotiations in London at the end of 1922 were doomed to failure. The path was open for the occupation of the Ruhr.

During the Ruhr occupation, Great Britain secretly, and later openly, seconded Germany in its resistance. The official utterances pointed out that Great Britain was dissatisfied with the policy pursued by France but would nevertheless adhere to its alliance. Great Britain prepared to play the rôle of umpire between France and Germany, engaged in opposing and weakening one another. At the same time Great Britain aided the resistance of Germany by coal supplies, credits, and suggestions.

When it became apparent that France armed to the teeth, would either smash unarmed Germany or else enforce the compliance of the German heavy-industry, Great Britain very nearly threatened France with war.

Subsequently, when Great Britain has secured the aid of the United States in keeping France off the Ruhr district, the whole world, and Germany in particular, was surprised by the publication of a report on the negotiations between Poincaré and Balfour, to the effect that there was "no difference on any point, calculated to prevent a co-operation of the two countries".

The Dawes Plan constitutes the attempt to unite the diverging interests of the British, French, and American bourgeoisie in a compromise. Since the acceptance of the Dawes Plan, Great Britain has attempted by all sort of diplomatic manoeuvres to prevent the war-preparations of France. The Locarno agreement was intended to deprive France of any pretext of armaments against Germany in defence of its security. In the various commissions of disarmament and security, Great Britain attempted to impede the armaments of France. These attempts remained fruitless. The military power of France continued to develop. And now, as in September 1923, there was again a sudden change in Anglo-French relations. In July Chamberlain announced in Parliament the conclusion of an Anglo-French compromise on the subject of armaments and the French press spoke of the renewal of the "Entente Cordiale".

The significance of the change was as follows: Great Britain realised that it could not have a free hand in world politics and could undertake nothing either in regard to America or in regard to the Soviet Union, so long as it was not sure of at least a benevolent neutrality on the part of France. Great Britain could make war in no quarter of the globe if it were not sure of France. Therefore, Great Britain postponed the settlement of its differences with France to some later time, as it did at the commencement of the war in regard to its differences with Tsarist Russia, and gave precedence to common interests, such as the common front against the United States in the matter of war debts, or the common interests in connection with rebellious colonies. This necessitated a change of policy towards Germany, the abandonment of Locarno and a pronounced common cause with France against Germany. The demonstrative joint manoeuvres of the French and British occupation troops illustrate this turning-point in Great Britain's policy.

e) The British-German Difference.

The main object of the war, from the standpoint of the British bourgeoisie, was that of destroying the growing German imperialism, which, advancing along the Berlin-Baghdad line between Russia and the North-African and South-Asiatic regions of the British Empire, threatened India, while at the same time Germany's industry was obviously out-stripping that of Great Britain. Hence the contradictory attitude of Great Britain towards Germany, which we have already partly described in connection with the Reparations problem and with the relations between Great Britain and France.

The industrial bourgeoisie of Great Britain demanded a heavy handicapping of German industry with a view to weakening its competitive capacity in the future. On the other hand, big Reparations payments mean the necessity of a great exportation of goods or enhanced competition. The banking and commercial bourgeoisie demanded a rapid reconstruction of

Germany, so that business with that country might increase. The receipt of the Reparations payments themselves is of far less importance to the British bourgeoisie.

With stabilisation, the difference between Great Britain and Germany as a competitor on the world market comes more and more to the fore. Over against the surprisingly successful reconstruction of German economy, we have a chronic crisis in the economy of Great Britain. Great Britain desired to protect both Germany and itself against the possibility of a surrender of the German heavy industry to France and the combination of coal and iron under French hegemony. Germany, however, has managed independently of France to reconstruct its iron industry in the course of the last four years and now occupies the leading position in the international steel cartel. It has rationalised its production and reduced its costs of production. Further, in spite of defeat, inflation, and Reparations, German industry is again outstripping that of Great Britain.

At the same time we see a foreign-political approach between Germany and the United States, the main opponent of Great Britain among the imperialist Powers. Moreover, Great Britain may have succeeded in manoeuvring Germany into the League of Nations, but it has not managed to make Germany form part of its anti-Soviet front. Though disarmed and under foreign control, Germany is nevertheless, thanks to its tremendous industrial development, potentially a great military power. Under such circumstances, Great Britain could not continue its policy of playing-off Germany and France against one another. In connection with the new regulation of the Reparations question, it now attempted to play off Germany against America and to assign it a place in the double front of the European debtor nations against America and of the European capitalist countries against the Soviet Union.

f) The British-American Difference.

The difference between the British Empire and the United States is at present the decisive factor in the entire imperialist policy of the world. This cannot be denied. If, however, we ask after the tangible contents of this difference, it is not easy to find the right answer. It is not the question of a quarrel about any particular territory, as was the case before the war between Great Britain and Russia in regard to Constantinople, Persia, and Central Asia, or between Great Britain and Germany in regard to the Levant. It is a more comprehensive difference. Everything is at stake, for the matter at issue is neither more nor less than the question, which of these two Powers is to be the predominant imperialist Power in the world.

The pacifist phrases, in which the American imperialists are fond of veiling their proceedings, prevents them from openly broaching the question of a new distribution of the world, as Italy and Germany do. Instead of this, the demand is raised for an "open door", i. e. a demand for the economic exploitation of all monopolised colonial territories by a participation on the basis of equal rights of American capital.¹¹⁾

Were this principle to be generally applied, the political supremacy over the colonies would become an empty matter of form, while the preponderance of American capital would make itself felt to the full, as is the case in Canada to-day.

The maritime predominance of Great Britain, the mastery of the seas, is of tangible importance only in the case of war; in peace-times the seas are open to the merchant ships of all nations, merely with certain restrictions as regards the vessels of the Soviet Union, as being a State outside the pale of civilisation. The question of the freedom of the seas is a war problem, the very mention of which means preparations for the next war.

The first stage of the fight regarding fleets ended with the Washington Agreement. The United States had thrown their wealth into the scales. Under cover of a number of pacifist phrases they declared to Great Britain: Either you agree to

¹¹⁾ This demand was most openly raised and carried through in regard to the mandatory territories (participation of American capital in the exploitation of the oil fields of Iraq).

possess no greater tonnage of battle-ships than we, or else we start an armaments race with which you will never be able to keep up. Great Britain had to give in; the traditional "Two-Power Standard" gave place to an equality with the United States.

Great Britain had to give in because it required the help of the United States for the stabilisation of its currency, for the purpose of settling the Reparations question, and so as to outweigh the influence of France. It could, moreover, not risk an open competition in the building of big ships, each of which costs several millions.

Great Britain could afford to give in, seeing that an equality in armaments with the United States by no means put an end to its naval predominance. The newest development of war-technics makes the value of giant warships appear doubtful, and in the small units, the construction of which has not been restricted, Great Britain has maintained its preponderance and appears determined to defend it, at any rate for the time being. This is proved by the fact that the Geneva Conference for Naval Disarmament, held by the three leading naval Powers, United States, Great Britain, and Japan, led to no result, and also by the conclusion of the Franco-British Naval Agreement, although the latter, it is true was subsequently formally cancelled.

The main point at issue was as follows: the restrictions provided for in the Washington Agreement in regard to big warships were also to be extended to cruisers, America demanding a limitation of all cruiser-constructions and Great Britain wishing the limitation merely to apply to cruisers of more than 8000 tons and equipped with more than six-inch calibre guns.

Strategically, the problem is somewhat as follows: America, which, with the exception of the Hawaiian Islands, has no naval bases outside its own territory, needs cruisers of a greater radius of activity, armed in a way to make them superior to the auxiliary-cruiser merchantmen (armed with guns in case of war). Great Britain with its excellently developed system of naval bases requires far smaller and cheaper vessels in case of war for the protection of its commerce and the control of commercial navigation. From among its tremendous merchant fleet it can at any time pick out the best ships and arm them as auxiliary cruisers, the necessary preliminary work being effected in this connection in peace times. This and the existence of a trained cadre of seamen constitute the advantage of England over America, an advantage which America cannot make up for so quickly, even by a forced construction of warships. This affords England the possibility temporarily to put a limit to its compliance to the wishes of America in the matter of naval armaments.

The latest events in this connection are well known. The Franco-British military agreement was a pronounced provocation of the United States. The envisaged organisational co-operation of the French and British fleets frustrates the American stipulation of an equality as regards big warships (just as was the case immediately before the outbreak of the war in regard to Germany). The envisaged limitation of such cruisers only as carry guns of more than a six-inch bore, represents an adherence of Great Britain to the standpoint it assumed at Geneva and the connivance of France at this anti-American standpoint¹²⁾.

The Franco-British agreement was severely criticised by all the Liberal and by the majority of the Conservative British papers, being condemned as a capitulation to the militarism of France, as a sacrifice of the peaceful policy of Locorna, and as a useless provocation of the United States. Lloyd George calls the agreement the "most fatal event" in the history of Great Britain's foreign policy since the end of the war.

The United States repudiated in a sharply-worded Note the suggestion that they should join this armament agreement, whereupon the agreement was, in its official interpretation, dropped also as between England and France. Nevertheless, the differences between England and America continue to be more pronounced than ever. It cannot be doubted that the big ship-building programme, the execution of which was deferred in the spring, will be passed at the next session of the American Senate.

Alongside the basic conflict regarding the American demand for application of the "open door" principle to American trade in the British colonies, which would lead to the undermining of British colonial power, such particular causes of dissension as America's fight against the British raw-material monopoly, the rivalry between the pound and the dollar as the international currency, and the like, albeit discussed in detail by the press, sink into comparative insignificance. The fight centres around the problem of the hegemony in the capitalist world.

Naturally this aggravation of the position does not mean that we are steering straight for warfare between these two great powers. Probably there will be a temporary amelioration of conditions and most likely also further agreements on the naval limitation question. Too much is at stake for the British bourgeoisie, which will therefore postpone the final issue as long as possible.

The strained relations between the United States on the one side and France and England on the other will render a solution of the Reparations problem, in the sense of reduced German Reparations liabilities, very difficult. The endeavours of Great Britain, France, and Italy have at all times been directed towards attaining a cancellation of the claims of America as a pre-emption for the reduction of their own Reparations claims.

With persevering consistency, the United States Government has again and again repudiated any such suggestion. Certain debtor-countries such as Italy, have been granted great facilities in the funding of their debts, but the actual claims have been maintained. True, there are even to-day some adherents of a debt-remission in America, but the official policy is not likely to requite the conclusion of a Franco-British Naval Agreement and the refusal of France to ratify the debt-funding settlement by a change in the strict attitude hitherto observed in the matter of inter-Allied debts. This is the main difficulty attending the Reparations discussions so soon to be taken up.

g) The Franco-German Difference.

The destruction of German power in the world-war has naturally not eliminated the Franco-German difference. The victors have found no reassurance in their victory. Though Germany was defeated, the Germans yet remained double as great a nation as the French. What is worse is that the Germans increase rapidly and the French do not. The feeling that sooner or later yet another armed conflict is inevitable leaves the French patriots no peace. The famous dictum of Clemenceau, "There are twenty million Germans too many in the world" was born of this fear.

The policy of the French bourgeoisie was in the first place directed towards preventing the political unity of the German people, by prohibiting the union of Germany with Austria, by the separation from Germany of Upper Silesia, and the like. But this did not suffice for the French chauvinists. In 1922 and 1923 they planned to smash Germany altogether, to occupy the territory to the left of the Rhine permanently, to separate the right bank of the Rhine and the Ruhr district from Germany for the purpose of forming an independent "buffer" state on the French frontier, to divide southern Germany from Prussia — in short, to re-establish the state of affairs obtaining prior to 1870, before Germany was united. The occupation of the Ruhr district aimed mainly at this end.

Secondly, the policy of France was directed towards imposing as heavy Reparations as possible upon Germany. (We have already shown that, by reason of the inclusion of the pensions in the Reparations total, this endeavour eventually worked out to the disadvantage of France.) Poincaré, actually following in the steps of Lloyd George, declined a definite establishment of the paying capacity of Germany during the period of inflation and therefore energetically repudiated Balfour's plan of a speedy liquidation of the Reparations debts.

Thirdly, the French policy aimed at securing the German

¹²⁾ Great Britain had to pay a very big price for the support of France in this connection. It had to concede France the liberty of an unlimited construction of submarines of more than 600 tons, required in the first place against Great Britain, and furthermore to permit that the militarily trained reserves of the French army should not be included in the accepted strength of the French army at the disarmament discussions, which is a complete abandonment of the standpoint hitherto adopted by Great Britain.

coal area for the French heavy industry¹³⁾. The union of French ore and German coal under French control was not only intended to weaken Germany but also to ensure the French heavy industry a predominance over that of Great Britain.

In the fourth place, the occupation of German territory was to be protracted as long as possible.

France was prevented by the pressure of England and America from realising these objects. America desired to safeguard the capital it had invested in Germany, and England wished to prevent the hegemony of France over the European Continent. The Dawes Plan was the attempt to unite these diverging interests. Of all the aims of France's anti-German policy, only the occupation of German territory, as established in the Treaty of Versailles, was maintained.

When the Dawes Plan had come into force, the Franco-German relations underwent considerable changes.

With the help of the Americans, Germany's economy revived. The German iron industry was newly developed without recourse to the ore of Lorraine, and in spite of the loss of territory the pre-war output was regained. A combination of the Western Prussian iron industry was really attained, though not under French hegemony but as an international cartel. In the place of the dearth of coal, which had made the French heavy-industry dependent on the Ruhr coal, there ensued the international coal crisis. Strong connections between French and German capital were established not only in the heavy industry but also in regard to the chemical industry: lately they have spread to the capital market. At the same time, France has found ways and means to make an extensive use of the German Reparations in the form of deliveries in kind in public works for the development of its productive apparatus.

The political relations and political methods have changed accordingly. Germany has been lured into the League of Nations and at Locarno promised never to attempt to change its Western frontier by force of arms. The prospect was held out to Germany that the Rhine area would be evacuated before the time stipulated in the Peace Treaty, which has however, not yet materialised. As a matter of fact, Germany has been manoeuvred step by step into a Western orientation, without having so far received any tangible quid pro quo.

France's economy, too, has in the meantime grown stronger. The French currency was stabilised without the help of any new American loans, a fact which greatly strengthened the position of France in relation to the United States and enabled it to sabotage the ratification of the debt agreement. The capital surplus of France, meanwhile, makes it possible that Germany, too, should be made independent of the American capital market after arrival at agreement in the Reparations question. This is an important fact from the standpoint of the creation of an all-inclusive anti-American and anti-Soviet bloc in Europe. In place of the immediate brutal subjection of Germany, more refined and complicated methods are now to be employed.

h) Attempt at a "European" solution of the Reparations Question.

The conditions under which the new Expert Commission is now approaching the investigation of the Reparations problem with a view to its definite and absolute settlement, are very different from those which obtained at the time of the Dawes discussions.

Then Germany, economically and socially crippled by the Ruhr occupation and the inflation and having only just weathered an acute revolutionary crisis, was still seriously threatened by a proletarian revolution. It was a Germany which required the aid of foreign loans for its economic recovery and to make it capable of rendering the Reparations payments. On the other hand, it was a Germany which was to be protected against the recurrence of any serious revolutionary danger in the interest of the capitalist order of society and therefore enjoyed the protection of all capitalist countries, and in particular of the two Anglo-Saxon Powers as opposed to the dismemberment plans of France. A Germany, whose recovery on a capitalist basis was at the same time desired and, from a competitive standpoint, feared.

¹³⁾ We may call to mind that there was an acute shortage of coal in Europe in the first five post-war years and that the supply of coal formed a serious problem for the heavy industry.

The result is the Dawes Plan, intended to protect the German bourgeoisie against the danger of a proletarian revolution,¹⁴⁾ by preventing a renewed inflation, by the grant of a loan with a view to the stabilisation of the currency, and by the protection of the transfers, the Dawes Plan, which protects the integrity of Germany against the aggressive intentions of France and guarantees the American investment of capital, but at the same time encumbers Germany's industry, railways, and State economy so greatly as to counter-balance the advantages of inflation and to make the tax pressure as great as in the victorious countries, a plan which, far from destroying the French hopes as to the extent of Reparations, fails to establish either the total sum or the number of yearly payments, permitting of hopes of an increase in the total payments by the creation of a welfare index.

The Dawes Plan has fulfilled its object. So far, it has protected Germany against the repetition of an acutely revolutionary situation and of an inflation, it has rendered possible the influx of foreign capital, and has procured the Allies some substantial Reparations payments. It must be admitted that, within its narrow limits, the Dawes Plan has fulfilled the expectations cherished in its regard.

Why, then, is there need of a revision?

That Germany should urge a settlement, is no more than natural. The German bourgeoisie desires a definite settlement, so as to be placed in a position to set to work unhindered to rid itself of its burdens as cheaply as possible. It is comprehensible, too, that America should desire a revision¹⁵⁾; its capital investments in Germany will be far safer, once the Reparations question is regulated; the lower the onus on Germany, the better in the interest of America's capital exportation to that country.

But what could have induced Great Britain and France to enter into a new discussion of the Reparations question? It will be remembered that a year ago, Parker Gilbert's suggestion of a definite settlement of the problem met with silence on the part of England in particular.

The change of policy in the case of England is an outcome of the aggravation of the differences between Great Britain and America.

In spite of all contradictory facts and in spite of numerous vacillations, it is yet sufficiently clear that a new bloc formation is in progress among the capitalist states. On the one

¹⁴⁾ In a programmatic speech, Prime Minister Baldwin made the following utterances on October 2nd, 1924:

"There are still other opponents of the Dawes Plan. There are still other opponents of a loan to Germany. There are still opponents of a revival of German trade and German industry. No reference has as yet been made to these opponents, important as they are.

Who are these opponents? The opponents of the Dawes Plan are the Communists. Two days ago I read a whole column in a daily paper, containing a report on a Communist meeting. It was full of objections to the realisation of the Dawes Report, which, it pointed out, would turn Germany into an enslaved country. And why are the Communists in England opposed to this plan? Because they have orders from Moscow. And why is Moscow opposed to it? Because Moscow has not yet abandoned its ideals. Moscow knows that a pacified and satisfied Germany would mean a bar to Communist aspirations. Moscow knows that in its present position Germany is not to be feared.

Gentlemen, Western Europe has maintained its civilisation, and it is our duty to do all in our power to defend it. The bulwark of West-European civilisation, in this case Germany, must be made strong and firm against all revolutionary attacks that may come from the East, and to this end there is no better and safer means than the execution of the Dawes Plan." (Re-translated from the German.)

¹⁵⁾ It will be remembered that a year ago, Parker Gilbert, the Reparations agent, in his annual report, quite openly demanded the necessity of a definite settlement of the Reparations question, with particular reference to the abolition of the transfer clause, since it relieved the German Government of all responsibility for its financial policy.

side, Great Britain and its colonies, France, the Little Entente and Japan; on the other side the United States with its dependencies and, loosely adherent thereto, Germany and China. Italy and some of the smaller European states are still undecided.

The readiness of France and Great Britain to revise the Reparations question is to be explained:

1. By the endeavour of these two Powers to keep Germany from its American orientation and make it part of the front against America and the Soviet Union.

2. By the fact that France knows quite well that on the occasion of the next, certainly not very distant, war the whole system of Reparations and inter-Allied debts will collapse. Therefore it is anxious immediately to receive more from Germany than it would receive in the case of a further continuation of the Dawes Plan. Also the fact that the transfer possibilities are not clearly established and that the transfer could easily be prevented by a collusion of the Reparations agents and the German Government.

3. By coupling the Reparations question to the question of inter-Allied indebtedness, Great Britain and France desire, in the eventuality of a failure of the discussions, to cast the blame on the United States and thus destroy the entire relationship between the United States and Germany. It is altogether possible that Great Britain and France do not in reality think seriously of a new settlement, but merely desire to have a pretext for the further occupation of the second zone and the possibility of playing off Germany against America.

What are, therefore, the plans of the negotiating parties?

The desires of the German bourgeoisie may be summed up as follows¹⁶⁾:

Final establishment of the Reparations total, or of the extent and number of payments.

Abolition of the welfare index.

Reduction of the yearly total of 2500 millions, as established by the Dawes Plan.

Complete or partial moratorium for the next few years.

No part-solution or part-mobilisation of any sum.

The moral justification advanced is to the effect that the actual restoration-expenses of France, excluding the illegally introduced pensions, amount to 86,000 million paper francs, in which connection, as Keynes has pointed out, influential people were frequently conceded several times the actual damage incurred, supposedly at the expense of the Germans. According to Auld's computation, the total expenses, at the rate of exchange at which the respective sums were actually liquidated, would figure at 31,000 million gold marks, and at the present rate of the franc at 14,000 million gold marks. Added to this there are the damages due to Belgium.

The Germans will obviously assume the standpoint that, albeit indirectly, the Dawes Plan has established the number of yearly payments at 37. This is construed from the fact that in connection with the railway and industrial debentures the Dawes Plan established a yearly amortisation of one per cent., which would represent a redemption of the debt in 37 years. Whether this standpoint can be juridically defended, would appear doubtful, but that is quite beside the point. It is not moral and juridical considerations that will decide the question but the material arguments which the several parties can throw into the balance.

What has Germany to offer?

a) The abolition of the transfer clause, that is to say the incurrance of the responsibility of a transfer of the payments in any circumstances.

b) The immediate mobilisation of the industrial and railway debentures or part of them¹⁷⁾. This would be of particular

¹⁶⁾ v. the series of articles "from a special quarter" in the "Berliner Börsen-Courier", early in October 1928.

¹⁷⁾ In the sense of the "Law on Industrial Encumberment" (par. 13), the trustee is authorised to sell debentures of the most prominent concerns, encumbered with 1500 millions, for a total amount of 500 million gold marks. The railway debentures may be disposed of by the Railway Commission and the Reparations Commission to their full value (11,000 million marks), but as long as the transfer clause is in force they will be difficult to sell, since the payment of their interest abroad cannot be guaranteed.

importance to France which, if it does not ratify the debt-agreement, will next year have to pay 400 million dollars to the United States for the army equipment left behind in France by the American troops.

c) Its political accession the Anglo-Franco-Japanese bloc.

We believe the last-named item to be the most important. Aisarmed as Germany may be, it still possesses in its wonderful industry, in the cadres of the Reichswehr, and in its exceptional position in the heart of Europe, the very greatest strategic importance both against the Soviet Union and in case of an Anglo-American war¹⁸⁾.

And what can France and England offer Germany in regard to Reparations?

In so far as can be judged by the Press, the minimum claims to be advanced would be the yearly payments due by the Allies to America plus the interest due on the sum actually liquidated for the work of restoration in France and Belgium. What might this sum amount to?

The position as regards inter-Allied debts is as follows:

(Millions of Dollars)

	Funded Debts	Total of Visualised Paym. in 62 Yr.	Present Value of Paym. at 4½%	Percent. of Orig. Debt	Highest Annual Payment
Great Britain	4,600	11,106	3793	82%	187
France	4,025	6,848	2008	50%	125
Italy	2,042	2,408	538	26%	81
Belgium	418	728	226	54%	13
Total (incl. Small States)	11,522	22,144	6890	60%	418

If we omit the liabilities of some smaller states, which have nothing to do with the Reparations, we get a present-day value of more than 1450 million pounds. Added to this we have the actual expenses of France and Belgium for restoration, which sums Auld puts at 1300 million pounds for France and at anything between 250 and 500 million pounds for Belgium. The result is a total of over 2500 million pounds, which is practically the same as in the case of the Dawes Plan, rather more than less.

Or, if we count the annual payments, it figures at 85 million pounds per annum for the payments of France, Great Britain, Italy and Belgium to the United States, apart from the "sacred claim" of France to the interest service of the loan for restoration purposes. The latter amounts to 86,000 million paper francs, or at the present rate of exchange about 700 million pounds, or, at 5 per cent. interest and one per cent. amortisation, 42 million pounds per annum. Together with the first sum, it comes to 127.3 million pounds, or slightly more than envisaged by the Dawes Plan.

We may observe that France and Great Britain have very little to offer Germany in return for the relinquishment of the transfer clause. Even if France were willing to sacrifice half its restoration claims, the total would be 106 million pounds. Since it is obvious that in the event of Anglo-American relations becoming more strained the United States would be less likely than ever to grant further reductions in regard to the stipulated liabilities the Allies have a very short tether. The only real receiver of Reparations is the United States, however justified

¹⁸⁾ At the present moment, it would be difficult to imagine a land-war between Great Britain and the United States. Even supposing the American fleet were to be beaten, Great Britain could hardly attack the American Continent with any success. The provisioning and re-inforcing of an expeditionary force sent from Europe to America can hardly be imagined. Similarly America, even after a decisive victory over the British fleet, could hardly proceed to a direct attack on Great Britain, unless it had an ally in Europe with access to the North Sea. Therein lies the possible strategic significance of Germany in the case of an Anglo-American war, which might possibly be waged in the colonies but could hardly bring about any decision there — not in favour of America and still less in favour of Great Britain.

Churchill was when he made the following utterance on March 24th, 1926:

"It seems to me that an extraordinary situation will arise. From all these ramified channels, 60 per cent. of the German Reparations will have to be squeezed out of the devastated and war-weary countries of Europe and flow in a constant stream across the ocean to the rich and prosperous Republic on the other side."

And what can the Allies offer Germany politically?

1. **The evacuation of the Rhine area.** The rude speech made by Briand at Geneva, in which he brusquely repudiated the assertion of Müller that Germany had earned a "right" to a premature evacuation, was obviously intended to enhance the value of this concession at the Reparations negotiations. He desired to give the Germans to understand that the United States, though undeniable powerful, are far distant and that France can still hold the knife to Germany's throat.

2. **The incorporation of Austria in Germany.**

3. **A restitution of the "Corridor" and possibly of parts of Upper Silesia.** This last possibility is of special interest to the Soviet Union. A war against the Soviet Union without, at least, a benevolent neutrality on the part of Germany, is difficult to imagine. This neutrality can only be purchased at the expense of Poland, which is to be compensated by the conquest of White Russia and Ukraine. Pilsudski's old dream of a "Greater Poland" on a federal basis, apparently plays a great part in the plans of France and England.

On the other hand, it is obvious that the French bourgeoisie, which is very naturally afraid of a later war of revenge, has misgivings as to the union of Austria with Germany and as to the restitution of the Polish corridor. In this respect, the interests of France and England decidedly diverge, for England has no immediate reason to fear Germany and desires to put everything in motion against the Soviet Union, whereas France has no special differences with the Soviet Union but has much to fear from Germany.

We can observe that the negotiations which are about to commence are by no means merely in regard to the extent of the payments to be rendered by Germany. It is a question of a European solution of the problem, of the formation of a European bloc against the Soviet Union and against the United States. Whether the Western Powers will succeed in drawing Germany into a Western orientation, whether Germany will be willing to sacrifice its comparative freedom between the Western Powers, America, and the Soviet Union, appears to us very doubtful at the present time. In any case, there is a very serious development afoot, to which the proletariat of all countries would do well to pay the greatest attention¹⁹⁾, though we do not suppose that the negotiations will lead to any positive results for the time being and that the Dawes Plan will yet be subjected to any vital revision.

II. General Section.

As has been the case ever since the war, the economic position during the last few months has been lacking in uniformity and presents a greatly variegated aspect.

In the United States there has been a decided improvement in the business position. Production has attained the high level of last year and even exceeded it. The mainstays of American economic life, the building industry and automobile construction have again proved to be the chief channels of the business development. Whether the depression of the fall of 1927 can therefore be looked upon as definitely liquidated, appears fairly doubtful. If this were the case, we should be faced with the question as to the reasons why, already twice in recent times, early in 1924 and late in 1927, the crisis which was on all accounts fully due merely assumed the form of a sharp, but very short, depression.

There are, it is true — as we have already had occasion to point out in former reports — many weak points in American economic life, viz., the tremendous speculations on the Stock Exchange, with stock-exchange credits to the fantastic

total of 5,500 million dollars, the great tension on the money market, the inevitable over-production on the automobile market, and, as a result of the very favourable harvest, the aggravation of the "scissors" and the consequent revival of the agrarian crisis. The next few months will show whether it is possible to overcome these critical factors without danger of an actual crisis.

The economic situation of Great Britain remains chronically critical, at least as regards the great staple industries. The re-adaptation of British industry, with the formation of monopolies and with rationalisation, has only just begun. There are great difficulties to be overcome. But a beginning has been made with an increased formation of monopolies and a drastic cuts in wages, facilitated by the constant fall in the cost of living. The opinion that British industrial capital has resigned itself to its lot and is seeking an outlet in capital exportation, is by no means correct, as the greatly increased capital investments at home sufficiently prove. The British bourgeoisie will effect rationalisation with due consideration for the peculiar conditions prevailing in the country, and continue its fight for the world markets, naturally at the cost of the proletariat.

German economy has during the last few months shown signs of the expected decline, which may be calculated to accelerate in the near future. Although greatly influenced by the changing influx of foreign capital, the economic development in Germany most vividly reflects the alternation of business phases, though their sequence is characterised by shorter waves than were ordinarily to be observed before the war. It is probable that the economic position will continue to deteriorate during the next few months. At the beginning of next year unemployment will most likely exceed the two-million limit. The deterioration of the business position in Germany has also adversely influenced that of the neighbouring countries in the East, Czechoslovakia, Austria, Poland, and Hungary.

In France the business position continues to be good, whereas Italy has thus far not yet succeeded in overcoming the difficulties connected with the stabilisation of its currency.

In regard to the big oversea countries, the trend of business in Canada continues very satisfactory, the enormous harvest being likely to guarantee a continuation of the favourable business position throughout the present harvest-year. As a matter of fact, the upward process now observable in Canada is the same as that which formerly obtained in the United States, though at a quicker rate in consequence of the vigorous influx of capital from the latter country. Good business is also reported from Argentina, while in Australia the lengthy depression is only now beginning to wane.

In Asia, the economic position of Japan is still pronouncedly depressed, though the consequence of the banking crisis are said to have been overcome. Currency parity as not yet been restored and there is still a great degree of uncertainty.

Special interest attaches to the position in China. The data at our disposal do not suffice to give an adequate idea of the development following the victory of the bourgeoisie, but it is apparent that the Chinese bourgeoisie, backed by the United States, is making vigorous and not altogether unsuccessful efforts at a uniform administration of the country, the establishment of a uniform home market, and a maintenance of "civic order". The de jure recognition of the Nanking Government by the United States appears to have obliged Great Britain and Japan to postpone for the present their attempts to split up the undoubtedly weak central Government and to recognise it as the Government of China. Manchuria, though represented in the Nanking Central Council in the person of its regent, the son of Chang-Tso-Lin, remains under Japanese rule.

The particularly good harvest in the Yangtse valley, the actual cessation of the generals' war, the hope of an American loan, the increase of the customs rate, to take effect as from the beginning of 1929, and the commencement of new foreign capital investments (railway construction, the Ford works at Shanghai, etc.) all make for an improvement in the economic position.

The satisfaction of the British imperialists with the new "moderate" Government at Nanking is reflected not only in the changed tone of the British press during the last few months but also in the vigorous rise in rates experienced by the Chinese loans on the London Stock Exchange. It would thus appear

¹⁹⁾ If the Conservatives are defeated at the next Parliamentary elections in Great Britain, there is likely to be a short period of pacifism. This will, however, not mean a change in the general policy of the British bourgeoisie.

that the imperialist Powers, under pressure on the part of the United States, are about to make an attempt to organise the exploitation of China in another form, that of a uniform bourgeois semi-colonial country. Whether the united efforts of the native and foreign bourgeoisie will suffice to keep down the revolutionary forces for any length of time and to effect a bourgeois consolidation, appears to us extremely doubtful.

The fight between capital and labour has experienced a vigorous revival on the European Continent of late. The great strike at Lodz, the wage-struggle in Germany, effecting many hundreds of thousands, and the many small strikes in France all speak of an accentuation of the class struggle. The efforts of the reformists, to keep the workers from fighting, are no longer entirely successful. The swing to the Left noticeable among the workers is beginning to enter into a more pronounced stage.

Unemployment.

During the last few months unemployment has shown more or less of an increase over last year's in practically all countries. Progressive rationalisation, even in the case of good business, ejects more and more workers from the apparatus of production. Thus the degree of occupation in the United States has increased somewhat in the last few months, with the general improvement in the business position, but is still below the pre-war level, although the volume of output has risen. The percentage of unemployed in Great Britain last August was 2.4 per cent. above the level of last year, and it is obvious that the "eighth winter of mass-unemployment" is before us. The transfer of ten thousand workers to Canada and the letter personally signed by Baldwin and addressed to 150,000 capitalists, calling upon them to employ a few unoccupied miners in each of their concerns, are lame ways out of the difficulty and of no lasting value.

In Germany, too, the number of unemployed already surpasses that of last year. The character of unemployment in this case is not that of a transient business phenomenon but rather a constant structural outcome of rationalisation, such as is more and more apparent in the leading capitalist countries.

Unemployed Organised in Trade Unions. in per cents.):

	Great Britain ²⁰⁾	Belgium	Holland	Denmark
1927				
June . . .	8.8	1.4	6.0	18.5
1928				
January . . .	10.7	3.2	16.1	30.3
April . . .	9.6	0.8	5.0	17.6
May . . .	9.9	0.7	4.4	14.3
June . . .	10.8	0.6	4.7	13.7
July . . .	11.7	0.7	—	13.5
August . . .	11.7	—	—	13.1
September . . .	11.5	—	—	—

	Sweden	Germany	Germany (short-time workers)	U. S. A. (degree of occupation 1919 : 100)
1927				
June . . .	9.5	6.3	2.7	92.4
1928				
January . . .	14.5	11.2	3.5	87.9
April . . .	11.6	6.9	4.2	89.3
May . . .	8.1	6.3	5.0	89.4
June . . .	7.7	6.2	5.9	89.6
July . . .	7.2	6.3	6.5	88.5
August . . .	—	6.5	6.6	90.0
September . . .	—	6.6	—	—

The World's Harvest and the Price Formation for Agricultural Products.

The publication of the International Agrarian Institute already gives some idea as to the outcome of the harvest in

the Northern hemisphere. The result for the most important sorts of grain, especially for wheat, is excellent, in fact, the best harvest so far recorded. In Europe the crops were smaller than last year only in the case of Great Britain, Spain and Portugal; otherwise they were considerably bigger. Among the extra-European countries, the harvest in India was the least satisfactory. Instead of 96 million centals as the average of the years from 1922—1926 and 91 millions in 1927 this year's harvest is estimated at only 79 millions. Instead of exporting grain, India will have to import it. The chronic hunger of the broad masses of the population will give place to a very acute famine in large areas.

The following table gives a survey of the harvest in regard to the four chief sorts of grain in the Northern hemisphere, according to the data of the Roman Agrarian Institute.

Out-put in millions of centals.

	1928	1927	1926	1925
Wheat				
Europe (without Soviet Union)				
20 Countries	296	261	258	281
Soviet Union	234	204	223	199
North-America 3 Countries	398	360	340	298
Asia 3 Countries	90	102	99	101
Northern Africa 3 Countries	18	17	16	19
Total (without Soviet Union)				
29 Countries	802	740	713	699
Total (with Soviet Union)				
30 Countries	1036	944	936	898

	1928	1927	1926	1925
Rye				
Europe (without Soviet Union)				
18 Countries	198	183	170	212
Soviet Union	199	237	229	223
North America 2 Countries	15	19	13	15
Total (without Soviet Union)				
20 Countries	213	202	183	227
Total (with Soviet Union)				
21 Countries	412	439	412	450

	1928	1927	1926	1925
Barley				
Europe (without Soviet Union)				
20 Countries	132	122	125	122
Soviet Union	57	47	55	61
North America 2 Countries	107	78	62	66
Asia 2 Countries	26	26	27	29
Northern Africa 3 Countries	20	16	13	19
Total (without Soviet Union)				
27 Countries	285	242	227	236
Total (with Soviet Union)				
28 Countries	342	289	282	297

	1928	1927	1926	1925
Oats				
Europe (without Soviet Union)				
19 Countries	181	177	180	169
Soviet Union	161	131	143	116
North America 2 Countries	284	240	240	278
Northern Africa 3 Countries	3	2	2	3
Total (without Soviet Union)				
24 Countries	468	419	422	450
Total (with Soviet Union)				
25 Countries	629	550	565	566

The supplementary requirements of the importing countries in the way of wheat figured at roughly 210 million centals during the last few years. Since the harvest has turned out so well in certain European countries, the import requirements will this year probably prove rather smaller; on the other hand, the imports of China and Japan at cheap prices will, in spite of the big harvest of these countries, be rather larger; added to this there are the import requirements of India. Increase and decrease will probably be equally balanced.

In the face of these requirements we have a greatly increased export surplus in the case of the great overseas countries Canada and the United States. The Danubian countries,

²⁰⁾ Of insured workers.

too, will probably have a surplus of from 10 to 20 million cents to place on the market. If the harvest of the southern hemisphere turns out normal (Australia and Argentina being the only two countries concerned) from 50 to 60 million cents of wheat in excess of demand will remain on the world market. Part thereof will be stored as a transition reserve, while a further quantity may, in view of the poor maize harvest, be used to supplement rye and barley, which in their turn will probably be used for feed-purposes in the place of maize²¹). In the Danubian countries and throughout the East of Europe, as also in Italy, maize has turned out very badly this year. Nevertheless it may be safely assumed that the surplus of wheat will be considerable.

The price formation on the world market shows — save as regards maize — a pronounced downward tendency in all grain varieties, as the following table culled from the data of the Roman Institute, illustrates.

Grain Prices in Gold Francs per Double Cental.

	2. Sept.	4. May.	June	July	3. Aug.	Sept.
Wheat						
Winnipeg (Manitoba No. 1)	29.6	30.8	28.6	26.5	23.8	22.1
Chicago (Winter No. 2)	26.0	30.9	28.5	26.3	22.6	21.3
London (Manitoba)	33.6	31.4	29.2	28.4	25.1	24.0
Rye:						
Minneapolis (No. 2)	18.8	25.7	25.3	23.5	21.6	19.1
Barley:						
Winnipeg (4th Western)	18.6	21.4	21.2	20.2	17.9	15.1
Chicago (Feed)	18.6	22.6	21.7	22.9	16.4	14.0
London (Am. Feed)	—	28.2	26.1	25.4	23.5	21.6
Oats:						
Winnipeg (2nd White)	21.4	26.4	23.4	21.3	18.2	18.5
Chicago (2nd White)	16.9	25.1	23.1	25.0	15.2	14.8
London (La Plata)	21.9	28.2	27.4	24.1	22.8	20.4
Maize:						
Chicago	21.8	22.0	21.2	22.0	21.0	20.8
London (La Plata)	19.2	24.0	23.4	24.0	21.6	20.6

Early in October the prices were rather higher than one month before. It appears that the Canadian Pool and the grain speculators in the United States are attempting to prevent a further price-drop by an accumulation of the surplus.

Wheat prices in London and America are at present from 25 to 40 per cent. lower than a year ago. This means that the American farmers may expect to experience the sharp recurrence of the "scissors", which for them will mean a revival of the agrarian crisis. The Canadian farmers will still be able to make ends meet in view of the very good harvest, but in the wheat areas of the United States the migration to the towns is likely to recur in the course of the year.

The Present Role of Gold.

The lengthy and difficult process of a new stabilisation of the currency is approaching its termination. Almost all the European currencies are already practically stabilised. The legal stabilisation is still in progress in certain countries (Spain, Roumania, Yougoslavia) with the aid of foreign stabilisation loans. It is therefore possible to survey the results of this entire process, which forms an important factor of stabilisation, and to draw a comparison with pre-war times.

The most important change is the practically universal supplementation of the gold standard currency for the actual gold

currency. Whereas before the war the note-banks of the countries possessing gold currencies were obliged to change their notes into gold on demand, this obligation at present only obtains in America. The circulation of gold coins has practically disappeared. In home traffic gold no longer serves in its true form as a general equivalent. In such a form it only serves for the purpose of settling the balance of international payments²²), supposing this not to ensue by long-termed credit operations.

Since in this way gold is only required for international transactions, it is in the interest of the note-banks to have in reserve not gold but foreign-currency bills of an undoubted value, acceptances of the leading banks, and the like. As a matter of fact, foreign bills have come to figure alongside of gold in the balance-sheets of the note-banks to an ever increasing degree in the character of cover for currency. The maintenance of the gold parity of the currencies is effected in the same way as was done in the Austro-Hungarian Bank before the war, i. e. no exchange of notes for gold but measures to ensure the stability of the currency; hence, the sale of foreign bills whenever the national currency has dropped so low in relation to foreign currencies as to make an exportation of gold advisable in the interest of private currency, or, in other words, when the lower gold point is reached. This is faced by a purchase of foreign bills, whenever possible at favourable exchange rates.

Naturally such a policy is only possible for the purpose of balancing transient differences in the balance of payments. If an unfavourable balance arises and continues to last for some time, this policy is of no avail, since the foreign-bill reserves of the note-banks leave the country again; in such cases either a long-termed foreign loan must be raised or else gold must be exported.

Gold has retained its character as an international means of payment, as international money. The arrangements among the central note-banks, according to which in case of need they advance each other gold on loan, facilitate the use of gold in this capacity and save in part its transport from one country to another, sums being earmarked in the vaults of one bank as the property of the other, without having to leave the country by which they are advanced. All these, however, are technical and not economic processes. As long as the anarchistic system of capitalism is in force, as long as the social relation of persons is regarded in the light of a relation between objects, as long as this standpoint does not give way to Socialism, gold will retain its character as a general equivalent and its rôle may be diminished in quantity by technical means but cannot be eliminated.

This is all the more so, seeing that agreements between the central note-banks, foreign-bill policies, and the like, are valid merely in peace-times and in war at most between countries allied with one another. In war-times, it is in the first place gold in its natural form that carries weight. The accumulation of a gold reserve is just as much a war-preparation as is the creation of a national war-industry.

The division of the visible gold-reserves of the world, the problems of gold-production and gold-circulation therefore occupy the attention of economic writers to no small degree. Thousands of articles in newspapers and periodicals discuss these problems, but the theoretic attitude of bourgeois economists is just as vague and complicated as was the case before the war.

In spite of the actual limitations in the functions of the gold reserves and of the outward maintenance of stability in regard to the currency, all note banks, for traditional reasons and out of consideration for the future war, are endeavouring to accumulate as large a reserve as they possibly can. France and Germany, in particular, have of late frequently enlarged their gold holdings; in the case of France the appreciation of the gold reserves of the Bank of France by reason of currency stabilisation, has contributed to this development. The following table, which we have reproduced in abridged form from "Wirtschaft und Statistik" (No. 13 of 1928) and have supplemented by the figures for 1913, shows the development of the last few years.

²¹) In the middle of September the prices of wheat, rye, feed-barley, and maize on the Berlin Exchange were at par.

²²) Technically this is effected by the central note-banks supplying their customers on demand with gold bullion, which can only be employed in international traffic.

The World's Monetary Gold Holdings.

At the Close of the Year, in Thousands of Pounds.	1913	1924	1927	June 1928
I. Europe	1,023,150	664,490	795,540	903,750
whereof:				
Germany	198,700	40,935	96,525	107,485
Great Britain	106,150	158,940	155,670	175,995
France	264,950	149,070	167,805	237,990
Italy	60,450	45,825	47,565	53,960
Poland	—	4,190	12,180	13,350
Soviet Union	—	15,335	20,370	16,795
Spain	19,400	102,675	105,440	105,625
II. United States of America	396,850	965,435	918,585	860,210
III. Overseas (United States excepted)	—	528,395	570,300	582,995
whereof:				
Canada	29,900	42,485	49,660	38,350
Argentina	65,350	95,115	113,400	127,475
British India	17,500	22,800	25,320	25,320
Japan	35,700	154,690	132,605	132,530
Total (monetary) Gold Holdings of World	1,681,800	2,158,320	2,284,425	2,346,960

Almost all European States have greatly increased their gold holdings of late years and quite particularly in the last half-year. The gold reserves of Europe, which at the close of last year were about 100 million pounds smaller than those of the United States, were in the middle of the current year about 50 million pounds greater than the latter. In comparison with pre-war times, the gold holdings of Europe have fallen off by about 100 million pounds (in reality by far more, since at that time gold was in use as legal tender in many countries), whereas those of the United States have more than doubled. Among the European States, it is principally Spain, Great Britain, and Switzerland that possess far more gold now than before the war.

Progress in the Formation of Monopolies.

In all the capitalist countries the formation of monopolies is proceeding vigorously and uninterruptedly. Cartels, syndicates, and mergers are the order of the day. So numerous are the new formations and re-adaptations, that it is impossible to record them in anything like their full extent. Indeed, it would already be an easier matter at the present time to enumerate such branches of industry as have not yet been subjected to the formation of monopolies. This is particularly the case in the United States, in Germany, and in Japan, while in Great Britain it was not until the current year that the formation of monopolies set in with greater vigour.

Whereas the formation of monopolies in the various countries proceeds without encountering any special resistance, seeing that legislation against monopolies is only a sham, the international formation of monopolies collides with the contrary interests of the individual national bourgeoisies, who considerably impede, though they cannot exactly prevent, the formation of international monopolies. This is particularly the case when several leading capitalist countries are interested in the question. We may illustrate these difficulties by a few examples.

1. **The problem of the international coal cartel.** For years the press has been spreading reports on the possibility of an international coal cartel. The countries primarily concerned are Great Britain, Germany, Poland, and to a lesser degree Czechoslovakia and Holland. The other coal-producing countries produce almost exclusively for their own markets. The United States export coal, it is true, but cannot be said to compete with Europe, since the exports in question are directed to the overseas countries.

What are the obstacles in the way of an international agreement?

1. A potential super-production in the more important countries.

2. The general lack of a coal-duty, so that the chief competitors are able to penetrate one another's areas.

3. The absence of a national monopoly in Great Britain. The following table, published by the Central German Coal Board, shows the

Production and Consumption of all Sorts of Coal (Computed in Terms of Hard Coal). Expressed, according to Continents, in Millions of Metric Tons.

	1913	1925	1926	1927
I. The World's Output.				
Europe	689.5	653.3	577.5	739.0
North & South America	532.0	540.4	612.2	560.7
Asia	54.7	71.7	74.9	74.4
Africa	8.7	17.1	13.4	12.1
Australasia	14.7	19.1	19.9	17.6
Total Output	1299.6	1301.6	1297.5	1403.8
II. The World's Consumption.				
Europe	621.0	536.3	485.1	628.8
North & South America	523.6	543.2	598.9	565.5
Asia	62.6	76.4	78.8	78.6
Africa	23.5	20.7	15.9	16.5
Australia	16.6	17.8	18.3	18.5
Total Consumption	1257.4	1195.3	1202.0	1309.1

We see that the output exceeds that of 1913 by roughly 100 million tons, while the consumption is about 50 million tons greater than before the war. In view of the great advance made meanwhile in combustion technics, a far greater volume of energy is derived from the coal to-day than was the case in pre-war times. If we also take into consideration the greatly increased consumption of mineral oil and the output of energy by means of water-power exploitation, it becomes obvious that there is a far greater consumption of energy at present than there was before the war. The crisis of coal mining lies in the enhanced difference in coal output and coal consumption.

From the standpoint of the international formation of cartels, there are only four countries which need seriously be taken into consideration as exporting coal, as the following table shows:

Coal Exportation 1927.

	Output in Millions of Tons	Exp. Surplus	Exports in Perc of Output
Great Britain	263.5	69.8 ²³⁾	26
Germany	153.6	33.8	22
United States	545	18.3	3.3
Poland	37.8	10.5	27

In the case of the United States, exports play no very important rôle in relation to output. United States coal is only able to compete in Canada, and therefore the major part of the coal exports is directed to Canada. On the world market there are thus only three competitor countries.

The question is, why all attempts to form a cartel comprising these three countries have thus far failed.

An unprejudiced observer will easily see that it is the British mine-owners that desire no international agreement in view of their present position on the market. The absence of a comprehensive organisation in Great Britain, also plays a certain, though no decisive, part in this connection. The British coal-owners hope that, once they have got the better of the miners, they will be able to improve their position on the world market against the German mines before an international agreement is arrived at. Even now Ruhr coal can only hold its own on the world market, if 22 marks per ton of home consumption are collected as an export premium.

The rivalry of Poland is a more serious proposition. The very low wages paid in Polish Upper Silesia 5 shillings per shift, and the extremely moderate railway freights to the North Sea, are two factors which greatly favour Polish coal, and they are factors which Great Britain finds it difficult to compete with. Poland is urgently in need of the proceeds from its coal, and is willing to make sacrifices to obtain them.

Thus we see that in spite of all reports as to prospective negotiations an agreement cannot come about, mainly because the British coal-magnates desire to improve their world-market

²³⁾ Bunker-coal included.

position at the cost of the miners, while the strength of the German position lies in their better exploitation of coal as a raw material for the chemical industry.

2. Partial Peace among the Mineral Oil Concerns.

The violent struggle between the Standard Oil and the Royal Dutch, waged mainly in India but also in other parts of the world, was recently terminated by an armistice. In August a conference between the leading men in the mineral-oil industry, Deterding of the Royal Dutch, Teagle of the Standard Oil, and Cadman of the Anglo-Persian, took place at the country-seat of the first named in Scotland. As the outcome of the discussions, the press announced the convocation of an international mineral-oil conference in New York, but no positive action has yet been taken in this regard. On his return to New York, Teagle merely declared that "the discussions had covered the production-problems of all countries of the world", that there was unanimity as to the fact that an uneconomic production of crude oil would be harmful to the entire oil industry, but that individual measures on the part of any of the great oil interests towards the elimination of such a state of affairs would prove useless²⁴⁾.

The actual problems to be faced are as follows:

- a) A pronounced over-production of crude oil.
- b) A fight for and against the oil of the Soviet Union.
- c) The problem of an artificial production of petrol from coal.

a) The development of oil production is mainly influenced by the erratic increase in the production in the northern parts of South America (Venezuela and Colombia). In the United States themselves, where the great bulk of the crude oil is in the hands of small separate companies, which are, however, economically dependent on the Standard Oil in view of the latter's control of the refineries and means of transport, it has been found possible to check production with Government help. The output returns for the first half, respectively, of 1927 and 1928 are as follows²⁵⁾:

	Millions of Barrels	
	1928	1927
United States	434	438
Venezuela	46.6	27.8
Mexico	27.9	33.9
Colombia	5	3.2
Soviet Union (7.7 barrels p. ton)	42.7	38.8
Roumania (7.7 barrels p. ton)	15.5	13.2

The tremendous increase of output in Venezuela is not yet fully reflected in these figures. In January 1928, it amounted to less than 7, in July 1928 to more than 9, million barrels.

The Venezuela production, however, is to a great part in the hands of the Royal Dutch, which thus wields a very powerful weapon in its struggle against the Standard Oil. The outcome of a limitation of output in America, and of the regression in Mexico, which will probably give place to an increase in output now that the Calles Government has capitulated to the oil magnates, may be frustrated by a rapid augmentation of the Venezuela production. It was thus obviously the danger of a general over-production which gave rise to the conclusion of an armistice, the main points of which are:

Cessation of the price struggle in India.

Cessation of the price struggle in Europe, the price of petrol in Germany having been gradually increased from 25 to 32 pfennigs per litre at the filling stations.

Cessation of the expansion of the Standard Oil's selling organisation in Great Britain, which, apart from Soviet Oil, was formerly an area monopolised by the Royal Dutch.

Readiness on principle to effect a general, organic limitation of the crude-oil production.

The practical effectuation of such restrictions, however, is bound to meet with great difficulties. Mineral oil is not only a commodity, but also an indispensable war material, without which no modern war can be imagined. For this reason every State endeavours to make itself independent of possible opponents as regards its supply of oil. France intends to develop the Alsatian oil-fields, besides which it has a 23½ per cent. participation in the oil-fields of Mosul. The plan raised at the conference of the three oil-magnates to suspend the develop-

ment of all new oil-fields, naturally met with vehement protest on the part of France, which under the San Remo agreement can exploit this territory together with the Royal Dutch, the Standard Oil, and the Anglo-Persian. Germany is attempting to gain its independence by extracting benzine from coal. Japan is anxious to maintain its concessions on Sakhalin. Spain is introducing a State monopoly.

As regards India, the Indian Tariff Board has emphatically refused to impose a protective duty on the importation of mineral oil products, as demanded by the Burman Oil Company, which is closely allied with the Royal Dutch, and by certain smaller Indian oil concerns.

In the two reports worked out, respectively, by the majority and the minority on the Commission, it is pointed out that the price struggle was started by the native producers. Both parties, however, stress the fact that in their applications to the Indian Government the applicants refrained from stating that the Shell concern had promised to indemnify them for all losses they should incur in the struggle. The report of the minority comes to the conclusion that, so long as there was no competition, the Indian people over-paid for the oil sold in India by 3,750,000 pounds annually²⁶⁾. The answer given by the Burmah Oil Company is mendacious²⁷⁾; this company asserts that it would not benefit at all by the introduction of protective duties.

Through the termination, at the end of July, of the piece-struggle in India, the question has for the time being lost its vital importance. How it was that the powerful Royal Dutch was unable to have its way with the Indian Government, is a matter for conjecture.

b) An important obstacle in the way of a general policy of restriction is the mineral-oil industry of the Soviet Union. True, the output of the Soviet Union is very small in comparison with that of the United States. This, however, is no criterion for the world market, since American oil is mainly consumed in the United States themselves. On the world market minus the United States, the importance of Soviet oil is very great and constantly growing, especially as regards the supplying of the Asiatic market. The purchase of mineral oil from the Soviet Union by the Standard Oil and its exploitation in the struggle against the Royal Dutch was and is one of the main weapons in the hands of the former company. The outcry made about the "stolen oil" is naturally nothing but a manoeuvre of the Royal Dutch. The main point of the quarrel is the attempt to subordinate the Soviet mineral-oil industry to the Royal Dutch. This will, of course, not be possible, though the position of Soviet oil will undoubtedly experience a setback if the armistice between the two great concerns proves to be of longer duration.

c) The development of the production of mineral-oil from coal is decidedly of the greatest importance for the future. In the current year the I. G. Farben intend to produce 100,000 tons and in the coming year 200,000 tons in this way. This is naturally an altogether insignificant quantity in comparison with the world consumption. But if the process proves commercially sound, it may revolutionise the entire mineral-oil industry.

The whole affair, and particularly the relations between the I. G. Farben and the Standard Oil, are veiled in mystery. In view of the present position on the mineral-oil market, the Standard Oil has naturally no interest in the production of oil from coal. Nevertheless, there is a certain co-operation with the I. G. Farben, apparently referring to the exploitation of certain inventions of the I. G. Farben in regard to refining. A patent agreement has been arrived at between the two concerns. As already remarked, the oil gained from coal is practically without importance at the present time, but may acquire the very greatest significance in a few years.

3. The Continental European Steel Cartel has of late been working without any noticeable friction. At the July session, the penalty payments for exceeding the quota were established; up to 7½ per cent. excess, one dollar per ton; for a further 2½ per cent., two dollars; over ten per cent., four dollars. At the same time the German export quota was raised to 300,000 tons a month, while the Czechoslovaks were conceded the full provision of their inland market without quota-calculations. The inclusion of Poland in the agreement has not yet ensued. The September session brought no change. This relatively smooth

²⁴⁾ "Journal of Commerce", September 15th, 1928.

²⁵⁾ "Berliner Börsen-Zeitung", August 4th, 1928.

²⁶⁾ "Frankfurter Zeitung", September 17th, 1928.

²⁷⁾ "Times", September 29th, 1928.

functioning is in the first place attributable to the good business position on the iron and steel market²⁸).

This state of affairs is likely soon to change in view of the more pronounced advance of America on the world market and of the accentuation of British competition. The British iron and steel industry is preparing, like the coal industry, for a fresh campaign, which will be mainly directed against the United States, particularly on the Canadian market²⁹). On the other hand, there are also in the United States considerable tendencies towards an increase in the iron and steel exportation. The fight between the three rivals, West-European Steel Cartel, Great Britain, and United States, will probably assume sharper forms in the event of a determination in the business position, but this may again possibly lead to an extension of the steel trust, the respective quotas being determined by the preceding price struggle³⁰).

4. With the end of the Stevenson restrictions on November 1st, 1928, the rubber production will be free. The restrictions have, in fact already ceased to apply since their termination was decided. In the fight between the Anglo-Dutch producers and the United States, the victory remained with the latter, before all by reason of the far-reaching employment of regenerated rubber. The interesting thing about it is that the American consumers in general and the tyre-manufacturers in particular, have established a fairly consolidated organisation, known as the "Rubber Institute". The conditions of organisation have been completely reversed, for whereas formerly the unorganised consumers were faced by organised producers, it is now the producers that are unorganised and the consumers organised.

The announcement of the termination of restrictions entailed a pronounced drop in prices, but the whole market is not nearly so disorganised as had been feared. The great increase in consumption in the United States and the restriction of regeneration as a result of the price-depreciation of the newly produced rubber, are the main reasons of this phenomenon.

Attempts on the part of the great Dutch producers to arrive at an understanding with the purchasing organisation in the United States, failed in view of the refusal of the Americans. The policy of the Anglo-Dutch plantation-owners is now directed towards waiting until the low prices have ruined the native plantations and then to attempt a new combination after the elimination of the "weak elements". The victims of this fight between the British producers and the American consumers will thus be the natives of Farther India and the Archipelago.

5. Failure has likewise attended all attempts to found an international sugar cartel. The formation of a cartel was mainly frustrated by the refusal of the Javanese sugar pro-

²⁸) The output of iron and steel figured as follows during the last few months.

Iron & Steel Output (Thousands of Tons)

Iron

	Gt. Britain	Germany	France	Sarre	Belgium	Luxemburg	U. S. A.
Monthly							
Av. 1927 . . .	618	1092	775	148	313	227	3068
May 1928 . . .	601	1044	871	164	329	234	3337
June 1928 . . .	574	1021	844	157	321	230	3131
July 1928 . . .	546	1035	836	160	324	225	3121
August 1928 . . .	527	1031	857	—	329	234	3187

Steel

	Gt. Britain	Germany	France	Sarre	Belgium	Luxemburg	U. S. A.
Monthly							
Av. 1927 . . .	770	1359	690	158	309	206	3675
May 1928 . . .	765	1248	794	170	325	215	4271
June 1928 . . .	721	1295	797	172	329	215	3803
July 1928 . . .	678	1311	757	173	320	208	3873
August 1928 . . .	659	1329	793	—	342	224	4246

²⁹) "Economist", September 1st, 1928.

³⁰) "Berliner Börsen-Courier", August 21st, 1928.

ducers to effect the requisite restrictions in output. Thereupon, Tarafa, the chairman of the Cuban sugar producers, refrained from paying another visit to Europe, as he had intended to do in September. The home price in Czechoslovakia has been raised by 60 crowns per hundred kilogrammes, so that the surplus profit can be employed to subsidize exportation. The provisional agreement between the sugar producers of Germany, Poland, and Czechoslovakia (concluded in January last) will cease to obtain, since it was dependent upon a restriction of output in Cuba. In short, all attempts at an international settlement may for the time being be looked upon as abortive³¹).

On the nitrogen market, again, the natural production in Chile and the synthetic production in Germany are engaged in keen competition. The Chilean producers recently formed a new organisation for the purpose of carrying on the fight. In the meantime, however, the United States have come forward with a new method of production. The "Allied Chemical and Dye Corporation", belonging to the American chemical trust, is at present engaged in constructing giant works at Hopewell, West Virginia, at a cost of 125 million dollars. When these works start operations, both the Chilean production of salpêtre, which is mainly in British hands, and the German importation of nitrogen to the United States will suffer a serious blow.

In general it may be remarked that the international cartel formation has, if anything, experienced a relapse in the current year.

This does not apply to international capital participation or to the formation of international part-monopolies, in which respect there has been a vigorous development in the last few months. The system of connection in the chemical, and especially in the artificial silk industry has thickened into a close network. The Swedish-American match trust continues developing.

III. Special Section.

GERMANY.

The economic position has continued to deteriorate during the last few months and at present shows the typical characteristics of depression, which are above all apparent in the critical state of such branches of industry as produce not altogether indispensable goods. It is the textile, the footwear, and the clothing industries that are particularly affected by the depression, whereas in the industries producing the means of production it is less pronounced. The uniform trend of business characterising post-war times contributes to the mitigation of the crisis, inasmuch as it has rendered possible a considerable increase in exports during the last few months. Big foreign orders entail a greater degree of occupation in Germany than would correspond to the absorption-capacity of the home market.

In its last report, the Institute for Business Research published the following

	Index Figures of Production, Orders Received, & Reactionable Goods.			
	July 1927	January 1928	April 1928	July 1928
Orders Received (July 1924 — June 1926 : 100)	152.6	157.4	137.5	139.6
Output (July 1924 — June 1926 : 100)	121.0	127.8	124.6	118.1
Reactionable Goods (1913 : 100)	129.2	140.9	138.3	135.0

These figures show that the volume of orders received and the output are lower than they were last year, but there is no further deterioration in comparison with last spring. This is mainly attributable to the fact that with the aid of big sales abroad the heavy industries maintained higher output figures than in the spring.

³¹) At the end of September there was a report to the effect that Machado, President of the Cuban Republic, was issuing invitations to a sugar conference, to take place at Havana in January 1929.

The Output of the Heavy Industries and the Total of Trucks Employed.

	Hard Coal (Million Tons)	Brown Coal (Million Tons)	Crude Iron (Thousand Tons)	Crude Steel (Thousand Tons)	Trucks suppl. by Reichsbahn p. working day (Thousands)
August 1927	13.0	12.8	1116	1432	150,3
Monthly Av. 1927	12.8	12.6	1092	1359	—
Monthly Av.					
1st Qrt 1928	13.4	14.0	1157	1404	—
April 1928	11.7	12.3	1048	1159	149.5
May 1928	11.9	13.0	1044	1249	149.1
June 1928	11.8	13.2	1021	1295	149.8
July 1928	12.5	13.5	1035	1311	150.7
August 1928	13.0	14.3	1031	1329	150.4
September 1928			985		162.0

"The number of trucks employed creates the impression of a goods traffic on the same level as last year. It is only from a comparison of the volume of goods actually transported that we see that already in the middle of the current year the volume of goods was smaller than a year before, so that the number of empty trucks in use must have increased." ("Frankfurter Zeitung" of August 25th, 1928.)

In judging of the position in coal mining it must be borne in mind that the stocks at the pitheads have continually been on the increase in the last few months. The pithead stocks and idle-shifts are compared in the following table:

Idle Shifts	Stocks at Pitheads at End of Months. Coke & Briq. in terms of Coal. (Million Tons)
March	21,065 0.52
April	8,270 0.57
May	320,508 0.92
June	416,115 1.24
July	309,512 1.21
August	249,504 1.37
Mid-September	1.43

("Bergwerks-Zeitung", September 21st, 1928.)

The nearer a branch of production approaches the finished article, the worse is the business position. In engineering, the falling-off in home business has been progressive; the degree of occupation figures at about 75 per cent. and would be still far lower, if sales to foreign countries had not proved unexpectedly satisfactory. In the textile industry and in the shoe and leather industry the business position is altogether bad.

This deterioration in the business development throughout the clothing industry points to the circumstance that the great mass of workers are obliged to stint themselves as regards the purchase of clothing.

In keeping with the fact that all German economy is almost wholly grouped into monopoly formations, the deterioration of the business position is not expressed in a rapid price-drop. The price movement figures as follows:

Wholesale Index Figures: (1913:100).

	Total Index	Agrarian Materials	Industrial Mat. & Semi- F. Gds.	Raw Industr. Fin. Goods
1st Quarter 1927	135.5	138.5	129.5	141.7
2nd Quarter 1927	136.6	138.1	130.9	144.4
3rd Quarter 1927	138.4	137.7	133.1	148.7
4th Quarter 1927	139.8	136.9	134.0	154.4
1st Quarter 1928	138.4	131.2	133.8	156.7
2nd Quarter 1928	140.6	135.1	134.7	158.4
July 1928	141.6	136.6	135.1	159.6
August 1928	141.5	137.6	134.3	159.5
September 1928	139.9	134.2	133.5	159.5

It is significant that the coal and iron prices should have been raised last month and that the heavy industries should

already have announced a further prospective rise in iron prices as a result of the higher freight charges on the railways.

The downward trend of economy in general and the crisis in the finished-goods industry are clearly reflected in the situation in the labour market. On August 15th, the number of unemployed in receipt of relief for the first time exceeded that of last year.

Number of Unemployed in Receipt of Relief.³²⁾

	1927	1928
May 15th	971,000	785,000
June 15th	806,000	748,000
July 15th	674,000	669,000
August 15th	576,000	648,000
September 1st	550,000	655,000
September 15th	518,000	658,000
October 15th	443,000	683,000

The seasonal increase of unemployment in the winter is estimated at 850,000. It may therefore be anticipated that in the course of the coming winter the number of unemployed in receipt of relief will rise at least to 1,500,000, provided there is no further falling-off in business. In the latter case we may reckon with an increase by one million in the next few months. The formation of unemployment and short-time work in the organisations belonging to the German General Federation of Trade Unions may be seen in the following table.

Unemployment in the Organisations of the German General Federation of Trade Unions. (In Percentage Proportion to the Total of Registered Members)

Organisation	Unemployed				Short-Time Workers			
	June	July	Aug.	Sept.	June	July	Aug.	Sept.
Miners	1.3	1.3	1.5	1.7	4.6	5.4	3.1	3.7
Ceramic ³³⁾	5.7	6.3	6.7	8.1	1.9	2.3	3.2	4.5
Metal-Workers	4.7	4.9	5.4	5.7	3.9	4.6	5.6	6.5
Chemicals ³³⁾	4.8	5.0	5.3	5.8	4.1	3.4	3.8	4.0
Textile-Workers	7.3	7.6	8.4	8.6	22.4	23.7	27.7	27.1
Printers	3.3	4.6	5.9	5.5	0.3	0.8	0.4	0.4
Leather-Workers	8.0	7.4	8.2	8.1	21.8	24.2	23.0	22.5
Shoemakers	16.6	19.5	17.7	17.3	52.0	56.9	53.6	51.7
Timber-Workers	10.3	10.5	9.7	8.9	0.6	5.0	5.9	4.3
Foodstuffs etc.	4.9	4.9	5.0	4.5	1.9	4.0	2.8	1.6
Sugar, Jam etc. ³³⁾	8.4	8.7	9.0	9.5	1.4	1.2	1.4	1.2
Tobacco-Workers	9.0	8.9	9.0	10.1	10.2	9.2	12.5	12.2
Clothing Industr.	13.2	17.8	18.4	14.3	15.9	22.8	21.4	13.7
Building Trades	7.7	6.0	6.2	6.5	—	—	—	—
Carpenters	8.9	7.6	7.9	9.7	—	—	—	—
Traffic Union	4.3	4.2	4.3	4.4	0.9	0.9	0.9	0.9
Factory Hands	5.6	5.9	6.3	7.1	2.3	2.4	3.2	3.8

Comprised Members (in Millions)

	3.99	4.03	4.07	4.08	—	—	—	—
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G. G. F. T. U. altogether

1928	6.2	6.3	6.5	6.6	5.6	6.1	6.6	6.3
1927	6.4	5.6	5.1	4.7	2.6	2.6	2.8	2.4

No less than 70 per cent. of the shoemakers, 35 per cent. of the textile-workers, and 40 per cent. of the workers in the clothing industry were thus either unemployed or working short-time in August.

Foreign Trade.

As a result of rationalisation and of the comparatively better business position on the world market, the German bourgeoisie has succeeded of late years in increasing exports and in diminishing the foreign-trade deficit. If we compare the first

³²⁾ Including emergency relief.

³³⁾ Also classed under Factory Hands.

eight months of the year with the same period in 1927, we shall see the following results:

Total Foreign Trade bigger by . . .	1,308 mill. mks.
Export of Finished Goods bigger by	841 mill. mks.
Import of Raw Materials bigger by .	230 mill. mks.
Foreign-Trade Deficit smaller by . .	719 mill. mks.

Exports in August and September, in particular, reached the record sum of more than 1000 millions, of which from 770 to 800 millions fall to the share of finished goods. In spite of this undeniable progress, the foreign-trade deficit in the first eight months of the current year still amounted to roughly 2000 million marks. The development of foreign trade in the last few months may be seen in the following table:

Foreign Trade in Millions of Marks.

Imports Exports Import Surplus Raw Mat. Imports Finished-Goods Imports Exports

Monthly	Imports	Exports	Import Surplus	Raw Mat. Imports	Finished-Goods Imports	Exports
Average 1927	1,178	851	327	596	205	628
Monthly						
Average 1928 (1st Quarter)	1,277	942	335	666	231	694
April 1928	1,175	924	251	610	215	682
May 1928	1,086	895	191	567	204	677
June 1928	1,168	893	215	579	189	685
July 1928	1,183	914	268	603	186	689
August 1928	1,083	1,026	58	550	183	769
September 1928	1,087	1,059	28	551	186	801

The Capital Market.

Germany's total economy roughly presents the following aspect. The value-product contained within the frontiers, or the capital of the national economy, is increasing rapidly from year to year. It is to be assumed that the internal capital formation has at present about attained the pre-war level. A great part of this accumulation, however, consists of loans derived from abroad. Part of this foreign capital is employed for the purpose of making new capital investments abroad. The whole is a fairly complicated process. Germany raises capital abroad and pays a fairly high rate of interest for it. This capital it employs partly to meet its Reparations liabilities, partly to increase the German productive apparatus, and partly for imperialist enterprises abroad. Whereas formerly the entire profit out of capital invested abroad benefited the German bourgeoisie, they now receive only the difference between the rate of interest and the rate of profit, which, it is true, is in some cases quite considerable.

There are no really reliable statistics in regard to Germany's indebtedness to foreign countries. The latest returns of this kind give the following survey of the long-termed debts.

The New Long-Termed Indebtedness of Public and Private Economy

(in so far as has been established).

In Millions of German Marks.³⁴⁾

	Total Sum	Whereof from Foreign Loans
December 31st, 1924	1,126	42
December 31st, 1925	3,947	1,270
December 31st, 1926	10,317	2,899
December 31st, 1927	15,589	3,966
June 30th, 1928	19,054	4,906

If we regard the development of foreign emissions in the last few months, we may remark that, whereas in July, August, and September of 1927 the total of foreign loans raised was 700 million marks, the corresponding amount this year was not more than 140 millions.

Foreign Loans (Millions of Marks)

	1927	1928
April	—	71
May	56	476
June	161	211
July	434	11
August	124	17
September	162	114

The reason for this decrease lies in the first place in the pronounced tension on the money market in the United States, where no new German loans could be placed during the last few months. It was only in the last few weeks that the Rheinisch-Westfälische Elektrizitäts-Gesellschaft succeeded in placing a new loan to the amount of 20 million dollars.

During the last few months there has been an interesting development on the market for short-termed foreign money. In consequence of the tension on the United States money market great sums of short-termed loan-capital were ordered back from Germany to the United States, their place being taken to a great extent by French capital.

The question is much discussed in Germany, whether the internal formation of capital is far enough advanced in that country that it may expect in no very long time to be able to do without the aid of foreign capital. The optimists incline to this belief, pointing out that the German capital accumulation has already regained the pre-war level, so that it ought to suffice for the requirements of economy.

I believe that Germany will for a long time to come be dependent on foreign capital. This is the natural outcome of the Reparations liabilities. Since in spite of the great progress made in the last few months the German balance of trade is still far from showing an export surplus, and as Reparations payments will now have to be rendered to the extent of 2,500 million marks per annum, the deficit in the balance of payments can be made up for only by the help of foreign credit. The German balance of trade would have to improve by another 5,000 millions to cover the Reparations payments. Although Germany undoubtedly possesses certain assets outside its commercial balance, such as profits from navigation, proceeds from capital investments abroad, and the like, the time for Germany to manage without the aid of foreign capital is still very distant.

Attempts at Imperialist Expansion on the Part of the German Bourgeoisie.

As we have often pointed out, there is a very weighty contradiction between the economic basis of Germany, with its urge to a greater imperialist activity, and the actual lack of colonies. Of late the German bourgeoisie has been making not altogether unsuccessful attempts, especially by means of its technical superiority, at imperialist advances, albeit in a somewhat veiled form. Great interest attaches in this connection to the foundation of a German-Dutch colonial company with its field of activity in Surinam in the Dutch East Indies. Two former German colonial companies have combined with Dutch capitalists to form this concern.

In Persia German enterprise has succeeded in participating in the construction of railways. The work entrusted to the respective consortium figures at something like 60 million marks.

In Colombia, another German concern has obtained the concession for the construction of a railway to a length of 90 kilometres, having successfully competed against many foreign competitors.

The leading German electricity works have of late taken part in various foreign enterprises, among them the construction and operation of the newly-founded gas and electricity works of the town of Angora, a company financing electrical enterprises in Amsterdam, and the like. The German chemical and artificial silk industry has also of late acquired an interest in various foreign enterprises. On the other hand, the participation of foreign capitalists in German concerns is also gaining ground, so that the connection between German and international economy as regards capital formation is growing more and more intimate.

As regards the further development of the business situation, the state of affairs at present does not permit of any very definite verdict. During the last few weeks there would

³⁴⁾ "Vierteljahreshfte zur Konjunkturforschung", 1928, vol. 2, p. 12.

appear to be a slight improvement, or rather a standstill of the deterioration, in regard to the textile and clothing industry. Many are inclined to conclude from this fact that the lowest point of the depression has already been passed and that a renewed improvement of the position may be expected to ensue without any serious crisis actually occurring. The good harvest of the current year is expected to make for better business. This is incorrect, inasmuch as the total value of the grain harvest is smaller this year than last in view of the low price level.

The total value figured as follows in millions of marks:³⁵⁾

1927: 4320 1928: 4177

Whether there will still be a change in the trend of business before the end of the year, appears doubtful. It depends to a great extent on the degree to which foreign markets will be able to increase their absorption of German goods.

FRANCE.

The legal stabilisation of the franc has brought about no essential alteration in the economic situation in France, which may in general be considered good. Production is on a slightly higher level than last year and unemployment is slight. In general the opinion prevails that an advance in economy is to be expected during the next few years. Thus, e. g., "l'Usine" writes as follows in its issue of September 5th:

"Have we entered upon a great period of activity?"

We may hope to do so if no political or social occurrences mar our present prospects. On the home market it is the great public building-operations which afford an important and lasting element of progress."

We are inclined to believe, however, that French economy, which underwent such great alterations in the war and post-war periods, will have to make good on the world market for the next few years before a definite verdict can be passed. Although stabilisation has in fact already obtained for the last two years, there are even to-day economic results of inflation which are favourable for the bourgeoisie and for France's capitalist economy. These are in the first place the low level of actual wages paid to the workers, the low salaries of the clerks and officials, and the consequent relatively low costs of production in French industry.

In view of the lack of serviceable French wage statistics, it is difficult to say in what proportion the present wages of the French workers stand to the wages paid them before the war. Without doubt, however, the wage level in France is lower than in the main competitor countries, Great Britain and Germany. According to the statistics of the International Labour Office, which express the actual wages in the various capital cities in proportion to the average wage level, we get the following figures for April 1928:

London	106
Berlin	75
Paris	61

Between July 1927 and April 1928, moreover, the Paris figure advanced by five points.³⁶⁾

The money wages in France, which are of primary interest to the capitalist employer, are relatively still lower than real wages, since following on the inflation period certain elements in the cost of living are quite particularly moderate. The restrictive measures in regard to housing are still in operation; rents are in most cases established at the official pre-war level. This means that the rents amount to about one seventh of what they will be in about two years time, when the restrictive measures come to an end. There is, moreover, a prevalence of the "scissors" to the disadvantage of agricultural prices, which likewise represents a favourable cheapening of the cost of living. Allegedly, the cost of living has even declined in the last few months. The official index shows a reduction from 557 in June to 540 in August. Actual experience, however, belies these official figures.

The salaries of the higher State officials figure in the budget at three times the total for 1923, which means a reduction of the actual salary value to less than the half. The advance in the cost of living, though officially denied, has its social effects. For the first time after a long interval there have been mass-strikes in France. "The period of industrial peace seems to be drawing to a close", writes the correspondent of the "Statist" on October 6th. The great labour struggles in store for France in the near future and the forced increase in the price level, will rob French industry of the special advantages it has still retained from the inflation time. As soon as this is the case, the small degree of rationalisation in French industry as compared with German is bound to make itself felt.

A comparison between certain French and German steel prices figures as follows:

	French Prices Francs	German Prices Marks : Francs
Blooms	565	120 720
Girders	650	133 798
Rod-Iron	690	136 816
Medium Sheets	880	155 930
Fine Sheets	1100	165—175 990—1050

This comparison is extremely instructive, showing as it does that the French steel-works, which are relatively well rationalised, certainly better than the other French industries, have a price advantage of wellnigh 30 per cent. in the case of the semi-finished products, but that in the case of commercial iron they are only 20 per cent. to the good and in that of sheets they are even at a disadvantage. This very clearly reflects the relative growth in the significance of rationalisation the higher the value of the products in question.

For the time being, however, the French industrialists have succeeded in maintaining their position on the world market. The exports of finished goods in the first seven months, respectively, of the individual post-war years show an uninterrupted increase in weight, it being only this year that a slight falling-off in relation to the returns of the preceding year has been noticeable. The following table shows the exports in the first seven months of each year in thousands of tons³⁷⁾.

1918	1,280
1919	280
1920	977
1921	1,193
1922	1,318
1923	1,594
1924	1,963
1925	2,332
1926	2,621
1927	2,984
1928	2,955

These figures show how greatly France's position on the world market has changed in relation to pre-war times. The exportation of iron and steel has more than trebled, that of chemical products has wellnigh trebled, and that of textiles is also substantially greater than before the war. These changes are mainly due to the acquisition of Alsace-Lorraine, which does not, however, alter the position of French economy in its entirety on the world market. France is now first on the list of iron and steel exporting countries. A change in the competitive conditions on the world market would hit the French heavy industry particularly hard. The formation of the heavy-industrial output may be seen in the following table:

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

	Coal	Iron	Steel
Monthly Average 1926	4285	783	703
Monthly Average 1927	4315	775	690
Monthly Average 1st Q. 1928	4328	817	766
April 1928	4130	834	738
May 1928	4248	871	794
June 1928	4463	844	797
July 1928	4254	836	757
August 1928	4443	857	798

³⁵⁾ Monthly report of the Dresdener Bank, October 1928.

³⁶⁾ "Revue Internationale de Travail", July 1928, p. 126.

³⁷⁾ "Information Financière", September 25th, 1928.

The position in the heavy industries continued to improve in September and October.

The endeavours of the French Government are now principally directed towards raising the investment activity in France, which was long hampered by uncertainty as to the future development of the franc rate. Now that this obstacle in the way of long-termed investments has been removed by legal stabilisation, the French Government has entered upon a policy of subventions with a view to encouraging building operations in every respect.

What mainly enters into consideration is the construction of dwellings, which has fallen into sad arrears since the outbreak of the war.

So as to alleviate the great dearth of dwellings and to encourage the building activity, State support is being advanced in this direction.

The capital requirements for the execution of these constructions will amount to 7,000 million francs in the course of five years.

Apart from dwellings, it is mainly the development of the mercantile marine and of the harbours — both of which are also important from a military standpoint — which is being subsidized by the French Government. In the latter connection, subsidies amounting to 1,000 million francs have been envisaged for the next five years.

The work taken in hand, moreover, comprises the development of the harbours of Havre, Bordeaux, and Marseilles, the exploitation of water-power in the Haut' Alsace and Haut Rhin departements, the construction of the Moselle Canal, and a great scheme of electrification, especially in regard to the railways.

Hand in hand with these great electrification projects, there is a far-reaching combinatory movement among the electricity concerns in France, which, as in Germany, are successively amalgamating into one or two great enterprises. Any development in the direction of monopolies finds the support of the French banking world. Contrary to their pre-war policy, which was mainly directed towards the placing of foreign loans, the leading French banks appear, at any rate for the present, to be concentrating their attention on the financing of industry. In quick succession the leading banks have founded a series of holding companies for the purpose of combining various industrial enterprises. The financial-capitalistic character of French economy is fully apparent in this way.

The Reparations supplies certainly play a great rôle in the subventionary policy of the Government. Contrary to the early post-war years, when the resistance of the French bourgeoisie to the admission of German firms in the reconstruction of the devastated areas prevented the relative deliveries, we may see to-day that in most of the great public building-operations a substantial part of the material for installations is supplied by German firms to Reparations account. The German tribute is employed immediately to enhance the competitive capacities of French industry. The French bourgeoisie must needs agree, since the employment of Reparations supplies is a condition imposed by the Government for the execution of public works.

It is an interesting fact that next year's budget for the first time shows the figure of 1,000 million francs as revenue from reparations payments. The reason advanced by Poincaré for this manner of indication is that a normal budget would contain the interest on the sums employed for reconstruction purposes, so that the inclusion of the Reparations payments in the ordinary budget is also indirectly in the interest of covering reconstruction expenses.

The French Capital market.

We have already pointed out that business policy of the leading French banks now deviates from what it was before the war. This trend is supported by the French Government, which places difficulties in the way of both long-termed capital exportation and capital importation into France. At present there is a considerable difference between the rate of interest for short-termed and long-termed money in France. The French bank-rate is now 3½ per cent., which is materially less than in London or New York. The consequence is that short-termed money is lent in considerable sums from Paris to London and thence to many other countries, Germany in particular.

The big French banks are now attempting to emancipate themselves from London and to make Paris into a centre of international money and capital circulation. Before the war this was rendered more difficult by the fact that the French currency was not a real gold currency. The Bank of France had the right to give silver instead of gold in exchange for its notes, added to which it was wont to use much-used gold coins in this connection, which proved a serious disadvantage on the international market, where gold is handled according to weight. The legal stabilisation of the currency has put an end to this practice. The Bank of France is very well supplied with gold and foreign bills, and the material basis for an independent activity as a financial centre is undoubtedly existent³⁸).

The English boast that, for the purpose of developing into an international financial centre for short-termed transaction, Paris lacks the great technical apparatus, branches and correspondents all over the world, the system of accepting houses, etc. It would, they affirm require many years to build up such a system. As a matter of fact, these premises are already in existence, at any rate for the time being. The loaning of short-termed money to London and Berlin and the long-termed capital exportation have already begun. Negotiations are in progress in Paris with various East-European States with a view to loans, and the Paris money market is likely soon to play a similar rôle again to that which it exercised before the war.

It is a special problem how it is that France, in spite of the war and the inflation period, has become such a sound country in regard to capital in a very short time. This problem would call for a detailed investigation such as we cannot now undertake.

As we have frequently pointed out in our surveys, the harmful effects of inflation were far smaller in France than in Germany, Poland, Austria, and elsewhere. This may be explained by the uniform rate of monetary depreciation, its slight extent, and the fact that France received considerable advances from Great Britain and America in the war and immediate post-war periods and of late years has already been deriving large sums from Germany by way of Reparations, so that the country is far less actually impoverished than the Central European countries. It would appear, moreover, that, in spite of the war and the inflation, a far greater proportion of France's foreign capital was preserved than was generally supposed in view of the declarations of Moulton and Lewis³⁹). This problem, however, calls for a more detailed investigation.

* * *

In summing up, we may say that the momentary position of French economy is satisfactory. According to official statistics, there is no unemployment at all. The shrinking of the labour market, however, is reflected in the decreased employment of foreign workers⁴⁰). With the inevitable rationalisation of French industry, the labour market will continue to shrink. On the other hand, the prospective rise in the cost of living will accentuate the differences between capital and labour. Great labour struggles, such as have not occurred of late years in France, are inevitable.

³⁸) The main items of the balance-sheet of the Bank of France in the last few months have been as follows:

	June 25th	Aug. 31st	Sept. 28th
	(In Millions of Francs)		
Claims abroad, maturing daily	15,084	14,241	12,691
Foreign bills hypothecated	9,777	4,041	3,455
Shares purchased abroad	10,544	17,992	18,450
Total	36,305	36,274	34,596
Gold holdings	28,935	30,351	30,623
Note circulation	58,772	60,317	62,654

³⁹) "The French Debt Problem", H. G. Moulton and L. Lewis.

⁴⁰) The accretion in the number of foreign workers after deduction of the repatriated foreigners figured as follows in thousands:

1924	265
1925	176
1926	160
1927	64

("Bulletin Quotidien" of July 21st, 1928).

It is only in the course of the next few years that it can become apparent whether the new structure of French economy which came into being in the war and post-war time will be able to maintain its position in the world market without any great crisis. The small accretion in population leads to a constant depopulation of the open country and therewith also to a shrinkage of peasant farming, which means a restriction in the home market.

If we take into consideration the tremendous and constantly increasing expenses for military purposes, it appears doubtful whether the colonial super-profits and the unaltered drift of the petty-bourgeois masses in France will suffice to maintain the equilibrium of French economy.

ITALY.

The economic position of Italy has shown no very marked changes during the last few months. The difficulties connected with currency stabilisation still obtain. The official Italian economic reports are invariably optimistic. There is no independent press in Italy, and thus we must rely in our estimation of the economic position on the very sparse accounts furnished by the correspondents of foreign newspapers.

With the exception of the returns of the iron and steel industry, no production figures are published in Italy. In view of the relatively small importance of the Italian heavy industries, these figures fail to furnish any particular criterion of the general position.

Iron & Steel Output (Thousands of Tons).

	Iron	Steel
January	26	122
February	25	123
March	34	155
April	38	146
May	42	174
June	41	172

So far as can be ascertained from press reports, the degree of occupation in the automobile and engineering industries is very unsatisfactory; the exportation of automobiles, one of the most important branches of Italy's export trade, has greatly decreased. On the other hand, the textile industry, with the exception of artificial silk, has shown a slight improvement during the last few months.

The unemployment returns may be taken as generally indicative of the business position. This is naturally only relative, seeing that unemployment is always indicated far too low in the official statistics.

Number of Unemployed in Thousands.

	Total		Thereof in Agriculture & Fishing	
	1927	1928	1927	1928
January	225	439	61	126
April	215	357	58	92
May	216	307	44	61
June	263	234	70	38
August	292	248	88	51

During the last few months there has again been an increase in unemployment.

It is characteristic of the general bad economic position, that the number of insolvencies is far greater than it was last year and shows a rising tendency

Insolvencies.		
Monthly Average 1926		654
" " 1927		944
" " (7 Months 1928		1074
May 1928		1082
June 1928		1087
July 1928		1100

The disappearance of numerous smaller enterprises is in keeping with the general line of the Fascist economic policy, which intentionally favours the development of the big-capitalist enterprises. The country is to be purged of inflation foundations and inflation capital⁴¹⁾.

The bad business tendency also finds expression in the fact that the sum total of commercial bills discounted by the notebank is constantly on the decline.

The main difficulty for Italian capitalism continues to lie in the small absorbing capacity of the home market. The agricultural yield is very small, hence also the small purchasing power of the predominantly peasant population.

The purchasing power of the workers is extremely small in view of the constant wage reductions in industry, which have led to a further shrinkage in the real wages of Italian workers in the course of the last twelvemonth, low as the wage level already was. According to the statistics of the International Labour Office the real wages of the Milan workers receded from 55 in July 1927 (on the basis of 100 to represent London) to 52 in April 1928. Real wages in Rome on the same dates figured at 46 and 45, respectively. Only Warsaw, Lithuania, and Lodz show a still lower average wage than that paid at Rome. The reduction of wages was carried so far by the capitalists that in August Mussolini saw himself induced to address a circular letter to the prefects, ordering them to oppose any further reductions desired by the employers⁴²⁾.

At the same time however, the economic policy of the Fascists conduces to the further reduction of the real wages⁴³⁾. In the middle of September the wheat duties were raised from 7.5 to 11 gold lire per 100 kilogrammes and the wheatmeal duties from 10.75 to 16.75. We believe Italy has now the highest grain duties in all the world. Since the country is obliged to import wheat, the increase in the duty will be reflected to the full in the increase in the price of bread.

Italy's economy is thus moving in the following vicious circle. The agricultural yield and the purchasing power of the peasant population are extremely small. Italian industry, which in comparison with its competitors on the world market has an unfavourable position lacks the great and guaranteed home market which might serve as a basis for its operations on the world market. The fearfully low wages of the Italian working class cannot make up for the disadvantages of an unfavourable position of industry and small home sales, if exportation is not stimulated by an inflation process. On the other hand, it is only a development of the big industries that can form the basis of military power and an imperialist policy of expansion.

Mussolini is seeking a way out in two directions. Firstly, in the enhancement of agricultural production and thereby an expansion of the home market for industry, and, secondly, in imperialist expansion and thereby creation of monopolised markets for Italy's industrial production.

So as to be able the more easily to realise his economic ideas, Mussolini called upon the Finance Minister Volpi to resign last summer. His place was taken by a bureaucrat, the Senator Mosconi.

This shows that the conduct of Italy's financial policy has been taken over by Mussolini himself. This change also necessitated the removal from his office in the Ministry of the representative of the Banca Commerciale Italiana, that leading bank which may be said to control practically all Italian industry at present. (It succeeded in preventing the settlement in Italy of the American Bank of Italy, the enterprise of Gianini, of which we wrote in our last report.) At the same time, however, Mussolini assured the bourgeoisie and the big landowners that the new Finance Minister would not make an attempt to increase the State finance by new taxes, but that he would endeavour to increase the number of taxpayers and to prevent tax-evasion. The following figures show the result of these endeavours since the beginning of the Fascist regime:

	No. of Tax-Payers	Income Total in Mill
1923	1,340,110	3,676
1927	1,770,901	8,342

We thus see that additional, probably petty-bourgeois, circles have been included in taxation, and that the taxed income total has more than doubled.

In connection with this we have also the attempt of Mussolini and the Fascists to keep the economic activity of every

⁴²⁾ Special issue of the "Bulletin Quotidien" of August 1928.

⁴³⁾ According to the "Bolletino Mensile di Statistica" published by the Italian Statistic Bureau, the average wages of Italian workers per hour in August was 2.10 lire, or about sixpence. These statistics refer to a great portion of the Italian working class, about 1,200,000 workers. Seeing that in August a worker did an average of 182 hours work, he earned on an average 382 lire, or £ 4-4-0.

⁴¹⁾ "Deutsche Allgemeine Zeitung" of August 30th, 1928.

individual capitalist enterprise under their own control. The prospective strict control over foreign loans will, in view of the lack of capital in Italian industry, prove a particularly good means of checking enterprises or capitalists that might be inclined to evince a desire for a certain independence of the Fascist regime. As a matter of fact, the negotiation of foreign loans was slightly restricted during the last twelvemonth.

The foreign capital in question came mainly from the United States. The emissions are distributed as follows: 339 million dollars, more than 3 million pounds, 44 million Swiss francs, 4 million Dutch florins, and 65 million lire. ("La Finanza Italiana" of September 1st, 1928.)

The amount of foreign indebtedness is to be seen by the following returns:

Italy's Foreign Loans.				
(In Millions of Lire.)				
	1925	1926	1927	1928
State and Municipalities	1900	—	1140	—
Public Loans	—	380	374	—
Industrial and Financial Enterprises	190	903	1414	688
Total	2090	1283	2928	688

(“Il Sole” of September 15th, 1928.)

In the three years from 1925 to 1927, long-termed foreign loans to a total of 6300 million lire were taken up, 40 per cent. thereof in the first half of 1927.

In summing up we can establish that Italian business continues to be in a state of depression, which has only in part the character of a transient business phenomenon, being partly the outcome of the chronic difficulties we detailed above. No improvement of the business position is to be expected in the near future, since, with the exception of grain, the harvest has proved rather unsatisfactory, the drought having harmed quite a number of products important for exportation. The present depression may be expected to continue for some time and to experience a certain aggravation in the winter months.

GREAT BRITAIN.

The economic position of Great Britain is at present more anomalous than ever before. Depression continues; the volume of output is smaller than it was in the preceding months. Prices have been falling almost uninterruptedly for about a year; the index of the "Economist" dropped from 157.4 in September 1927 to 148.6 in September 1928. On the money market there are increasing difficulties. The raw material purchases of the autumn have led to a falling-off in the sterling rate and obliged the Bank of England to part with a great quantity of gold. Unemployment has risen again of late and is now according to official statistics some 300,000 above the level of a year ago.

On the other hand it is apparent that British industry is experiencing a pronounced change, the object of which is the rationalisation of all industry, the formation of monopoly-organisations, and the re-establishment of the competitive capacity of British industry on the world market. This process is meeting with great difficulties in Great Britain, but they are being overcome at the cost of a hard struggle. Certain branches of industry, especially the new industries, have already succeeded in competing satisfactorily on the world market. In the export of articles of the electro-technic industry, Great Britain at present occupies first place. The export of ships and of machinery has also advanced during the last few months. The assertion made in many quarters that British industrial capitalists are despairing of ever restoring British industry, can be proved to be false by a glance at the big sums which were invested in British industry in the course of the first nine months of the current year.

The Course of Production.

According to the various indices which have been constructed in England of late years, production appears to have declined during the last few months. The index of output of the London and Cambridge Economic Service gives us the following figures:

Index of Output.	
(On the basis of 100 to represent 1913).	
4th Quarter 1927	95.1
1st Quarter 1928	93.4
2nd Quarter 1928	91.8

In July and August the position continued to deteriorate.

The index of the "Economist", hitherto worked out only for certain elements of the business development, gives the following survey:

Index of Business Development (On the Basis of 100 to Represent the Level of 1924).

	August 1927	April 1928	May 1928	June 1928	July 1928	Aug. 1928	Sept. 1928
Net Import of:							
Raw Materials	91	108	108	99	94	88	84
Coloured Metals	107	119	116	118	114	113	104
Consumption of:							
Iron & Steel	121	98	91	87	84	83	83
Cotton	103	110	104	104	102	98	87
Rubber	159	305	246	152	139	143	181
Coal	95	105	102	93	91	88	89
Electricity	93	117	108	101	97	95	96
Railway Freight Traffic	96	93	94	90	—	—	—
Export of British Ind. Gds.	102	106	107	103	107	109	108

In its issue of October 6th, 1928, the "Economist" attempts to give an output index for the most important branches of industry, which it groups in the following way:

	1928		
	1927	1st Quarter	2nd Quarter
Mining	94.3	96.2	85.6
Iron & Steel	110.0	105.6	100.9
Other Metals	116.9	121.6	125.7
Shipbuilding & Engineering	116.1	115.8	113.8
Textile Industry	102.3	108.0	99.9
Chemical Industry	105.2	109.1	107.6
Leather, Footwear & Rubber Industry	126.7	148.0	114.9
Foodstuffs, Beverages, Tobacco	99.7	98.7	99.3
Total of Above Groups	107.5	109.1	103.0

Among the individual groups, the depression is most marked in the case of mining. Nevertheless, it must be admitted that, from the standpoint of the capitalists, there has been an improvement over the preceding years and especially over the period prior to the great lock-out. The same quantity of coal is now raised by 300,000 fewer miners, besides which the wages per worker have dropped. Although as a result of the keen competition on the world market this reduction in initial costs has not enhanced the profits of the coal industry⁴⁴⁾, the increased surplus-value production profits the coal-employed industries and the British bourgeoisie in general.

The output of iron and steel is stagnant, while the consumption in the country itself has receded during the last few months. On the other hand, the trend of business in shipbuilding and engineering has slightly improved.

There has been no change for the better in the case of the cotton industry. At the beginning of June the Master Cotton Spinners' Federation put to the vote the suggestion that the weekly working hours be reduced to 24.79.5 per cent., were in favour of this reduction and only 12.3 opposed it, while 8 refrained from voting. Since short-time, however, could, according to the agreement, only be introduced on the strength of a vote of 90 per cent., the plan of shortening the working hours had to be dropped. Thus the anarchy in the industry continues, some of the mills working full time and others short time, while yet others have even closed down for weeks together.

⁴⁴⁾ According to the figures of the Mines Department, the position of coal-mining has deteriorated.

	First Halfyear		
	1925	1927	1928
Marketable Coal (Millions of Tons)	107.0	112.4	107.5
Costs of Output (Millions of Sterling)	97.3	90.5	77.0
Proceeds (Millions of Sterling)	96.3	91.2	71.2
Profit or Loss	-1.0	+0.7	-5.8

The loss per ton is said to have figured in the second quarter at 1s 5d, the greatest loss so far recorded. And that, although the wage-cost per ton has sunk from 13/— to 9/7 d., or by more than 30 per cent.

A better trend of business is reported in regard to the new industries, chemicals, electricity, automobiles, gramophones, films, etc.

The following table of unemployment affords an approximate idea of the industrial branches most affected by the present depression:

Unemployed among Insured Workers.
(In Percentage Proportion)

	July 1927	July 1928	August 1928
Coal Minig	21,0	27,9	25,5
Steel Works	18,2	23,1	23,2
Shipbuilding	21,5	27,4	27,2
Cotton Industry	9,2	15,0	16,2
Wool Industry	9,3	15,3	14,9
Footwear Industry	12,3	19,3	19,1
Building Trade	7,5	10,5	10,5
Dock Workers	21,1	32,4	31,4

Monopoly Formation and Rationalisation.

The movement for transforming British industry is in full swing. It is advancing in two directions, that of a formation of monopolies and that of a reduction of wage-costs.

The difficulty of monopoly formation in England is well known. The peculiar method of financing industrial enterprises by means of loaned capital, the interest on which constitutes a first charge on the undertaking and the absence of share holdings on the part of the leading banks, practically excludes the latter, which in the United States and Germany are the main factors in the movement of monopolisation. In the early post-war years, many enterprises greatly watered their capital, hoping for a continuation of the high profits of that period; these concerns would now be faced with heavy sacrifices in the event of an amalgamation.

It is just in view of the undue capitalisation of numerous enterprises that the formation of monopolies meets with great difficulties, which are, however, not insurmountable. The greatest trust-formation so far recorded is Mond's combine of the anthracite mines in South Wales. The new enterprise, the "Amalgamated Anthracite Collieries", now embraces about 80 per cent. of the entire output of this industry, which amounts to almost 6 million tons per annum. The amalgamation was effected by the shares of the various enterprises being exchanged for shares in the amalgamated concern. When the entire transaction is completed, the share capital of the enterprise will amount to 14 million pounds, more than 3 pounds per ton of output. This is an usually high degree of capitalisation, and it is doubtful whether the profits will cover the enormous sums employed in gaining the participation of the individual concerns⁴⁵⁾.

It is an interesting fact that in connection with concentration the coal-magnates are waging a fight against the private "royalties". In this way the demand of the Labour Party for a nationalisation of the "Royalties", has been taken up by the capitalists in their attempts to attain an absolute monopoly.

Side by side with this greatest trust, three other coal trusts have come into being in the course of the last twelvemonth. Early in October, the Manchester Coal Company was formed by the amalgamation of five concerns with a joint capital of 5 million pounds and an output of from 4 to 5 million tons per annum.

The various cartels in the individual coal-mining districts have proved more or less practicable, and there are constant endeavours towards the creation of a uniform coal-organisation for the whole country.

Parallel with the movement of a monopoly-formation in the coal industry, a similarly strong movement may be observed in the cotton trade. A new trust is to be created, which will exchange the shares of the existing concerns for shares of its own and will take over the debts of the various companies, whether funded or not. Whittaker, the leader of this movement, a Manchester industrialist, has declared that the aggregate capital of the 312 existing companies amounts to roughly 50 million pounds. With a view to eliminating the existing losses and the over-capitalisation, this capital is to be reduced to one half. He is of opinion that the new all-embracing trust, with a capital of 25 million pounds, should be conducted by at most 10 managers with salaries of 1000 pounds each, in

the place of the 1800 managers at present engaged in the cotton trade. Raw cotton would be bought straight from producers and all the yarn would be sold by the central selling organisation.

In view of the very different financial positions the individual enterprises, it is naturally doubtful whether this plan, which has so far the support of only a small number of spinners, can really be carried out.

A combination which has already been perfected is that of the trans-oceanic cable and wireless companies, which have been united in a holding company with a capital of 54 million pounds. This amalgamation was supported by the Government for the purpose of protecting the international intelligence service against American competition. The new English trust controls more than half the total number of cable companies and has all the actual and potential possibilities of the associated wireless enterprises at its command.

The "Industrial Peace".

The greatest hopes of a general improvement in the economic position in Great Britain from the standpoint of the capitalists, are cherished in connection with the tendency among the working class to co-operate for "industrial peace". The foundations of this project were laid down in the Mond-Turner Conference, the real aim of which is class collaboration.

The outcome of the new spirit in industry consists in the fact that in the first seven months the wages of 1,100,000 workers have been reduced. Added to this there followed in August the reduction of the wages of railwaymen, which were cut by 2½ per cent., representing, according to the calculations of the railway companies, an aggregate loss to the workers of 3 million pounds per annum.

The resolutions of the Trade Union Congress at Swansea were welcomed most enthusiastically by the capitalist press of all shades, and equal satisfaction was shown with the outcome of the Miners' Congress in the second half of July.

The power of the trade unions in England has been greatly reduced by the growth of unemployment. The miners' federation has shrunk from 958,000 to 626,000 members. This, together with the great extent of unemployment, enables the capitalists to press down wages and makes the trade-union leaders afraid of risking any fight whatsoever.

The Increased Rate of Exploitation in England.

On the basis of the American census returns we had occasion to calculate that the rate of surplus-value in America amounts to more than 100 per cent. and shows a rising tendency, in keeping with the teachings of Marx. It now appears that the same is the case in England, in so far as can be judged by the

Results of the Industrial Census of 1924, which shows the following returns:

	1907	1924	Percentage Increase
	(In Millions of Pounds Sterling)		
Gross Product	1698	3853	127
Material & Wage Costs	1009	3156	113
Net Product	689	1698	146

Thus, a rise in material and wage costs by 113 per cent. is accompanied by an advance in the value-product by 146 per cent. Seeing that in both cases the value of the raw materials passes unchanged into the total product-value, the greater increase of the product-value obviously means neither more nor less than an increase in the rate of exploitation.

Capital Emission in the First Nine Months.

The possibility of an increased exploitation of the working class and with it the achievements of greater profits appears to be making itself felt in the form of a greater emission of capital. The following table shows the

Development of Capital Emission in the First Nine Months of:

	1913	1925	1926	1927	1928
	(In Millions of Pounds Sterling)				
Total New Emissions	150.3	160.4	159.9	249.8	290.7
For the Mother Country	25.6	119.3	82.8	171.2	211.7
For the British Possessions	56.9	35.5	45.8	52.9	52.1
For Foreign Countries	67.8	5.6	26.3	25.7	26.9

⁴⁵⁾ "Economist", of September 15th, 1928.

These figures show that the emission of new capital, calculating the higher price level, is greater than in 1913, and that in particular the capital emission intended for the mother country figures at about six times what it was in 1913, whereas capital exportation, allowing for the difference in the price level, has sunk to about one third.

In the last few months the emission of capital has been so pronounced that we can even speak of a "fever of company promotion", affecting in the main the less important lines of industry.

If we examine the connections of the newly emitted capital in regard to the nature of the investments, in which respect there are unfortunately no separate statistics, we shall arrive at the following main items:

	Millions of Pounds
British States Loans	84.3
Colonial State Loans	38.3
Foreign State Loans	10.2
Finance & Investment Trust	28.6
Electricity	11.1
Industry in General	44.7
Hotels, Theatres, etc.	13.2
Coal, Iron, & Engineering	1.7

The contradiction between the small sums invested in the heavy industries and engineering and the 13 millions invested in hotels, theatres, and the like, is highly characteristic. Nevertheless, we believe the opinion that British capital is now mainly invested in luxury industries, to be incorrect. The sum total of investments in the productive industries will make many times the amounts falling to the share of luxury investments.

Foreign Trade.

In July and August foreign trade showed an improvement over last year, whereas the month of September again brought a marked relapse. The main figures are as follows:

Foreign Trade Movements (in Millions of Pounds)

	Net Imports	Exports	Import Surplus
1927			
June	88.7	56.0	28.7
July	83.7	56.1	27.6
August	81.3	59.4	21.9
September	93.4	60.6	32.7
1928			
June	87.9	59.4	28.4
July	87.0	60.9	26.1
August	88.9	62.2	26.7
September	80.8	56.6	24.2

If we compare the exports of the first nine months of 1927 and 1928 respectively, we shall find a falling-off by roughly 2 million tons of coal, 28 million pounds of cotton yarn and 202 million square yards of cotton fabrics, and on the other hand an increase by 4 million pounds of machinery, 1 million pounds of automobiles, 8.7 million pounds of ships, and 1.7 million pounds of chemical products. In all, exports are 16 million pounds above last year's total. The tendency is fairly obvious: a decrease in the exports of the great staple industries, coal, iron and steel, cotton yarn and cotton struffs, and increased exports of machinery and the finer industrial products.

The Problem of Protection.

The smaller measures which the British Government has undertaken for the relief of trade, viz. the reduction of municipal rates and also of the railway freights for coal, iron and export goods, have naturally not effected any material change in the position of the staple industries. The call for the introduction of protective duties has therefore grown very urgent within the Conservative Party of late.

At the beginning of July, 100 Conservative members of Parliament came together and resolved to send an address to the Prime Minister, requesting that the present system in regard to the introduction of protective duties in connection with the next elections should be changed. At present an industry must prove that it is harmed by "unfair foreign competition", that it is effectively working but that unemployment is being caused by unfair competition from abroad. In place of this system one is demanded which will give every industry a right to be

safeguarded if it can prove that a protective tariff will diminish the existing degree of unemployment in the industry.

Since the elections are no longer distant and the Free Trade traditions of the electorate are very strong, Baldwin has refused to make protection a plank in the Conservative platform. But his answer to the advocates of protection within the Party is highly ambiguous and may be interpreted in the sense of an increased protective policy. What he says in his written reply is in fact also contained in the resolution of the Conservative Party.

"We have undertaken the guarantee, and intend to stand by it, that we shall introduce no protection or similar duties on foodstuffs. Safeguarding will, however, continue to be our policy. Certain simplifications as regards form may be made on the basis of experience. No finishing industry shall be prevented from putting its case before the duly appointed tribunal." — (retranslated from the Germany. Ed.)

It is obvious that this is to a great extent a play with words. "Protection" is looked upon askance in England, but "safeguarding" is not, and an adequate extension of "safeguarding" is tantamount to a protective system. The Liberal press therefore attacks this letter of Baldwin's and the resolutions of the Conservative Party most vehemently.

UNITED STATES OF AMERIKA.

The business position has undoubtedly improved considerably during the last few months. In some important branches of industry (automobiles, building) output exceeds that of the corresponding period of 1927.

The following table shows the general indices of the business development:

Index Figures of the Federal Reserve Board.

	Index of In- dustr. Output 1923/25 = 100 ^(a)	Index of Occu- pation of Wor- kers 1919 = 100	Index of Loaded Rlw. Trucks 1923/25 = 100 ^(b)	Building Index 1923/25 = 100 ^(b)
1927				
July	106	90.7	101	128
1928				
April	109	89.3	104	136
May	109	89.5	106	152
June	108	89.6	102	148
July	109	88.5	102	139
August	112	90.0	104	111

If we compare July 1928 with July 1927, we shall find that industrial production has increased by 1 per cent., while the degree of employment has diminished by 2.2 per cent. This gives within a year an increase of unemployment of 3.2 per cent. in relation to the volume of output as a result of technical and organisational improvements and innovations.

The index of the "Annalist", which includes August, gives us the following survey:

Business-Development Index Figures of the "Annalist"^(a7)

	Sept. 1928	Aug. 1928	July 1928	June 1928	May 1928	April 1928	Aug. 1927
Iron Production	101.7	102.9	101.2	100.7	97.0	94.2	99.7
Steel Production	113.4	106.2	115.4	105.4	106.4	115.7	92.5
Laden Rlw. Trucks	95.0	93.3	93.0	91.6	94.9	94.4	96.1
Prod. of Electr. Energy	—	103.0	101.3	100.6	101.7	99.2	100.9
Coal Production	88.9	86.0	87.7	84.5	86.3	83.5	89.1
Automobile Product.	112.9	103.7	94.7	85.7	88.5	92.0	74.5
Cotton Consumption	—	95.3	87.6	91.1	101.1	97.3	116.4
Wool Consumption	—	101.0	97.4	94.5	96.0	89.8	104.1
Shoe Production	—	114.8	115.7	106.1	95.6	92.7	117.3
Zinc Production	95.3	99.0	94.9	94.4	91.4	93.0	97.4
Combined Index	—	98.9	97.2	95.3	97.7	96.7	101.9

^(a6) Without regard to season.

^(a7) Issue of October 5th, 1928.

This index shows that, although the automobile production and the iron and steel output are far in advance of last year's level, the other branches of production, and especially the consumption of cotton, fall short of that level, so that the combined index is still 3 per cent. below that of last year. Seeing that the business position is reported by the press still to have improved in the first half of October, the level of 1927 may now be assumed to have been regained.

The industries which mainly contributed to the development of the situation during the last few months are the building industry and automobile construction. Already a year ago we pointed out that there was the danger of an over-production on the building market. The development in the last few months points to the fact that a slump has set in⁴⁸⁾. The new building contracts figured as follows:

	Millions of Square Feet	Millions of Dollars
June	94	1000
July	82	648
August	78.9	612

In September the restriction continued; expensive loan-capital and the drop in rents in view of the constant construction of new dwellings are likely to cause a further great reduction in the near future.

The automobile industry showed a record output in August, Ford's production now increasing rapidly (with a staff of 300,000 workers). In the last few months production has developed as follows:

	August 1927	May 1928	June 1928	July 1928	August 1928
		(Thousands of Cars)			
Pass. & Comm. Cars	309	426	397	391	459

American automobile exports are on the increase, but not sufficiently to relieve the home market in the eventuality of a possible glut, all the less so, as it is mainly automobile parts which are exported.

Export of Automobiles
(In Thousands of Cars)

1922	1925	1926	1927	1928 (First Half)
177	508	492	482	279

Thus more than 10 per cent. of the output was exported in the first six months of this year.

Automobile construction, building activity, and the increased orders on the part of the railways have tended to enliven the iron and steel industry. The output is increasing, the steel-trust is occupied to 85 or 90 per cent. of its capacity, orders are on the increase, and prices are rising. The Samuel price index of the "Iron Age" was four points higher at the end of September than the highest point hitherto recorded, that of February last.

Although the general trend of the business development is upward, weak points are not absent.

We have already pointed out the fact of a falling-off in contracts in the building industry. A very difficult position obtains in regard to coal-mining.

Down to September 15th, the following output returns were recorded⁴⁹⁾:

	Millions of Tons	
	1928	1927
Soft Coal	331.9	372.9
Anthracite	51.5	57.1

The output is 15 per cent. below that of last year. We must go back to the critical year 1924 to find a similarly low output figure.

A very difficult position still obtains in the cotton industry, although there has been a certain improvement in the last few months. The crisis is characterised by the following figures⁵⁰⁾:

	August 1928	August 1927
Number of Spindles in Operation (1000)	28,244	32,292
There of in the Northern States	9,220	13,165
Cotton Consumption (1000 Bales)	526.7	634.5

The industry is migrating to the Southern States, where it is close to the raw material and where labour is cheaper. Down to August there were this year 77 new foundations of mills in the Southern States, in spite of the depression, most of them not for staple goods, but for silk, artificial silk, and luxury articles⁵¹⁾. In the North there is much unemployment among the textile workers; wages are forced down, wage struggles generally end in the defeat of the workers or else the works are closed down and removed to the South.

Big Profits for the Monopolies, No Gain for the Small Business Enterprises.

The tendency of the rate of profit to split into a high figure for the monopolies and a low figure for the unorganised small enterprises is more and more pronounced and is now no longer denied by the capitalists themselves.

To illustrate the manner in which the monopolists exploit their political influence to multiply their profits, we may re-produce some data in regard to the Aluminium Company of America⁵²⁾. This concern, which controls the entire aluminium output of America, is the property of Mellon, the powerful Secretary of the U. S. Treasury.

If we follow the financial history of this company, we shall see that up to 1925 the shareholders had not paid up more than at the most 3 million dollars in cash. In 1924 the net profits amounted to 13.4 millions. By means of bonus shares, the capital was first doubled, then multiplied by five, and later raised to 15 million dollars of preference shares by the inclusion of the Aluminium Company of Canada. 1 1/2 million shares without any nominal value remained to the shareholders. Not a penny of new capital was paid in. In 1925 and 1926 the company recorded a net profit of 41.6 million dollars, in two years 14 times the paid-up capital.

The company is now engaged in constructing the biggest aluminium works in the world in Canada with a capital expenditure of 100 million dollars, 60 per cent. of which was raised by the issue of debentures. It wholly or partially controls 74 affiliated enterprises (bauxite mines, aluminium works, selling organisations, railways, electricity works, saw-mills, etc.) Many of these affiliated enterprises are in Europe, in Great Britain, France, and Yugoslavia; some are even in Japan, British Guinea, and elsewhere.

The tremendous financial success is in the first place due to the political influence of Mellon. It is simply exploitation of the consumers. Though the American aluminium industry is foremost in the world (in America alone it produces half the world output), high duties have been imposed on aluminium, from 5 to 9 cents per pound since 1922, before that even from 7 to 11 cents. The Aluminium Company produces 200 million pounds of aluminium per annum; an average of 7 cents makes 14 million dollars a year. A study of the customs problem will show that the aluminium prices in the United States have been known to rise in about the same proportion as the duties on the foreign product. Since the consumption of aluminium increases very rapidly in America with the development of the automobile and aeroplane industry and with all sorts of technical innovations, it is easy to imagine what Mr. Mellon stands to profit by the duties in the future. This is a single example, but it may be considered typical.

⁴⁸⁾ L. H. Haney, Director of the Bureau for Business Research at the New York University, emphasises this point in the "Financial and Commercial Chronicle" of September 29th, 1928.

⁴⁹⁾ "Financial and Commercial Chronicle", September 1928, p. 1744.

⁵⁰⁾ "Journal of Commerce" of September 15th, 1928.

⁵¹⁾ *ibid.*, September 10th, 1928.

⁵²⁾ Journal of Commerce of September 4th, 1928.

The Crisis among the Small Farmers in America.

The tendency towards the destruction of the small producer has of late years been pronouncedly evident to the detriment of the small farmers. How the capitalists of the United States regard the farmers' question may be seen by the following facts⁵³).

Though the equipment of the United States farmers has made great progress, the great majority of them are not really equipped in keeping with the times. There are 5½ million farms which are big enough to use a tractor, but only 460,000 of them actually employ tractors. The "combine" (mowing and threshing machine) can do the work of 12 men with the aid of three. But it is little used. The small farmers produce at unduly high prices and should therefore be ousted from the economic system.

The Consumption of foodstuffs is on the decline, since people have begun to look after their health. In the last 20 years the meat consumption per head has decreased by 4 per cent. and that of bread still more. Contrary to industry, it is impossible in agriculture to increase sales by cheapening the product. People (naturally only in America!) have reached the limits of their requirements in the way of food and consumption is declining.

The agrarian crisis has not decreased production. In the five-years' average from 1920 to 1924, when the crisis was most acute, production was greater than in the period from 1906 to 1910; in the case of wheat 802 million bushels against 630 millions, or 172 million bushels more, maize 2500 million bushels more, oats 400 million bushels more, cotton 1½ million bales more, hay 90 million tons against 58 million tons. This tremendous increase in production has ensued although the number of people gainfully employed in agriculture fell between 1910 and 1925 from 12,659,000 to 10,877,000.

A great part of the soil yields insufficient returns. If the yield were generally raised to a standard of efficient production, though not to the highest recorded yield, the cultivation of 100 million acres could be spared, viz. for

Wheat	Maize	Oats	Cotton	Hay
24	32	15	9	15 etc.

Instead of 22 million cows, 13 million would suffice, instead of 53 million pigs, 19 million would be ample.

If this increased yield were effected, a further 3½ million hands employed in agriculture would become superfluous. Half the amount of soil and half the agrarian workers would suffice to supply the country with the necessary quantity of foodstuffs and fibrous plants.

This process, which is being effected through the ousting of the small farmer by the bigger landowner, who produces cheaper but works at a profit in spite of lower prices, ought not to be impeded by an artificial raising of prices. A relief action for the purpose of retaining all farmers on the land would cost the town population 6,000 million dollars yearly and only be of temporary use to the farmers, for higher prices would lead to a more rapid extension of production and soon create a new crisis. Unsuccessful farmers must simply give up agriculture.

It is better for industry, if such people live in the towns and earn good wages than if they continue as farmers with their low standard of production. The supply of foodstuffs for the country is guaranteed by the increased productivity of the decreased number of farmers. Therefore no "farm relief". What is happening in agriculture is what is happening in every branch of production as a result of the employment of up-to-date methods of production.

⁵³) v. the Series of Articles on "The Farm Problem" by E. S. Mead and B. Ostrolenk in the "Annalist" of 1928.

The standpoint of the capitalists is here expressed with brutal frankness. It is naturally a downright lie that the State does not support industry in its competition with agriculture, for the high protective duties ensure the big profits of industry. But the farmers are small independent producers and are to make way for capitalist big production in agriculture!

Money Market, Speculation, Foreign Trade.

In our General Section we had occasion to speak of the problem of the money market in the United States. It appeared that the Federal Reserve Banks are incapable of restricting Stock-Exchange speculation.

This means that a tremendous Stock-Exchange crisis is inevitable sooner or later. Meanwhile the loan capital invested in securities (the so-called "brokers' loans") is on the rise.

Brokers' Loans

Millions of Dollars

31. January 1927	3139
30. July 1927	3642
31. January 1928	4420
31. May 1928 (Maximum)	5274
30. June 1928	4898
31. July 1928	4837
31. August 1928	5051
End September 1928	5500

The security turnovers are rising and the rates are going up uninterruptedly. The high rates for "tagged" on Change, 7 to 10 per cent., induce many industrial enterprises to invest their spare cash at the Stock-Exchange instead of depositing it with the banks. The crisis will therefore involve very wide circles.

Foreign trade shows no changes in the last few months.

Foreign Trade in Millions Dollars.

	Exports		Imports	
	1927	1928	1927	1928
May . . .	393	422	347	354
June . . .	357	389	355	317
July . . .	342	379	319	318
August . .	375	381	369	347

If we compare the foreign trade of the first eight months of the last few years, we shall get the following figures:

Foreign Trade in the First 8 Months

(In Millions of Dollars)

	1928	1927	1926	1925	1924	1923
Exports . . .	3137	3083	2960	3083	2697	2559
Imports . . .	2751	2811	2977	2729	2383	2650

Thus imports tend to stagnate while exports are slowly rising. It is an important fact, however, that among exports the finished goods are on the increase. In August more than half the exports were finished goods⁵⁴).

Geographically, Canada comes more and more to the fore. In the first six months of the year Canada exceeded Great Britain by 45 million dollars in its trade with the United States. Canada with its 9.4 million inhabitants bought goods of the United States to a value of 426 million dollars in the last six months. This was 18.1 per cent. of the total American exports. Imports from Canada amounted to 232 million dollars. We see that in spite of political borders Canada belongs economically to the United States.

⁵⁴) "Journal of Commerce" of September 29th, 1928.