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Economics and Economic Policy in the III. Quarter of 1926.

(Concluded up to 20. October 1926.)

By E. V a r g a.

I. General Section.

During the last few months world economics have been greatly influenced by the six months of the coal lock-out in England. There has been a great increase in the output, and particularly in the export of coal in the coal producing countries of Europe. In many places the steel and iron industry has also profited by the standstill in British production. When about two million workers in England drop out of the process of production for such a length of time, this is bound to effect the economic life of the whole world. The degree of economic prosperity has varied in the most important countries.

In the United States the wave of prosperity continues; there are only a very few preliminary signs of a possible decline. Building activity has obviously passed its climax. The new buildings erected of late cover the housing requirements of the towns. Even the motor car industry appears to have almost glutted its markets. Business is, however, still good in the United States, despite falling prices.

Economic life in England has been greatly damaged by the coal lock-out. The loss already suffered runs into several hundred millions of pounds. The permanent damage accruing through the loss of important markets for coal, iron, and textiles, cannot yet be estimated. The British bourgeoisie, intent upon dealing the trade unions a deadly blow, does not shrink from the cost.

In the coal-producing countries of Europe: Germany, Poland, and Belgium, the economic position has greatly improved in consequence of the English lock-out. It is difficult to ascertain how far other causes, apart from the coal dispute, have contributed to this improvement.

In Czechoslovakia and Italy, on the other hand, the economic situation has decidedly worsened. The Scandinavian countries, now returning to the gold standard, are also contending against acute economic difficulties.

The most important economic political event which has taken place is the formation of the steel cartel on the continent of Europe. The tendency towards the formation of international cartels, hitherto only successful on a small scale, can here record a decided advance. There is no doubt whatever that the steel cartel will soon be followed by similar agreements in the raw iron industry, and in the trades working up iron and steel.

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2. The effect of the English coal lock-out on the world economic situation.
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II. SPECIAL SECTION.

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3. France.
4. Italy.
5. England.
6. The United States.

British heavy industry, which is very little trustified owing to the absence of protective tariffs, and lacks a unifying organisation, remains at present outside of the continental steel cartel, which includes Germany, France, Belgium, and Luxemburg, and will also comprise, in the near future, Czechoslovakia, Poland, and Austria. The collective visit paid by German big industrialists to England in October, and the formation of a committee of English and German industrialists, may signify the beginning of England's inclusion in the European cartel, the more that the problem of the British coal mining industry, even should the miners be defeated, cannot be solved without an international agreement regarding coal exports.

The formation of the continental European steel cartel, and the economic and political rapprochement between Germany and France, is giving rise to various hostile economic-political combinations. We hear of a Franco-German bloc, of an Anglo-Italian bloc. The trustification of European heavy industry is a

severe blow to Italy, which has to import large quantities of coal, iron, and steel. And it is to be easily understood that England, which has for generations made use of Franco-German antagonisms in order to dominate the European continent, is seeking a counterweight against the Franco-German rapprochement. We are of the opinion, however, that everything is still in a state of flux, and that the interests at stake are too intermingled to be simply separated into a Franco-German bloc opposing an Italo-British bloc.

On the other hand, the formation of the steel cartel, and the rapprochement between Germany and France, signify in a certain sense a combination in Europe against the United States and their growing influence in Europe. But even this tendency is by no means consistent, for England and America act together on many points, whilst on the other hand the basis of the Franco-German rapprochement, the realisation of the railway bonds, cannot be maintained without the aid of the United States. The conditions are extremely complicated, and in a constant state of fermentation. There is only one constant factor: the struggle of all capitalist States for markets and for the sources of raw materials, and the pursuit of these aims by a preparation for new imperialist conflicts, thinly veiled by peace treaties and League of Nations ideology.

1. UNEMPLOYMENT.

In the countries whose currencies are not yet stabilised, as France, Belgium, and Italy, there is but little unemployment; in Italy, however, unemployment is increasing. In England the number of unemployed seems, according to all appearances, to be stated at too low a figure; the data of production do not in the least agree with the small number of unemployed as given in the official statements. To give one example only: In the textile industry one week's work alternates with two weeks' idleness. But this fact does not appear in the published statements on the number of unemployed.

Unemployment has greatly decreased in Germany. This is due to the English coal lock-out, the favourable season, the number of workers who have run out of unemployment benefit, and to a small extent to improved internal conditions.

That there is no actual lessening of unemployment is shown by a comparison of the figures for July (the last month for which data are available for all countries) with July 1925 and July 1924. A great increase in unemployment is observable in all countries. At the present moment there is no indication whatever; despite the relative stabilisation, that unemployment is tending to disappear as a permanent mass phenomenon in the period of decline of capitalism.

Currency Questions.

The process of stabilisation of the currencies has made further progress during the last few months. The non-stabilised currencies are, in general, tending to rise in value, with the exception of the Spanish which has slightly depreciated. Of the currencies subject to the greatest fluctuations, the French franc has been comparatively stable of late, except for the daily fluctuations. The Polish currency has improved by approximately 15 per cent in relation to the dollar; the Italian currency has recovered from the depreciation of the second quarter, and now stands at about the same level as before the last drop, about 4 cents to the lira. Denmark and Norway have been endeavouring to restore the gold standard; Denmark has already attained this object, whilst Norway has still some considerable way to go.

The stabilisation of the Belgian franc appears to be on the point of being realised. Belgium will receive a large foreign loan from England and America, a sum of 100 million dollars is mentioned. Besides this, the central banks of issue, headed by the Bank of England, will open a rediscount credit to the Belgian bank of issue, to the amount of 30 million dollars. The German Reichsbank is taking part in this action in support of the Belgian franc. This represents an important innovation in international currency policy, and may be taken as testimonial from the Anglo-American financial world, to the effect that the German currency is once more so firmly established that the German bank of issue can participate in international actions in support of currency.

The coal lock-out has been disastrous to England's trade balance, and the Bank of England has been obliged to place fairly large amounts of gold upon the world markets during the last few weeks, in order to maintain the pound at par. We are

not aware whether the 300 million dollar credit agreed upon in America, at the time of the restoration to the gold standard, has already been drawn upon by the Bank of England.

The currency reform in India is a matter of special interest. The Indian currency is to be stabilised at the rate of one shilling and sixpence to the rupee, on a gold basis. Gold is, however, not to be put into circulation, but the basis is maintained by securing the gold parity of the rupee by means of the sale and purchase of gold. The money in circulation is to be paper and silver coins as hitherto.

This currency reform has evoked much opposition in the bourgeois wing of the Indian nationalists. India is well known to be rich in gold. There is no country in the world where gold has been employed in such gigantic quantities as treasure, for purposes of ornament, and as material for objects of art. This oppositional wing is of the opinion that the introduction into India of gold circulation would be likely to draw enormous quantities of gold from its form as treasure, and change it into the form of money, so that a colossal amount of capital would be released for Indian economic life, and India would be no longer dependent on the import of capital, but would become one of the greatest of capital exporting countries. This would, of course, be against the interests of the British banking world.

Prices.

In those countries whose currencies have been stable for some time, prices are falling steadily. In the United States the price index figures have fallen by 10 points since the beginning of the year. It is a peculiar problem, how a lasting economic prosperity is compatible with steadily falling prices, the falling prices being chiefly those of industrial articles. In Germany this tendency has been counterbalanced by the increased duties. The price movement in the countries with fluctuating currencies naturally follows the rate of exchange.

2. THE EFFECTS OF THE ENGLISH COAL LOCK-OUT ON THE INTERNATIONAL ECONOMIC SITUATION.

As we have already pointed out, the lock-out in the British coal industry has had far-reaching effects on world economics. These effects may be recorded as follows:

1. Greatly increased output in the coal producing countries of Europe.
2. A great clearance of the stocks at the pitheads.
3. A complete permutation of the direction of coal exports in the world's markets.
4. Increase in the price of coal.
5. Shortage of coal and export prohibitions in Europe.
6. Increased shipping freight rates.

The general result is improved conditions in those countries in which heavy industry plays an important part.

1. The following table gives a survey of the world's production:

The world's output of coal
in million tons

	En-land	Germany	France ¹⁾	Poland	Belgium	Czecho-Slovakia	United States
Monthly average							
1913	24,3	11,7	4,8	3,0	1,9	1,2	43,1
1923	23,5	5,2	4,0	3,0	1,9	1,0	49,3
1924	22,6	9,9	4,9	2,7	1,9	1,2	42,3
1925	20,6	11,1	5,1	2,4	1,9	1,1	44,2
1926 April	21,9	10,1	5,3	2,2	2,0	0,9	43,8
May	—	10,7	5,0	—	1,8	0,9	42,7
June	—	11,8	5,5	—	2,1	1,0	46,2
July	—	13,1	5,6	2,6	2,1	1,0	47,3
August	—	12,9	5,5	2,7	2,1	—	—
September	—	12,9	—	—	—	—	—

Although only the data up to August are available, it will be seen that there is a greatly increased output in all the coal-producing countries as compared with April. The greatest increase

¹⁾ With the Saar area.

is, of course, to be recorded for Germany, England's chief competitor in the world's markets. Here the production has risen from 10 million tons to 13 million.

2. The consumption has been greater than the current output, so that the stocks at the pithead in the Ruhr area, estimated at 9 million tons before the lock-out, have been nearly cleared out.

In the Ruhr district only the stocks of fine coal and coke are left in any large quantities. But even these less marketable sorts have had ready sales of late.

The Belgian and Upper Silesian coal reserves have been completely cleared out, so that export is now being carried on direct "from the pick".

3. The coal lock-out has completely altered the direction taken by coal export in international trade. Whilst in normal times England is the main coal exporting country of the world, at the present time coal is being imported into England from every source.

The following figures give an idea of the comparative quantities exported and imported. England's normal coal export is, in round figures, 6.5 million tons a month. This represents the main contingent of all coal exported. The lock-out has reversed the movement of coal. By the end of August England had imported 7.6 million tons, the quantity increasing from month to month. In August alone nearly 4 million tons were imported. In September the import was equally great. It may be assumed that by the end of October the total import will have increased to 15 million tons.

According to statistics — which however are not absolutely reliable — of the coal thus imported one half came from the United States, and the other half from Germany and Poland.

Besides this direct import into England, there is of course a great deal of coal exported to the markets hitherto supplied by England. Germany has the biggest share in this trade. German coal export has developed as follows:

Coal export (net) of Germany (in 1000 tons):

Monthly average January/April 1926	768
May	1580
June	2364
July	3522
August	3734

After Germany, Poland has profited most by the coal lock-out. Although the export of coal from Poland is only somewhat more than half that from Germany, in comparison with its total output Poland exports a very much greater proportion than Germany. In August Poland's export was four-fifths of its total production:

Poland's coal export (in 1000 tons):

In the first half of 1926, monthly average	734
June	1391
July	1991
August	2177

It is difficult to estimate the money value of these exports. The sum of 20 shillings a ton may be roughly estimated, signifying for Germany an increased monthly income of about 60 million marks, for Poland about 40 millions. This increased export has greatly influenced the Polish rate of exchange.

4. It need not be said that prices have risen greatly in consequence of the absence of British coal, England having hitherto produced rather more than one half of the total output of Europe. In England itself the price of coal is about four times the normal price. In Germany, where the coal prices are controlled, the coal owners have succeeded in having the prices raised for home consumption.

The English coal dispute has caused a boom in the German coal trade, especially in the Ruhr valley. This is all the more the case as the rationalisation of the mines has greatly increased the output per miner in comparison with pre-war times. Whilst 420,000 miners were employed in the Ruhr mines in 1913, in June 1926 there were only 366,000; and this number is producing almost the same as the 420,000 before the war. More miners have since been employed, and all shifts are again being worked, so that it is possible to speak of a boom in the coal industry of the Ruhr. A boom obviously yielding magnificent profits to the coal owners).

Owing to the increased inland prices for coal Belgium has dispensed with the reparation supplies; and is obtaining coal in the open market.

5. Coal shortage. Although the production of coal has been greatly increased everywhere by the employment of more workers, by working all the ordinary shifts and putting constant pressure on the miners to work extra shifts, it nevertheless seems as if the increased output on the Continent does not suffice to cover all requirements. Coal shortage is being complained of in one country after another. In Belgium the export of coal was restricted in August, the amount leaving the country not being allowed to exceed the April export. The export of coal from France to England has been entirely prohibited. There is a great shortage of coal in Denmark, Norway, and Western Sweden, where recourse has had to be made to wood as fuel. Various gasworks have had to restrict their production. In Germany coal has become very scarce in some districts, especially in the South and it is feared that the supply is insufficient for the winter. In order to alleviate the coal shortage in South Germany, the Rhenish Westphalian Coal Syndicate is now permitting its South German customers to buy Silesian coal. (The Ruhr mines sell coal in South Germany solely to buyers undertaking to use no other coal.) The Coal Syndicate is at the same time providing for a fair distribution of the coal, and prevents individual dealers or consumers from laying in exorbitant stocks.

The output of a full worker amounted to even 5.5 per cent more than the average of 1923/14.

6. Increased shipping freight rates. The reversed current of the world's coal traffic has greatly increased shipping rates, and has even caused a shortage of tonnage. The cause of this remarkable state of affairs — remarkable because less coal is being transported than usual — is the fact that under normal conditions the ships conveyed coal from England to other countries, returning with other bulk goods as return cargo: wood, raw materials, grain, etc. The ships now carrying raw materials and foodstuffs to England have no bulk goods as return cargo, and are forced to carry ballast on their return voyage, with the actual result that the tonnage is only half utilised. The following table shows the development of shipping rates:

	1926	1925
January	100.0	114.5
April	88	104.2
May	88.2	98.2
June	93	91.7
July	101	94.9
August	106.7	95.9
September	111.6	98.9

(Economist.)

This turn in the freight charges commenced in June, when the rates exceeded those of the year before. Further considerable rises in the shipping rates are probable in the coming months.

To sum up, it may be said that the English coal lock-out has brought about exceedingly far-reaching changes in the world's whole shipping traffic. The consequences will be felt long after the dispute has been ended.

3. INTERNATIONAL REGROUPINGS, REPARATIONS, AND INTERALLIED DEBTS.

The post-war development of world capitalism is characterised by vast regroupings of forces. Europe's importance has diminished, that of the other continents increased. The exchange of commodities and the export of capital, — these two leading forms of intercourse between individual national capitalisms whose main paths at one time all ran concentrically towards Western Europe — are now more and more pursuing a circular course around Europe.

Europe's export, which in 1913 was two thirds of the world's whole exports, had sunk by about one half by 1925. Within Europe itself the economic preponderance of the various States is continually shifting. German capitalism has made great progress during the last few years, but has not solved its main problem, that of finding markets. It is fettered by the Versailles peace treaty and the reparations. English capitalism is suffering severely from the deflation, which forces it into struggle with the working class, and from the growing loss of colonial super-profits. France is struggling to stabilise its currency. Italy is ostensibly striving to find work for its superfluous population, but its real object is imperialist expansion. All these countries are debtors to the United States. And all of them are glancing fearfully across to the Soviet Union, whose markets they so urgently need, but whose revolutionary influence they dread.

These multifarious and complicated relations are forcing the States in question to seek new solutions, new alliances. Carefully concealed behind protestations of peace and League of Nations Ideology, they are all preparing for fresh wars...

Whilst the governments are defending the interests of their bourgeoisie in the League of Nations by means of diplomacy, and outside of it by means of suave phrases and punitive expeditions, the bourgeoisie itself is taking a direct hand in foreign policy. The heavy industrial bourgeoisie creates the steel cartel. German industrialists journey to England and America. The fight for markets and for the sources of raw materials is in full swing. We attempt to indicate below such of these efforts as have already taken a concrete form.

The increase of the reparation payments to 1500 million marks.

It was agreed that Germany should pay 1200 million gold marks in the third reparation year. As a matter of fact, through voluntary agreement, Germany has pledged herself to pay 300 million marks more, 1500 million marks!

How has this come about?

In the London agreement we read (subsection 1 to section 1, chapter 1, § 2):

"Should the proceeds of the controlled sources of revenue... (duties, levies on brandy, beer, tobacco, and sugar) exceed one milliard in the third year, the payments made by the treasury are to be increased in each case by a third of this excess, but not by more than 250 million marks."

And now the selfish financial policy of the German bourgeoisie, which has insisted on basing state finance precisely on these indirect taxes, has actually brought about the unexpected, and has provided the basis for the increase of the reparation payments.

The revenues from the duties pledged to the reparation payments have been as follows during the past half year:

Tobacco	220	million marks
Sugar	142	" "
Beer	142	" "
Brandy	93	" "
Duties	414	" "

Total 1011 million marks

For the whole year these taxes will yield more than double the one milliard anticipated by the Dawes plan, Germany will thus pay 250 million marks extra in each of the two coming years — the fourth and fifth reparation years. If direct taxation had been increased instead of this indirect taxation, these extra payment would not have been demanded of Germany. These same German national politicians, who preach eternal hate against the Entente, have created this situation by their taxation policy in favour of the possessing classes, to the great joy of the French!

The German government has succeeded, by means of a special agreement, in having the extra payment accepted in the form of twelve monthly instalments paid this year, totalling 300 million marks, instead of the two payments of 250 million marks in the fourth and fifth reparation years. The agreement provides that these instalments are to be paid in commodities only, not by means of cash transfer. It is characteristic of the discipline maintained by the German bourgeois press that no excitement was shown anywhere at the fresh burdens thus imposed upon Germany; and this agreement between the government and the reparation agents has been represented as a success (!) for Germany, which has received a very high rate of discount in return for its readiness to pay in such good time!

For the rest, the payments for the second year of reparations have been made without difficulty, as follows:

243 million marks by means of the 26 per cent levy to England and France;

65 million marks by means of cash transfer; (for the first time!);

656 million marks by means of commodities.

The remainder has been paid in the form of interest on the Dawes loan, costs of occupation, etc. So far the Entente bourgeoisie has succeeded in robbing the German working people with comparative ease.

Thoiry: the mobilisation of the railway debentures.

The Franco-German rapprochement, connected in all our minds with the catchword of Thoiry, represents the political

reflection of the growing economic connection of the German and French bourgeoisie. The Versailles treaty destroyed many economic connections. It dismembered the potash monopoly by giving Alsace, and the Alsatian potash deposits, to France. It separated German coal from Lorraine ore. Since France has failed in her attempt to crush Germany by the occupation of the Ruhr, the German and French bourgeoisie have restored many connections by means of a number of private agreements and negotiations: the potash agreement, steel agreement, co-operation in the reparations in kind in the building industry, etc., and have again interwoven their common interests.

This change in the economic basis is only penetrating with great difficulty into the ideological superstructure — politics. The big bourgeoisie of both countries have already sworn close friendship, but their political parties, their press, and the political hirelings on both banks of the Rhine, continue their old warcry, if not quite so loudly as before. The efforts towards friendliness between Stresemann and Briand are the political expression of the changed economic basis.

What is the real import of Thoiry? According to all reports the following: Germany is prepared to give financial aid to France for the purpose of stabilisation, in return for which France evacuates the Rhine country in the near future, and returns the Saar district to Germany immediately on receipt of the sum prescribed by the peace treaty! Besides this, the inter-allied military control is to be removed, whilst Germany carries out her disarmament, and submits to a strict control of her armaments by the League of Nations.

How can Germany help France financially? By the mobilisation of the railway debentures.

In accordance with the Dawes plan, debenture certificates for the German state railways were issued to the value of 11 milliard gold marks, and placed in the hands of the Belgian trustee Delacroix. This debt is to be liable — after the expiration of the fourth year — to 3 per cent interest and 1 per cent amortisation.

But as a matter of fact, according to the Dawes agreement, it is not Germany that has the right to sell these debentures, but the trustee. Formally, Germany has no right to say a word in the matter at all!

Why is Germany's help required?

The right possessed by the Entente to sell these debentures is incompatible in a certain sense with the fundamental principle of the Dawes plan, which permits transfer only when this does not endanger the German currency. Should the debentures be sold, the reparation debt is converted from an inter-State obligation to a debt owing by the German state to private persons, and interest and principle will have to be paid, whether the German currency is thereby endangered or not, as the individual debenture holders will insist upon their interest. Up to the present Germany has made all reparation payments from the foreign loans. It is by no means certain that Germany is capable of paying the reparations alone. Hence the resistance of the German public against the mobilisation of the railway debentures, that is, against taking up another large foreign loan in favour of the Entente. We repeat: Germany has no formal right to interfere in the matter. But nobody would buy the debentures if Germany should raise an alarm against it. Another difficulty is that these debentures only bear 5 per cent interest, so that they would only sell at a very low rate, perhaps 70 to 80 per cent, in view of the fact that at the present time good German loans bear 7 per cent interest and more. For Germany the rate of sale is a matter of indifference, since this makes no difference to the payments imposed upon her. France, who is urgently in need of money, would raise no objection. England, who is not in such urgent need of money, will make difficulties since she can hope to receive the full amount later on, when Germany's credit has improved.

There is of course no thought of throwing the amount of 11 milliards on the market. The capital market of the world is much too small for such a sum. 1½ to 2½ milliards may be tried, but even this amount cannot be placed without the participation of American capital.

Interallied Debts and the Sale of the Railway Debentures.

Without the participation of America, it will be difficult to dispose of the railway debentures to any great amount. The American government has, however, adopted the standpoint that France is to receive no financial aid until she has ratified the Washington agreement.

Poincaré has made repeated attempts towards the ratification of the debt agreement, but has invariably been compelled to retreat before the disapproval of public opinion. The French people, impoverished and embittered by the inflation, cannot understand why it should pay the debt incurred by a joint war. It is in vain that Mellon, in his reply to Peabody, has brought forward statistics proving that all debts originating in the period before the armistice have been cancelled by the Mellon-Berenger Agreement, and that France is only called upon to pay the interest and principal of the debts contracted since. The French people will not hear anything whatever of payments to America, especially as long as there exists the danger that Germany will not pay the reparations. Hence the demand for the "sauvegarde" enactment, that is, France's payments are to be made dependent on the receipt of the reparations from Germany, and for the "transfer" enactment, that is, France can only be required to pay her debts — in the same way as Germany her reparations — so long as the stability of her currency is not endangered by the transfer.

Poincaré can wait for the time being. The franc has been stable of late, the budget approximately balanced. A few small loans in Holland and Switzerland have made it possible to replenish the Morgan fund again to its original amount. The French currency is not threatened by any immediate danger. Many French people hope that the Congress elections in November will bring a changed attitude towards the French debt question in America. And as a matter of fact a few voices — Baker, Peabody, Simonds — are being raised in America for the cancellation or for fresh regulation of the debts. The great demonstration of war disabled soldiers against the American debt demands made a great impression in America. But Mellon, after four months in Europe, reported that Europe, especially France, was very well off, and that the debt agreement should not be altered.

"In this connection Mellon expressed himself as opposed to those Franco-German plans aiming at putting the French currency on a sound basis by means of the one-sided mobilisation of the German railway debentures. The American government could not support this project unless France ratifies the Washington agreement, and then applies to the American or the Anglo-American money market for a large currency loan, for which security is to be provided by the French share of the German state railway debentures. It is not advisable to reexamine the whole of the European debt question until the European currencies have been restored to a sound basis, and it is possible to judge the actual solvency of Europe¹⁾."

The great American bankers, and the European ambassadors of the United States who met at Washington at the beginning of October, are said to share Mellon's opinion. France is not to receive help until she has ratified the agreement. This view is contradicted by the fact that a gigantic international consortium is alleged to be in course of formation in London for the purpose of placing the German railway debentures on the money market. The members of this consortium are stated to be: Schröder, London; Schröder, America; Blyth Witter and Co., America; Union Parisienne; Dresdner Bank, and one large money institute in each of the following countries: Holland, Belgium, Switzerland, Czechoslovakia, Sweden, and Austria. Stresemann's paper, the "Tägliche Rundschau"²⁾ writes that it can safely be taken for granted that the German State railway debentures are the matter in hand. It is rather striking that the really large American banks of issue are conspicuous by their absence from the list. It remains to be seen what will come out of the affair.

The French debt question has thus made no progress during the last few months; neither the English nor the American agreement having been ratified. The situation remains unchanged.

4. INTERNATIONAL CARTELS.

The efforts being made for the formation of international cartels continue in full force and have led to successful results within the last few weeks. The continental European steel cartel was concluded on 1. October, after two years of continuous

negotiations. There is little doubt that this will be speedily followed by a crude iron cartel, and by combines merging the most important semi-manufactures: rails, wire, plates, sheet iron, etc.

The driving force behind these efforts toward international cartels is German heavy industry. Although no official documents have been published, it appears certain that the German heavy industrialists finally sacrificed a part of the quota originally allotted them in order to satisfy the Belgian demands, which had so long prevented the conclusion of the agreement.

It is not easy to understand why German heavy industry has been so urgent in this matter. The fact that the disproportion between producing capacity and markets is greater in the German heavy industry than anywhere else would rather lead to the contrary attitude. It seems, however, as if German heavy industry hopes to be able to earn high profits after the rationalisation has been carried out, the more so that the lower rate of German wages will decrease the costs of production as compared with those in France's heavy industry, and further hopes to extend its sales in the world's markets, despite the heavy penalties imposed by the agreement on those exceeding the quota.

The successful results of the rationalisation may be seen from the following table:

Crude steel	
Daily output per worker	
August 1925	1230 tons = 100
August 1926	1769 tons = 143,8

That German heavy industry is actually preparing to exceed its quota, despite the high fines, may be seen from the estimate of one of the best known Rhenish heavy industrialists, who calculates the fine to be paid by Germany at 8 to 12 million marks for the first year³⁾.

The necessity of cartels, from the standpoint of the heavy industrial bourgeoisie, is based on the great discrepancy between producing capacity and actual production. The capacity of continental heavy industry has increased by about 30 to 40 per cent as compared with 1913, whilst the production remains behind that of 1913.

The disparity between producing capacity and production has caused severe competition in the world market. Whilst the home markets of many countries are protected by tariffs, or by the depreciation of the currency, the effect of the over-production is visible in England, where before the strike the steel prices were only about 20 per cent higher than in 1913, though the wholesale index figure was 150.

This does not necessarily mean that all export was at a loss, for costs of production had meanwhile been reduced by technical improvements. But the situation has at least been such that the higher prices resultant on the formation of international cartels could be justified in the eyes of the public beforehand.

The disproportion between producing capacity and actual production is not the same in all countries. It appears to be the greatest in England. Birkett, of the federation of English iron and steel industrialists states the producing capacity to have been utilised to the extent of 54 per cent for iron in April 1926, 60 per cent for steel⁴⁾. In Germany production is only 70 per cent of the capacity, even since the improved conditions of the past few months. For November an 80 per cent utilisation of the quotas of the crude steel association has been decided upon. The special position held by the German steel industry is reflected in the whole structure of the international cartel.

The Iron Industrialists and the Government.

The formation of the international steel trust shows more clearly than ever that the state apparatus of the bourgeois state, with all its ministries, parliaments, etc., is merely the executive organ of the bourgeoisie. Unanimous reports show that this international contract contains a great number of political tariff agreements, which will have to be included in the impending Franco-German trade agreement. On the other hand, it is plain that the negotiations for the Franco-German trade agreement have been unsuccessful for years for the simple reason that hitherto the

¹⁾ "Bergwerkszeitung". 29. September 1926.

²⁾ 16. October 1926.

³⁾ Ludwig Gebhard: Effects of the Iron Pact. Magazin der Wirtschaft. 7. October 1926.

⁴⁾ "Deutsche Allgemeine Zeitung". 6. October 1926.

German and French heavy industrialists had not yet arrived at an understanding among themselves. It will be interesting to observe how the German and French parliaments will promptly proclaim this private international legislation, arranged by the heavy industrialists, as the law of democratic countries.

League of Nations fanatics, social democrats, and trade unionists, even go so far as to claim the authority of the League of Nations for these private arrangements among the heavy industrialists of the Continent. The Executive committee of the I.F.T.U. has demanded the participation of the workers in controlling the activities of the international steel cartel; but this has of course been rejected by the bourgeoisie. The German bourgeoisie, through its mouthpiece the "Bergwerkszeitung", designated the suggestion as "presumptuous", whilst the French bourgeoisie observed more politely that it was "superfluous", since competition remains free among the countries, and among the various producers within any country⁹⁾.

Loucheur, in many cases the spokesman of the French reformists, demands ("L'Usine", 2. October 1926) the deposit and registration of the steel cartel agreement, and of all similar agreements, with the League of Nations. The demand is on the same lines as the super-imperialism of Kautsky, the idea that a peaceful capitalism is possible by means of international cartels and peace agreements among the various countries, under the aegis of the League of Nations.

As opposed to this, we are reminded by François de Wendel, a great industrialist of Lorraine, that there was an agreement between the French and German metallurgical concerns even before the war, and that this agreement did not prevent the war¹⁰⁾.

The attempts of Loucheur and the social democrats to maintain that the formation of international cartels tends to promote peace, serve no interests but those of the trustified heavy industries.

The structure of the international steel cartel.

The following data on the structure of the international steel cartel have been taken from newspapers and periodicals. We have no guarantee that these statements actually accord with the agreements. Indeed, it is certain that in one point, at least, they do not accord. We are told, for instance, that the cartel agreement contains no price regulations. It may be that the actual text of the agreement contains no price regulations, but this has not prevented prices from rising at once. All the talk about free competition among the contracting parties is obviously dust in the eyes of public opinion. With this reservation, the structure of the cartel may be described as follows:

The production quota for the five participators: Germany, France, Belgium, Luxemburg, and the Saar district, is determined by a percentage to the total production, the percentage varying with the total production.

The initial output is agreed upon at 27,528,000 tons, the quotas being distributed as follows:

Country	Quota per cent	Present output per cent
Germany	42.7	40.8
France	30.87	30.4
Belgium	12.56	12.5
Luxemburg	8.15	8.0
Saar district	5.72	8.3
	100.00	100.0

The purport of this agreement is as follows: Belgium has been conceded a comparatively very high quota, making it possible for the producing capacity of Belgian heavy industry to be almost completely utilised. The counter concession on the part of Belgium is that she has a very small share in the possible increase of production.

Security for the observance of the quota is given by a complicated system of levies. The most important of these is the sum of one dollar for every ton produced, to be paid into a clearing fund. Every country adhering strictly to its quota receives punctually back again at the end of the year the sum paid in. Should a country exceed its quota, a fine of 4 dollars

per ton must be paid to the clearing fund. Should a country produce less than its quota, it receives a premium of 2 dollars for every ton not produced. At the end of the year the non-production premium is first paid out, and the remainder distributed equally in accordance with the quota.

The purport of this agreement is as follows: It is assumed that the cost of production will not drop so far beneath the world's market price in any country (should it not be found possible to rule the world's market prices by means of a monopoly including England and the United States) that production could still be profitable in face of a fine of four dollars on every ton exceeding the quota. We have seen that this calculation is not quite correct; the German industrialists are intending to exceed their quota, despite the four dollars.

The 2 dollar premium might have the effect of inducing works to lie idle, and exist as parasites on the 2 dollar premium. In order to prevent this, the cartel agreement does not permit an under-production of more than 10 per cent. Should the under-production of a country exceed 10 per cent, it only receives 10 per cent the first year. Should the under-production continue, the premium is reduced from year to year by 20 per cent, ceasing altogether after 5 years.

The agreement is terminable on three months notice:

1. when the share of the total European production falling to the contracting countries is 5 per cent less than I. quota 1926;
2. when the total quota for a half year is less than 13 $\frac{1}{4}$ million tons.

The international steel cartel has a president (Mayrisch, director of the Arbed) and two offices: one for managing the clearing fund, the other for controlling the participators.

Besides these general agreements, special agreements have been made between the German and French heavy industries. It has been known for some time that the German steel works association undertakes to buy a certain percentage or fixed quantity of the products of Lorraine heavy industry, for import into Germany. At first this was so arranged that only half of the customary duty was paid on these quantities, the remaining half being borne by the German heavy industrialists; it is now reported that the French are paying the whole duty.

Another point of the agreement stipulates that in return for this the French duties on finished iron goods, chiefly machinery, are to be reduced in favour of Germany. On the other hand, the German tariff on steel and iron is not to be raised. The agreement is reported to contain the following provision regarding this point:

"Should Germany raise her duties on steel products, three months notice of withdrawal from the agreement can be given at any time by any of contracting parties, each contracting party then receiving back full freedom of action with its government in regard to tariff questions¹¹⁾."

We thus see the decisive rôle played by the cartel agreement in all questions of tariff policy. The president of the new cartel, Mayrisch, states clearly and emphatically:

"The crude steel combine cannot be thought of as practically existing until the Franco-German trade agreement has been concluded."

The quantitative significance of the new international cartel will be seen from the fact that an output of approximately 30 million tons is calculated to yield a turnover of 3 milliard marks, the price assumed to be 100 marks per ton. In this case the payments into the pooled fund would amount to at least 30 million dollars. A rise in price of only 10 per cent would thus mean an increased revenue of 300 million marks yearly for the heavy industrialists.

The smaller steel producing countries: Czechoslovakia, Austria, Poland, and Hungary, have not yet formally joined the cartel, but the preliminaries are already settled. These will doubtless be allotted a quota corresponding to their production, this quantity then being added to the total quantity decided upon for the Western countries.

The Iron Consumers and the International Cartel.

The inevitable rise in the prices of iron and steel is first felt by the industries working up these materials. Since the existence of the international cartel depends on parliamentary consent to certain tariff agreements, it was found necessary to come to a previous understanding with the iron working in-

⁹⁾ Bull. Quot. 13. October 1926.

¹⁰⁾ "Avenir", 3. October 1926.

¹¹⁾ "Börsen Courier", 14. August 1926.

dustry, in order to avoid great opposition. In Germany this understanding had been arrived at as early as 20. May 1926, and was published on 5. October, after the conclusion of the international cartel¹¹). Its main clauses are the following:

1. "The agreements are not intended to cause a rise in the home prices of the German syndicates or trade associations, but both the iron producing and the iron working industries, in observing this agreement, will utilise the opportunity given by any improvement in economic conditions for the purpose of obtaining an appropriate benefit."

2. "In order to secure the influence (invariably recognised as necessary) exercised by the private international iron agreements on the state trade agreements, both industries agree that the consent of the German government to the private iron agreement is to be made dependent on the Franco-German trade agreement being made to include, within a reasonable time, French concessions facilitating the export of the German industries working up iron — these concessions to include at least the most favoured country clause de facto — so that favourable export possibilities to Franco are secured."

3. "The United Steel Works Ltd., that is, the German steel trust, undertakes at the same time, in a special agreement with the association of the iron working industries, not to exceed its present share in the industries working up iron. The United Steel Works undertake to abstain from penetrating systematically into the branches of industry working up iron (formation of vertical trusts). The trust will make no further extensions among the undertakings working up iron in further detail, but retains the organic structure of the machine factories, etc. already included in the United steel trust, undertakes at the same time, in a special agreement in the total production of the iron working industries by the United Steel Works is not to be exceeded."

4. "Under these conditions the industries working up iron have no intention of demanding an autonomous alteration of the present German iron tariff, so long as this tariff is indispensable to the iron producing industry as a basis for its international negotiations¹²."

The purport of this understanding is approximately as follows:

The industries working up iron consent to the existing high duties on iron so long as they receive steel at world market prices for export purposes. French heavy industry guarantees the most favoured nation clause to the German machine industry. The steel trust promises the iron working industry not to increase its present participation in iron refining. The result of this agreement is that the home markets are being exploited in perfect agreement by the iron smelters and the iron ware manufacturers. It is probable that similar agreements have been made in France between the iron producing and the iron working industries. So far as we have been able to make a survey of the French press, the resistance manifested at one time by the French iron working industry, as expressed in the "Usine", has ceased.

The Steel Cartel. England and America.

The attitude adopted by the British steel industry towards the international cartel is still ambiguous and indefinite. It is certain that the international cartel is ready and anxious to include England. The free trade wing of the British bourgeoisie maintains the standpoint that the formation of the international cartel, and the resultant rise in prices for iron in the world market, will increase the chances of better sales for British iron in the markets of the world. It is pointed out that neither the formation of the American steel trust nor of the German coal syndicate enabled either of these powerful organisations to gain a dominating position in the international market; they were not even able to do any permanent damage to the British iron and coal industry, though this was not organised in a trust¹³). Others are again of the opinion, as expressed in the "Times" for instance, that it would be advisable for the leaders of British

heavy industry to reconsider their position. It need not be said that the formation of a national cartel in England would have to precede affiliation to the international cartel.

The American bourgeoisie, in so far as can be judged from the statements of the press, is benevolently neutral towards the cartel. Here two points must be taken into account: 1. America's export of iron and steel is only a fraction of its home sales; 2. American capital is invested to a great extent in German heavy industry, and will probably take part in French heavy industry to the same extent before long. In the United Steel Works alone the American share amounts to half a milliard marks.

On the other hand, there is severe competition between American and European iron industrialists in certain markets, for instance in Central and South America. As the production of the United States exceeds that of Europe by half, a lengthy period of depression in America might lead to a forced export from America, and this might sweep away the whole foundations of the European steel cartel.

The development of iron and steel production.

We give below a survey of the output of the leading iron and steel producing countries:

Iron and steel output in 1000 tons.
Iron:

	England	Belgium	France	Germany	Luxemburg	U. S. A.
Iron:						
Monthly						
average 1913 . . .	869	207	756	910	212	2601
" 1923 . . .	630	182	442	411	117	3392
" 1924 . . .	620	234	638	651	181	2634
" 1925 . . .	528	212	706	848	195	3082
1926 April	548	288	768	668	197	3505
1926 May	89	300	783	736	195	3637
1926 June	42	295	778	720	211	3287
1926 July	18	307	792	768	211	3275
1926 August	14	—	814	850	—	3247
1926 September	—	—	—	—	—	—
Steel:						
Monthly						
average 1913 . . .	649	205	581	981	101	2564
" 1923 . . .	719	190	415	525	100	3682
" 1924 . . .	696	238	576	820	157	3103
" 1925 . . .	626	201	618	1016	174	3741
1926 April	672	268	683	869	181	4190
1926 May	46	272	667	901	170	4009
1926 June	35	298	694	917	190	3811
1926 July	33	296	718	1022	192	3710
1926 August	52	—	732	1141	—	—
1926 September	—	—	—	—	—	—

5. THE WORLD'S CROPS.

The data of the northern area of the earth are now nearly all to hand, and the crops may be estimated as follows¹⁴):

Europe's bread corn crops. Wheat and rye — excluding the Soviet Union — were less than last year's crops by 51 million double hundredweights. This is 10 per cent of last year's yield. On the other hand the harvest in North America — the United States and Canada — is greater by 40 millions than last year's. The crops of the entire northern hemisphere yield 20 million double cwt. more wheat than last year, and 27 million double cwt. less of rye. The inexactitude of the figures, which represent estimates, not measured quantities, only permit one to state roughly that the crops are equal to those of last year, having regard to the fact that the yield in the Soviet Union is somewhat higher than last year¹⁵).

¹⁴) September bulletin of the International Agrarian Institute in Rome.

¹⁵) The estimates issued by the American ministry of agriculture coincide excellently with these estimates Journal of Commerce. 12. October 1926.

¹¹) "Bergwerkszeitung". 13. October 1926.

¹²) "Börsen Courier". 5. October 1926.

¹³) See "Economist". 2. and 8. October. "Statist". 8. October. "Times". 7. October 1926.

The following table gives a survey of the crops, classified according to area:

	Wheat (million double cwts.)		% of the years	
	1926	1925	1920	1925/24
Europe (23 countries)	268,5	287,6	—	—
North America (2 countries)	337,0	293,0	—	—
Northern hemisphere (35 countries)	724,0	703,0	102,9	108,8

The French crops are not included in the figures here given for the large countries. In France the harvest is 23 millions less than last year, so that there is a total minus of approximately 40 million double cwts. —without the Soviet Union.

	Rye (million double cwts.):		% of the years	
	1926	1925	1925	1920/24
Europe (21 countries)	190	222		
North America (2 countries)	14	16		
Northern hemisphere (20 countries)	204	238	85,8	106,3

The figures for France and Denmark are missing.

	Barley (million double cwts.):		% of the years	
	1926	1925	1925	1920/24
Northern hemisphere	227	239	93,3	110,4

	Oats (million double cwts.):		% of the years	
	1926	1925	1925	1920/24
Northern hemisphere	451	483	93,5	104,7

The displacement of approximately 45 million double cwts. of bread corn from Europe to America signifies a worsening of the European-American trade balance to the amount of about one milliard gold marks.

Within Europe itself, similar changes have taken place. Italy and France have much worse harvests than in 1925. Italy has harvested 10 million double cwts. less of wheat. The final data for France have not yet been published, but the provisional estimate places the decline at 23 million double cwts. The bread corn crops of the other countries maintain their comparative proportions.

The poor crops, combined with the anxiety not to send money out of the country for foodstuffs, have led to the compulsory introduction of war bread in France, Italy, and Belgium. Pure wheaten bread is prohibited; rye or other flour is to be added, and the wheat flour prescribed is practically wholemeal.

The prices for agricultural products during the last few months have shown a falling tendency for wheat, barley, and oats, especially in the American markets, where the prices, as a result of last year's poor crops, have been maintained at a higher level, than are justified by the world's market prices.

Development of the grain prices during the last few months (in gold francs per double cwt.):

Beginning of month	Wheat Chicago	Rye Minneapolis	Barley Chicago	Oats Buenos Aires	Maize Buenos Aires
	1926 June	29,56	17,34	14,11	14,84
July	26,52	18,87	14,03	14,80	13,76
August	26,49	20,10	15,83	14,17	14,38
September	24,90	18,77	12,38	13,91	14,02

In October there was a rise in the price of wheat.

The following table gives a survey of prices at the beginning of September, and is based on the crops of the last 4 years, compared with pre-war figures.

	Average		Beginning of September		
	1913	1923	1924	1925	1926
Wheat					
Winnipeg	16,76	21,65	25,80	29,00	27,73
Chicago	17,19	20,04	23,02	29,04	24,90
Liverpool (Manitoba)	20,90	25,15	30,26	32,15	30,99
Rye					
Minneapolis	11,55	13,06	17,85	17,85	18,77
Berlin	20,51	—	22,39	21,24	25,31

Barley					
Winnipeg	10,95	11,85	20,89	16,43	14,07
Chicago	12,14	14,28	17,38	15,47	12,38
London (American)	15,18	17,43	25,48	21,37	19,46
Oats					
Winnipeg	11,43	15,33	19,03	17,91	16,37
Buenos Aires	12,08	13,23	17,12	17,29	13,91
London (La Plata)	15,57	17,15	19,78	21,50	17,81
Maize					
Chicago	13,11	18,26	24,43	20,61	16,07
Buenos Aires	11,48	15,01	18,48	18,95	14,02
London (La Plata)	14,19	18,16	21,77	21,77	17,14

This table shows that:

1. Prices are lower than last year, with the exception of the prices for rye, which has yielded very poor crops in Poland and Germany, which are the chief rye-producing countries apart from the Soviet Union.

2. The disparity between the prices of the import and export markets has increased, owing to the present increase of shipping rates caused by the English coal strike. Thus the freight from La Plata to Europe costs 35 marks per quarter as compared with 15 marks last year. This means an increased cost of 20 marks per ton.

3. At the present time the German prices are comparatively high, a result of the increased grain duties and the reintroduction of the system of export licences, by which the German agrarians are enabled — although there is an export surplus — to keep above the world's market level.

4. The wheat prices show a tendency to rise, an effect of the Canadian pool.

According to statements made at the general meeting of the wheat pool of the Canadian province of Manitoba, held in August, the pool has 127,000 farmers as members in the three Canadian wheat provinces. The quantity of wheat negotiated by this organisation has increased by 48 per cent in one year, and has now reached about 80 per cent of the total quantity negotiated.

As Canada is the greatest wheat provider of the world, this combine tends to raise prices.

The Canadian wheat pool is exerting every endeavour to persuade the farmers of other countries to form similar organisations. Thus the Canadians have sent organisers to Australia for the purpose of forming a wheat pool there. In March 1927 a congress is to be convened in Kansas City by the Canadian pool and by various American farmers' organisations for the purpose of founding an international wheat trust. Invitations are to be sent to Australia, Argentina, India and Russia (!)¹⁶⁾ Some of these plans will require some time for their realisation, but there is an undoubted tendency towards combines among the exporting grain producers.

As opposed to this, the American Office of Agriculture states¹⁷⁾ that reports show that the American farmers intend growing 14,5 per cent more wheat and 17,4 per cent more rye this autumn than in the autumn of 1925. It is, however, very possible that this is only one of the customary manoeuvres of the government to restrain the farmers from growing more¹⁸⁾.

II. Special Section.

1. GERMANY.

The present stage of German capitalism may be summed up as follows:

Economic conditions have decidedly improved during the last few months. The causes of this improvement are the following:

The English strike.

The favourable season.

A certain internal improvement in the economic situation.

To what degree the improvement is due to each of these factors it is difficult to ascertain. It is, however, of particular importance to note that there is but little improvement in the labour market; it is the heavy industrial bourgeoisie and the big agrarians who are reaping the benefit of the improved conditions.

¹⁶⁾ "Börsen Courier", 21. August 1926.

¹⁷⁾ "Journal of Commerce", 17. August 1926.

¹⁸⁾ We shall deal with the great fall in the price of cotton under "United States".

The best criterion of the economic revival is the increased goods transport. The number of trucks daily in use on the state railway has been as follows:

	1925	1926
	in 1000:	
May	120,3	121,5
June	117,5	121,2
July	121,4	123,5
August	120,5	123,6
September	124,6	140 (estimate)

The increased transport of goods falls mainly to coal; transport of other goods has not increased to such an extent.

The output of heavy industry has greatly increased.

Output of coal, iron, and steel.

Monthly	Coal Lignite Coke			Iron Steel	
	Million Tons			1000 tons	
average 1925	11,1	11,6	2168	858	1016
1926 1. Quar.	11,1	11,7	2079	679	852
1926 2. Quar.	10,9	10,4	1966	708	916
July 1926	13,1	11,5	2045	768	1022
August 1926	12,9	11,4	2154	850	1141
Sept. 1926	12,7	—	—	880	1144

The situation in the industries working up iron is still depressed. The machine industry is working at 50/55 per cent of its capacity. The number of orders received both from inland and from abroad has fallen off again in September¹⁹.

Further restrictions of production are announced for the near future. Exports in August, which amounted in value to 55 million marks, is 10 per cent lower than the average of 1925²⁰). Conditions in the electrical industry are somewhat better. The motor car industry despite all the talk about rationalisation cannot meet foreign competition.

Unemployment.

The decrease in unemployment does not keep pace with the increase in production. The greater exploitation of the workers (rationalisation) enables the same quantity of goods to be produced by much fewer workers. About 30,000 workers have found fresh employment in the Ruhr mines, but there are still about 30,000 more seeking work in the colliery districts of the Ruhr. The official figures relating to unemployment are as follows:

	Unemployed in receipt of benefit in 1000	Unemployed % of T. U. organisations	Part-timers
February	2057	22,0	21,6
April	1782	18,6	19,1
June	1741	18,1	17,2
July	1652	17,7	16,6
August	1548	16,7	15,0
September	1395	15,6	12,2

These figures do not include:

Workers employed on relief work	200,000
Workers out of benefit, about	150,000
Those receiving no unemployment benefit, 10 per cent	140,000

The unemployment benefit is only granted for one year. The number of those run out of benefit must have increased with the sudden increase of unemployment in the late autumn of 1926, so that from now onwards the number of unemployed in receipt of benefit gives no real indication of the actual number of unemployed. If we include the part-timers, calculating the difference between the hours worked and full time, we find the number of unemployed to be between 2,6 and 3 millions. These, with their families, form an army of 10 million unemployed proletarians.

The bourgeoisie has refused to extend the term during which benefit is paid beyond one year. Those who have run out of benefit are, as in England, obliged to resort to poor

relief, so far as they "require aid from public funds". The State grants to the provinces 50 per cent of the sums expended in support of the unemployed. The poor relief is not to be less than the unemployment benefit ("DAZ", 7. Oct. 1926, circular from the Minister of Labour to the provinces). Thus in Germany the official seal is put upon the degradation of the unemployed to pauperism. All that is now required is to publish the number of paupers regularly, as is done in England. By the above measure the German bourgeoisie admits that it has no hope of reabsorbing the unemployed into the process of production for some time to come.

The number of bankruptcies has greatly diminished during the last few months. The mass elimination of the unfit seems to have come to an end for the present.

The developments in prices have improved the agricultural situation. At the present time prices for agricultural products are rather above than below the level of other goods.

Crops in million double cwts.

	1926	1925	1913 (present area)
Wheat	30,5	32,2	40,4
Rye	75,0	80,6	100,1
Barley	26,2	26,0	30,4
Oats	65,7	55,8	86,2

This diminished yield in comparison with last year is to be attributed to a poorer crop per hectare of a smaller cultivated area. The yield per hectare has declined in comparison with the average of 1911/13.

Winter wheat	from 22,8 dbl. cwt. per ha to 19,1
Winter rye	" 22,1 dbl. cwt. per ha to 18,9
Summer barley	" 21,2 dbl. cwt. per ha to 17,3
Oats	" 19,8 dbl. cwt. per ha to 18,9

So far as the classes are concerned, the result of the poor crops and the higher prices is: the improvement of the position of the agrarians and large farmers producing mainly for the market, and the worsening of the position of the poor peasants producing no surplus, or only a very small surplus, beyond what is required for their own families.

At the present time the sugar industry — the great agrarians — is pressing for an increase of the sugar duty from 5 marks per double cwt. to 10 and 20 marks (before the war it was 14 marks). In 1925/26 Germany's sugar consumption has been 29,14 million double cwts. An increase of 5 marks on the duty means an increased income for the sugar industry — that is, for the big growers of sugar beets — of 130 million marks annually! Home consumption is somewhat greater than before the war, but is lower than in the countries of Western Europe.

Foreign trade.

The foreign trade balance has again become adverse during the last few months, as it has naturally been impossible to keep up indefinitely the restriction of imports of raw materials, by means of which the favourable balance was maintained.

Purely goods traffic in million marks

	(present values)			
	1926	Imports	Exports	Difference
1. quarter	2014,3	2501,4		+ 487,1
April	723,1	779,3		+ 56,2
May	702,8	729,6		+ 26,8
June	791,9	758,9		— 33,1
July	942,0	821,3		— 120,7
August	919,7	833,9		— 85,8
September	823,4	836,4		— 13,0

The revenues of the Reich are incorporated in the budget accordingly. The following is a survey of the main receipts for the first half of the year (ending 30. Sept.):

	Million marks	
	Receipts in I. half year	Budget estimate for whole year
Total	3360	6465
Drawn from		
wage deductions	530	— ²¹⁾
duties and taxes on articles of consumption	1124	1959

¹⁹ Deutsch Allgemeine Zeitung, 13. October 1926.

²⁰ Deutsche Allgemeine Zeitung, 13. October 1926.

²¹) Not calculated separately.

The proceeds from the duties and taxes on articles of consumption will far exceed the preliminary estimate. But on the other hand the property tax levy and the death duties are not bringing in as much as was estimated. Only 12 millions have been received in death duties during the first half of the year; it is evident that this tax is being evaded to a wide extent. We have already mentioned, in the general section, that the big yield from the duties and taxes on articles of consumption have brought about an increase in the reparation payments amounting to 300 million marks.

Economic policy.

In economic policy the most conspicuous feature of the present epoch is the feverish formation of cartels and trusts.

The combination of undertakings in great monopolies: cartels and trusts, has assumed enormous dimensions during the last few months. Whilst during the inflation period the main tendency was towards the vertical trust, merging the undertakings producing one article from the raw material to the finished article, we now see two other systems taking the lead: either the simple horizontal amalgamation of undertakings of the same nature, or the horizontal combination of vertical trusts. There is, of course, no sharp line of demarcation here. Combinations of every kind are to be found. The "United Steel Works" represent the trustification of vertical trusts, from the coal to the finished manufacture. The chemical trust (I. G. Farbenindustrie) is the horizontal trustification of all chemical works, but at the same time it absorbs various undertakings supplying raw materials. Both of these undertakings are, in their way, unique in Europe, both as regards size and producing capacity, and can compete with the largest American trusts. The "United Steel Works" is in the position that whilst the whole of the German iron works are combined as a cartel in the steel works union, the "United Steel Works" form a trust within this cartel, and participate in the total production quota of the cartel to the extent of about one half, a proportion ensuring a corresponding influence upon the cartel. A monopoly within a monopoly.

This vast undertaking is, however, greatly dependent on foreign capital. A compilation published by the "Bergwerkszeitung" on 7. August shows this to be as follows:

	million marks
Foreign loans taken up by the United Steel Works (including those of the amalgamated undertakings)	552
Short term foreign loans	49
	601

To this we must add the shares sold abroad, the value of which is unknown to us. The share capital of the United Steel Works is 800 million marks: redeemed shares 125 millions, total assets 1400 million marks. Foreign capital thus participates to the extent of one half in the United Steel Works.

The I. G. Farbenindustrie is the sole combine of its kind in the world. It holds a monopolist position in the chemical industry of the whole world, and forms at the present time, with its 1100 marks of share capital and its immense profits, one of the greatest single undertakings in the world. Many practical discoveries, such as that of the liquefaction of coal, are reported to be ready for practical application. The chemical trust has its own bank: the Länderbank, for its financial transactions. Although greatly interwoven with foreign undertakings, it appears to be much less dependent on foreign capital than the United Steel Works. Its influence on politics is exceedingly great. And how direct this influence is may be seen from the following notice, taken from the Berlin "Börsen Courier" of 28. August 1926:

"The main difficulty in the way of the Germano-Japanese trade agreement negotiations having been removed by the conclusion of an agreement between the I. G. Farbenindustrie and Japan with reference to the German import of dyes, there is a general desire that the negotiations on the trade agreement may now be speedily brought to an end."

Besides these two gigantic trusts, we see monopolies being formed with the utmost rapidity in almost every branch of industry. At the present moment it would be difficult to find any notable branch of industry in Germany which does not participate in some monopolist combine.

The upward tendency on the Exchanges.

Here the upward tendency has continued during the past few months, stimulated by the "transactions" involved in the monopolist combines. The prices of shares have attained a height entirely out of proportion to the dividends. The General Electric Co. pays 4% interest on its shares, the I. G. Farbenindustrie not even 4%, the Steel Works 5%. It is hoped to pay higher dividends in the future, after further advances in exchange prices. There will be many stock Exchange collapses in Germany...

2. POLAND.

After Germany, Poland is the sole large country in Europe the economic position of which has shown signs of decided improvement during the last few months.

This improved prosperity is greatly due to the increased coal output and coal export resultant on the British strike.

The data are as follows:

	1925	1926				
	Dec.	Jan.	April	May	June	July
		in thousand tons.				
Coal output	2456	2456	2182	2235	2660	3482
Coal export	642	668	673	704	1395	1833
% of output	26	27	30	31	52.4	52.6

This improvement has extended to the production of iron and steel, and the greater degree of employment among the working class has resulted in improved business conditions in the other industries. The improvement in the coal mining industry has been described as follows:

"The increased output for the purpose of export has enabled all shifts to be worked again, and about 10,000 new workers to be taken on. In June the wages were increased by 10 per cent. The total wages paid the Polish Upper Silesian workers rose to 12 milliard zloty in July, as compared with 7.4 million zloty in April. In April the average wage of a worker was 107 zloty, in July 155 zloty. A further increase of 8 per cent has been decided upon by arbitration, and will probably be confirmed by the government during the next few days".

These figures show the extremely low wage level of the Polish workers. In April the monthly wage averaged 11 dollars, in July 16 dollars. At the same time the prices are steadily rising. If we take the subsistence index figure for 1924 at 100, we find it stood at 144 in January 1925, 183 in May and 187 in September 1926. The improved economic conditions are observable in the reduced unemployment. The number of unemployed, officially 360,000 in January, sank to 245,000 by the end of August, and has probably sunk further since. But even according to these figures one quarter of the population is still out of work.

Foreign trade.

For about a year Poland's foreign trade balance has been favourable. This has, however, been attained by exceedingly strict restrictions on imports. As follows:

	Imports in million zloty
1. half of 1925	1048
1. half of 1926	352

Of the imports of 1925, agricultural products amounted to 282 million zloty, a consequence of the failure of the crops in 1924. The import of raw materials and finished articles has also been greatly restricted. The value of the raw materials imported has fallen from 220 millions to 132, that of finished articles from 455 to 132. This extreme restriction of imports has, of course, economically harmful results. The import of every description of important raw materials has been reduced; and also the import of machinery and apparatus: from 39,000 to 14,000 tons.

In the first half of 1926 exports were 574 million zloty, that is 56 million less than in 1925. Export data for the last few months are not yet available, but it may be assumed that the export balance continues to be favourable, and that exports have exceeded their last year's level. The economic revival will naturally be hampered by the poor crops.

2) "Wirtschaftsdienst", 8. October 1926.

The crops are as follows (in million double cwt):

	1926	1925	Average 1920/24
Wheat	13,7	15,8	11,1
Rye	62,3	55,4	48,0
Barley	16,1	16,8	13,6
Oats	33,0	33,1	26,8

The harvest is considerably greater than that of the years immediately following the war, but considerably less than last year's good harvest.

Money and Currency.

The Polish currency has risen gradually in value since the Pilsudsky upheaval. The reason for this rise lies partly in the fact that the present redistribution of comparative forces is favourable to the bourgeoisie in Poland, and is partly due to the influx of foreign bills consequent on the favourable trade balance.

The zloty has been quoted in New York as follows:

Monthly average April	11,3
" " May	9,6
" " June	9,3
" " July	10,1
" " August	10,9
9. October	11,1

Since the 20th August the traffic in foreign bills has been free. The discount rate of the bank of issue was reduced to 11 per cent on August 15. For private credits a maximum of 15 per cent, has been fixed.

Whilst a year ago the bank of issue had no reserve of foreign bills whatever, by the end of September a reserve to the value of 100 millions had accumulated, and the gold and silver reserves of the bank of issue had increased. The private banks are also sufficiently provided with foreign bills. The total amount of money in circulation is, however, still very low, approximately one milliard zloty, equivalent to about 450 million marks at the present rate of exchange. This is an extremely small sum for a country with a population of more than 30 millions.

Despite this comparative economic prosperity, and the improved status of the currency, the actual tasks of placing Polish economics on a sound basis has not yet been accomplished. The American commission, under the chairmanship of Kemmerer, spent several months in Poland, and on leaving the country Kemmerer expressed a very favourable opinion on the economic future of Poland. The commission has sent three separate reports to the Polish government, but up to now their contents have been kept secret. One difficulty is the stabilisation of state finances. The Pilsudski regime was bound by its very nature to bring about a considerable increase in state expenditure, especially military expenditure, in order to satisfy Pilsudski's personal followers²⁷⁾. It is not yet possible to judge how the state budget will shape out. A considerable time will have to elapse before it will be certain whether the stabilisation of the currency in Poland is final, or whether a fresh depreciation will set in, as in last year. The whole of the further development in Polish economics are closely bound up with this question. The problems of Polish economics are still a long way from being solved!

3. FRANCE.

The "great" Poincaré ministry, which comprises six former prime ministers, represents a great coalition of all bourgeois forces enjoying the tacit support of the social democrats. The task set the new ministry was to arrest the depreciation of the franc. The first preliminary towards this task was the report of the expert committee appointed on the suggestion of the Anglo-American bankers. We commented in detail on this report last quarter. Its chief points were:

- Increase in the taxation of the broad masses, reduction of direct taxation.
- Economy in state finance, enabling the budget to be balanced.
- Balancing the state treasury.

d) Settlement of the interallied debts.

e) The raising of new foreign loans to the amount of 200 million dollars.

The stabilisation of the franc was to be accomplished on this basis, in three stages: temporary, actual, and legal stabilisation.

Poincaré has succeeded in substantially carrying out the first three items of this programme. At the end of July he submitted a bill to Parliament, and was successful, by means of repeatedly raising the question of confidence, in getting this bill rushed through and accepted in face of the opposition of the communists, the socialists, and a minority of the radicals and socialist republicans.

This new law, to a great extent merely an emergency powers act for the legal adaption of various taxes, levies, and duties to the depreciation of the currency, anticipates the following increased revenues:

	For 5 months 1926	For 1927
Increased levies and taxes on articles of consumption	945	2364
Increased wine and mineral water taxes	263	—
Transport taxes	551	1695
Increase of turnover tax to 2 per cent	200	600
Increased duties	160	400
Export taxes	140	500
Increased direct taxation	—	1936
	2259	7495
Amortisation fund revenues:		
Turnover tax on first sale of real estate	200	800
Death duties	—	2700
Total increase:	2459	10,995
Less taxation abatements:		
Tax on the transfer of securities	for 1927 255	
Death duties	1700	
General taxes	500	2455
Net increased taxation:		8540

The main share of the increased taxation — at least 75 per cent. — falls once more to the consumption taxes, that is, to the taxes most readily loaded on to the masses.

The results of this taxation reform may be seen from the revenue from taxation during the last few months, in comparison with last year:

	Taxation revenues		Proportion of this from indirect taxes and duties	
	in million francs			
June	1811	2312	1614	2217
July	2421	3584	2239	3137
August	1733	3127	1554	2547
September	1796	3036	1572	2397
	7734	12,059		

It will be some time before it will be possible to ascertain it, and to what extent, this result has been reached by the existence of the big bourgeois government, and by Poincaré's appeal for the immediate payment on the broad masses amounts to almost one milliard francs monthly.

Steps are being taken towards cutting down state expenditure, and Poincaré has already dispensed with many hundred superfluous officials, which has naturally called forth much discontent among those concerned, and has even resulted in pressure being put on the deputies in Parliament. Reforms are further being introduced into the army, with the object of achieving economy: one year's term of service, etc. The reduction in state expenditure cannot be calculated until next year. The budget for 1927 appears, however, to be really balanced.

The budget anticipates revenues to the amount of 39.36 milliards and a surplus of 578 millions. The regular budget does not contain the revenues from the amortisation fund (tobacco monopoly, etc.). A total of 8,17 milliards is given for amortisation. On the other hand, the sums due on short term loans: 3 milliards in February, 4,6 milliards in September, both five-yearly bonds dating from 1922, are not included in the expenditure, as it is assumed that these will be renewed.

²⁷⁾ The salaries of the officers of higher rank were raised by 100 per cent and more.

The second point of the experts' plan which has been carried out by Poincaré is the founding of the amortisation fund. This fund is administered by a council of 30, and is independent of the state treasury. Its revenues consist of the two descriptions of tax mentioned above, and of the proceeds of the tobacco monopoly, possible surpluses from the budget, etc. Should all these sources of income prove insufficient, the fund has the right to raise loans with the bank of issue. The bank has then the right to issue new banknotes for this purpose, these not being counted in the plafond (the maximum limit allowed on the issue of bank notes).

This arrangement serves the purpose of reassuring the holders of the short term papers (bons de défense), as it secures not only the payment of interest, but at the same time the redemption of the bons if desired, independently of the financial position of the State. The public is thus induced to renew the bons. As a matter of fact, the device has proved successful, and short term loans have been freshly subscribed to an amount exceeding those presented for payment by 1,5 milliard francs.

Three of the main points of the experts' programme have thus been realised. Those remaining to be carried out are the ratification of the Washington and London agreements, and the raising of a large foreign loan. The latter of these points depends on the former. But the ratification of the debt agreement is the subject of considerable political difficulties, as already mentioned in the general section. Many individual politicians are in favour of the ratification. But there is no political party so courageous, in face of public opinion, as to declare itself unreservedly in favour of the ratification, not even the Socialist Party. We may thus designate the present financial policy of France as an attempt towards "national stabilisation", that is, an attempt to balance state finances without outside aid, by means of the increased taxation of the working class.

Among the measures aiming at national stabilisation are the following:

a) The purchase of gold, silver, and foreign bills by the bank of issue, in order to strengthen the reserves of gold and securities, the banknotes employed for this purpose not being counted to the plafond. The Morgan fund is said to have been replenished again to its original sum.

b) The repayment of advances made by the State to the bank.

c) The raising of the bank rate on 31. July, from 6 to 7½ per cent, and of the deposit rate from 8 to 9½ per cent.

d) The taking up of small loans abroad: Switzerland and Holland: in Switzerland 60 million Swiss francs, in Holland 30 million Dutch florins. Both loans are guaranteed by the revenues of the French state railways.

These measures have been extremely successful. The rate of exchange of the franc, which had sunk to 245 to the pound sterling when Poincaré took over the government (doubtless partially owing to the deliberate sabotage of the French big bourgeoisie), rose rapidly to 166 to the pound.

It is very doubtful whether the attempt at "national stabilisation" will be successful. It is, however, not impossible, provided the payment balance can still be made favourable. This possibility exists, since France is deriving income from the reparation payments, from the money spent by tourists in France, and from the capital still invested abroad, a foreign income against which there is only to be reckoned the money sent abroad by foreign workers employed in France (estimated at 2 milliard francs yearly). This tends to a favourable trade balance. And even if France's trade balance should be adverse to a certain degree, we are nevertheless of the opinion that France's payment balance is sound.

Foreign trade has not been unfavourable during the last few months

	Foreign trade in million francs	
	Imports	Exports
June	5181	4672
July	5016	5244
August	5235	5543
September	4625	5197

The wholesale trade index during the past few months has been as follows:

	No. of types of goods	Sept.	August	July	June
Total index	(45)	804	785	854	754
Home products	(29)	743	722	733	—
Foreign products	(16)	912	902	1,074	—
Foodsstuffs	(20)	706	672	709	646
Industrial raw materials	(25)	889	885	985	848
Of this last group:					
Minerals and metals	(7)	941	919	1,025	837
Textiles	(6)	939	940	1,147	971
Miscellaneous	(12)	827	831	863	781
Rate of exchange of £ at end of month 22,25 ⁹⁹)		174	172	205	168

This price table shows:

1. A continued great disparity in prices. The prices of food (especially of animal foodsstuffs) are much below general price level.

2. Home products are much lower in price than imported goods; French industry has still excellent chances of good export business.

3. This disparity between home and foreign prices is tending to diminish; at the end of July the difference was 344 points, at the end of September 169.

4. The prices show a rising tendency, a tendency towards adaptation to the world's market prices; and this in spite of the actual stabilisation now reached. This adaptation has not yet been attained. A rate of exchange of 175 to the pound and a price index in England of 150 would correspond to a French price index figure of 1050. This is the price level which would be approximately arrived at in the case of a stabilisation of any permanence, and it is very doubtful if the export chances of French industry would then be so favourable. And it is upon exports that the favourable trade balance to a great extent depends; the payment balance again depends of the trade balance; and the success of the "national stabilisation" depends on the payment balance.

As in Germany, economics in France will emerge from the inflation in a considerably weakened state, although it is probable that in France, too, there has been an extension of the actual apparatus of production. This is shown by the low quotations for shares, frequently lower in paper francs than before the war.

The Economic Situation.

The stabilisation has as yet had no detrimental effect upon the economic situation, for the reason that prices have not yet accommodated themselves to the change. Heavy industry has benefited by the English strike, and the output figures are higher than for the first six months of the year.

	Coal	Iron	Steel
	in 1000 tons		
1926. 1. quarter monthly average	4303	747	672
1926. 2. quarter monthly average	4191	776	681
1926. July	4381	792	718
1926. August	4365	814	732

the native workers do not appear to be lower than they were

There is still very little unemployment, and the earnings of before the war. The number of immigrants was estimated by the International Labour Office at 2,845,214 at the end of 1925¹⁰⁰). Every thirteenth inhabitant of France is a foreigner. These immigrants are almost exclusively working people. A great part of them are Italians, who have settled in the depopulated villages with their families, and are becoming permanent inhabitants. The great mass of unskilled labour is represented by Spaniards, Poles, and North Africans. Though they are exploited here to a high degree, still they seem to be better off than in their native countries.

To sum up: It is not yet possible to judge of the results of the "national stabilisation". At present the economic situation still appears to be favourable, owing to the fact that home prices, especially retail prices, have not yet accommodated themselves. But this state of affairs cannot last long. Either a fresh depreciation of the franc or a stabilisation crisis is bound to come.

⁹⁹) Par.

¹⁰⁰) "Frankfurter Zeitung", 28. August 1926.

⁹⁸) "L'Usine", 24. July 1926.

4. ITALY.

Our knowledge of the events taking place in Italian economic life during the past months is extremely nebulous. Two main facts are, however, certain: the rate of exchange of the lira has greatly improved, and the economic situation has visibly worsened. The course of the lira has oscillated during the last few months. Between the autumn of 1925 and April 1926 the lira was stabilised at about 120 to the £. The fall of the French franc was accompanied by a simultaneous depreciation of the lira. The quotations to the £ have been:

Average for May	126
Average for June	133
Average for July	145
Average for August	149

From the 2. September onwards the value of the lira has risen rapidly. In one day the £ fell from 147 to 133 lire. This improvement continues up to the present. On October 20, 114 lire were quoted to the £, a figure below that of last year's stabilisation.

The improvement in the rate of exchange of the lira is attributed to the deflation policy being pursued by the Government.

These measures of the Government were as follows:

1. The Morgan fund of 90 million dollars was handed over to the bank of issue, enabling 2½ milliard lire of the advances to be paid back to the State.

2. The right of issue possessed by various provincial banks (Bank of Sicily, Bank of Naples) has been transferred to the bank of issue.

3. The State has undertaken to repay to the bank the floating debt still existing to the amount of 4.2 milliard lire, in yearly instalments of 500 lire.

So far as can be judged from the scanty data at our disposal, these measures do not, however, appear to have brought about any considerable, if any, lessing of the notes in circulation²³⁾, so that the cause of the improvement of the lira still remains.

This unclear improvement in the lira is the more surprising as the foreign trade balance remains extremely adverse. Foreign trade has been as follows, in milliard lira:

	First 7 months	
	1925	1926
Imports	17,12	16,32
Exports	10,29	9,64
Import surplus	6,83	6,68

The foreign trade balance is no less adverse than last year's. The income derived from tourist traffic and money sent by emigrants probably remains unaltered (less if anything from tourist traffic), so that we are still without an explanation of the fact that the rate of exchange of the lira is higher than last year.

The Economic Situation.

During the last six months the economic situation in Italy has been on the downward trend, and this trend has become more and more rapid of late in connection with the deflationist policy and the improvement of the lira. Italian statistics are published very late, so that but few statistical data are available.

On 31. July the number of unemployed receiving benefit was 78,000, the number of part-timers 27,000. Part time is mostly worked in the cotton industry, only 5 days per week having been worked for a long time. Some textile works have recently closed down entirely. The Fiat motor car factory has discharged 7000 workers. There is a great difficulty in finding markets for the artificial silk industry. During the first 5 months of the year exports fell off by about 15% as compared with last year.

The downward tendency is already reflected in the great decline in the import of raw materials during the first half of the year²⁴⁾.

This downward tendency has further increased in the last few months as a result of the English coal lock-out. Italy is dependent on the import of coal and iron. The increased prices in the world's markets, and the shortage of coal, have had a

very bad effect on Italian heavy industry. To this must be added the poor crops this year. The "grain battle" announced by Mussolini with such a fan fare has somewhat extended the area of wheat cultivation, but this year's yield is none the less considerably behind last year's. The crops have been as follows:

	Average		
	1926	1925	1920—24
Wheat	55,9	65,5	48,5
Rye	1,7	1,7	1,4
Barley	2,5	2,8	1,9
Oats	5,9	6,9	4,8

For maize and rice, both of importance for Italy, the data are not yet obtainable, but the crops are probably good. Wheat will, however, have to be imported in large quantities. In order to restrict import, wheatmeal is to be 75 per cent wholemeal, and pure wheat flour is not to be used by confectioners, etc.

These enactments are steps on the road to that economic anarchy for which Mussolini is agitating so energetically at the present time. The State gives the preference to Italian industries when giving orders, and lends further practical aid by means of subsidies and tariffs. The English economic press rightly points out that this system of economic policy has no prospect of success, since the other States will pursue a similar policy towards Italy. Italy is inevitably bound to get the worst of such an economic struggle at the present juncture, when the whole of the world's markets are suffering from inability to sell finished manufactures, and Italy is a country exporting just these finished articles, and moreover, is dependent on foreign countries for its raw materials.

It is easy to see that the economic crisis in Italy will become increasingly acute during the coming year. This has been acknowledged for the first time by an official representative of Fascist Italy, by Grandi, under Secretary of State and special confidant of Mussolini, in an interview granted to the American press:

"We are approaching a dangerous crisis. We hope that it will be of a temporary character. It is, however, probable that we shall have 500,000 to 1,000,000 unemployed for about 6 months. The number of bankruptcies will increase".

The anticipated worsening of economic conditions, combined with the deflationist restriction of credits, has brought about an acute Exchange crisis in Italy.

The Italian economic situation is thus faced with a period of severe crisis, further enhanced by the generally weak consolidation of Italian industry, and the unfavourable local conditions under which the industrial undertakings work.

5. ENGLAND.

In our last report we stated the fundamental problem of England's economics to be the incompatibility between the maintenance of a high dividend income and the existence of a labour aristocracy in England. Under the present changed circumstances the industrial capital of England is not in a position to pay out to the shareholders their customary part of the value produced, undiminished in England by inflation, and at the same time to maintain the English workers at the standard of a labour aristocracy. The mining struggle is the result of this incompatibility. English capital is compelled, if it is to avoid the annihilation of dividend income by an inflation, to reduce the standard of living of its workers to the level of the continental workers, or even below.

The coal mining struggle turns upon the question, what is to be decisive for the relations between capital and labour: the living wage or the adequate profit. The old and the new trade unionists are divided on this point. The old trade union leaders, Right and Left alike, are accustomed to regard union security of an adequate profit for capital as the point of departure for their trade union tactics. Wage demands have invariably been adapted to the industrial situation. Inquiry has been made whether the undertaking or branch of industry in question is able to pay higher wages under the given circumstances, and yet retain an adequate profit. Taking these tactics as basis, the miners' struggle was lost before it was begun. On these premises the English coal mining trade cannot fulfil the demands of the workers, and is forced to insist on worsened working conditions. The systematic betrayal of the workers'

²³⁾ 10. Sept. 17. 97. "Economist." 9. 10. 26.

²⁴⁾ See Prof. R. Bacchi: "Wirtschaftsdienst." 3. September 1926.

interests on the part of such British labour leaders as Hodges, Varley, Spencer, etc., and of the General Council itself, is based entirely on the view that no step must be taken beyond the confines of the capitalist method of production.

Therefore the miners have been systematically deserted by the leaders of the British labour movement during the 6 months of their struggle. Today, when the fate of 1 million miners is at stake, we find MacDonal taking a holiday in the Sahara, Henderson on a parliamentary information tour in Australia, Hicks, the new President of the Trade Union Council, paying a visit in America, and Purcell in Mexico. Despite this systematic treachery the miners are still holding out, and it is impossible to foresee the conclusion of the fight, unless the capitalists yield to a certain extent.

The economic crisis in England.

The economic effect of the coal struggle is equal to that of the severest economic crisis. An excellent description of the whole situation is given in the Conservative periodical: "Statist" in its number appearing on 14. August 1926. This periodical states that all the special articles which it publishes at the present time can only give a melancholy picture of the position of British industry and trade, its shipbuilding, shipping, iron and steel, cotton, wool, and fibre industries, and of its coal industry — these industries to which Great Britain owes its existence as the greatest trading nation of the world, and which have now sunk to a position of extremist inactivity. There is a shortage of fuel and a shortage of orders. If orders were obtainable, the prices are in general unprofitable, and the orders are only accepted in order to pay general expenses. Unemployment and part-time rule everywhere. Fixed capital is depreciating in value; circulating capital, the life blood of trade, is congealed by the stagnation of trade. The workers lose their wages. The shareholders, distributed among all the classes of the nation, lose their dividends. In this manner the consuming powers of the population as a whole are reduced, and this reacts inevitably upon production. Leaders of industry are frequently heard to state that they cannot remember any period in which business was more stagnant than at present.

An even more pessimistic view of the situation, not only today, but in the economic and political future, has been expressed by the Rev. W. R. Inge of St. Paul's, London, in a recently published book entitled "England". He writes that England's supremacy on the seas is ended, and with it England loses the instrument with which the Empire was built up. Maritime power depends chiefly on national wealth, and the English are no longer rich enough to build ships against all possible rivals. The dream of a federation of all English speaking nations, for long so attractive to the English, is unreal. Should England be attacked in the future by a European coalition, it may be assumed in all probability that the United States would leave England to its fate, unless, indeed, a black army made the attack. Hence it is highly improbable that England's position as world power, made possible by a combination of circumstances which are no longer so effective as formerly, will last very much longer.

It is difficult to estimate the loss to British economics. The following estimates are from bourgeois sources:

	Mill. £
"Statist", up to end of September	190
"Westminster Bank Review", on the correct basis of the reduction in the number of workers employed, weekly 10,5 million; consequently about Sir Hugh Bell, 3 millions daily, thus for 180 days Board of Trade, for the first three months 150 millions, thus up to now	270 540 300
Runciman, up to 21. June 148,5 mill., up to now about	315*)

These calculations have probably the tendency, for natural reasons, to represent the costs of the strike lower than they actually are. This is a part of the tactics employed by the bourgeoisie in its fight against the workers. In our opinion even the highest estimate, 3 millions daily, is far beneath the actual truth.

The following table shows the number of unemployed refused benefit by the ministry of labour:

	Number	%
August 1925	1,440,628	12,1
April 1926	1,093,829	9,2
May 1926	1,719,379	14,5
June 1926	1,751,133	14,7
July 1926	1,737,260	14,6
August 1926	1,684,507	14,2
September 1926	1,660,000*)	—

The striking miners are not included in these figures. It is not stated whether the textile workers, who are alternating working one week with a fortnight's holiday at the present time, are included. There are besides a great number of paupers apart from the relatives of the miners, who receive poor relief, but are not included in these figures. The number of persons in receipt of poor relief on one day taken at random in June was 1,099,000; on another test day in August the number was 1,103,000**). If we calculate the number of actual unemployed, the miners, the paupers, and the part-timers, we arrive at the result that at least one half of the working population of England, that is, almost one half of the total population, is living in the direct poverty.

After the coal industry, heavy industry has suffered, most. The production of iron and steel has practically ceased. This may be seen from the following figures:

Output of iron and steel (1000 tons):

	Iron	Steel
Monthly average 1925	528	626
I. quart. 1926	543	721
April 1926	548	672
May 1926	90	46
June 1926	42	35
July 1926	18	33
August 1926	14	52
September 1926	12,5	96

The industries suffering most from the shortage of coal and iron are of course those manufacturing iron goods. Some of these are working with foreign coal and foreign raw materials, but under these circumstances profitable work is an exception.

Textile industry is also suffering greatly. The high prices of coal, increased to threefold, mean that in most cases production is carried on at a loss, and at the beginning of October it was decided to work only every third week, and to close the factories during the alternating fortnights. This agreement has not been kept to everywhere. This is obviously to be attributed to the great fall in the price of American cotton which has caused the manufacturers to sell their old stock, even at a loss.

England's foreign trade has suffered greatly under the coal strike. During the first 9 months of 1926 foreign trade was as follows, as compared with last year's:

	in million £		decrease %	
	1925	1926		
Import	1965,5	1905,4	-60,1	6,2
Export of British products	579,3	495,9	-83,3	14,4
Reexport	112,9	92,7	-20,2	17,9
Surplus of import over export	273,4	316,7	+43,3	+15,9

These figures do not require much comment. It may be observed that there has been a considerable shifting in the composition of the goods exported and imported. Coal export, amounting to 20 million tons between May and September in 1925, has sunk to 1½ million. On the other hand coal is being imported at the present time at the rate of about 4 million tons monthly, and the price paid for coal in England is far above that which the English have otherwise received for their export coal — the price has tripled and quadrupled. The British trade balance is extremely adverse, 317 million £ in 9 months, and this means that England has to encroach on its capital invested abroad.

One of the most conspicuous effects of the strike is the worsening of the position of state finances. During the first half of the financial year, beginning in April, there was a deficit of

*) Preliminary statement.

**) "Labour Gazette". July and September number.

*) All figures taken from the "Statist". 18. September 1926.

62 million pounds. In England the first half of the financial year invariably closes with a deficit (36 millions last year), since the taxes are not paid till the end of the year. But this time the deficit is 26 million £ more than last year's, and is likely to increase. Another significant fact is that the Bank of England has been obliged to pay out large quantities of gold during the last few weeks, in order to maintain the £ at par. As autumn is the season when England begins to make large purchases in raw materials and foodstuffs, it may be anticipated that the Bank of England will have to draw further on its gold reserves, if the £ is to be kept at par.

The position of England, of English economies, and of the English State, has been much more weakened by the coal strike than the capitalists and their spokesmen will admit. The influence of the mother country in the Dominions is diminishing, a fact very clearly demonstrated in the proceedings of the Empire Conference.

6. THE UNITED STATES OF AMERICA.

The United States of America continue to enjoy economic prosperity. The well known Babson statistical institute characterise³⁶⁾ the general situation in September by stating that at present business is proceeding on model lines. Production beats the record of the war years. The distribution of wealth is incomparable. Employment is excellent, and the existing purchasing powers suffice to ensure a certain period of prosperity.

The following table gives an excellent survey of the development of business:

	Basic index of production Fed. R. Board	Degree of employment of workers	Loaded wag- gons, last week of month in 1000 tons	New building orders Mill. Dollars
1925 August	109	93,9	1124	611
1926 April	122	96,4	968	571
1926 May	117	95,5	1081	550
1926 June	118	95,1	1062	548
1926 July	118	93,5	1103	601
1926 August	116	94,4	1136	—

Again we observe that the degree of employment among the workers fails to keep pace with production. Production has increased by 19 per cent since 1922, the standard of comparison taken by the index, whilst employment has fallen off by 6,5 per cent. This means, if these figures have any value whatever, that the growing wealth of the United States is being accompanied by growing unemployment. This is confirmed by the results of a special inquiry made by the American labour office in Columbus, a town in Ohio, showing the degree of employment between 1921 and 1925 to average:

- 8,4 per cent unemployed
- 9,3 per cent part timers,
- 82,3 per cent in full work.

Output figures of the most important industries:

	Coal mill. tons	Iron 1000 tons	Steel 1000 tons	Motor cars in 1000	Cotton con- sumption 1000 bales
1925 August	45,0	2704	3424	216	449
1926 April	40,0	3450	4123	384	576
1926 May	39,0	3481	3945	373	517
1926 June	42,0	3235	3751	340	519
1926 July	43,5	3223	3651	316	416
1926 August	46,4	3200	4005	379	501

These figures show a considerable increase of production in comparison with the corresponding month of last year, with the exception of coal. It seems as if American coal production is so immense that the English coal strike has had practically no effect.

	Orders on hand steel Trust in 1000 tons	Blast furnaces working
		end of month
1925 August	2513	192
1926 April	3870	237
1926 May	3649	228
1926 June	3479	220
July	3603	216
1926 August	3542	213

Signs of worsening of economic conditions.

Although the economic situation is still good in America, signs of a worsening are already visible. This is confirmed by Babson's figures. One conspicuous sign is the abatement of the feverish building activity which has been one of the main pillars of the wave of prosperity.

The statements issued by the ministry of labour show that by the end of 1924 the falling off in building during the war to have been compensated. Taking 1914 at 100, we find an increase of population corresponding to 112 and an increased building activity of 124,5. During this period of 11 years there have thus been 12,5 per cent more buildings erected than required under normal circumstances. And yet Mr. F. W. Dodge, the expert in building statistics, considers it probable that, provided no economic crisis occurs, the present high level of building activity, 650 million dollars yearly, can be maintained, as the demands for dwelling houses have increased³⁷⁾.

The payment by instalment system is gaining the upper hand in a manner causing the American economists to fear a real danger. It is feared that an interruption in the payment of the instalments could lead to a severe crisis.

The harvest yield, especially in wheat, is much better than last year's. Although the prices for wheat and maize, the two main products, are somewhat lower than last year, still it may be assumed that the total proceeds of the crops will be higher, and the buying powers of the farmers increased. This is a favourable factor for the continuation of economic prosperity. The following table shows the most important crops:

	1926	1925	Average 1920/24
	Mill.	double	cwts.
Wheat	228	181	227
Rye	10,6	12,3	17,9
Barley	42,5	47,4	39,3
Oats	183,4	219,5	192,1
Maize	685	734	739

We see that with the exception of wheat the crops are inferior to last year's and less than the average of 1920/24. This, in combination with the low grain prices, worsens the position of the farmers.

The falling prices are a great source of anxiety to the American business world. The price index figures have sunk steadily from the beginning of the year till August. The decline is 7/10 per cent for the various index figures. The greatest decline is observable in farming products and textiles, whilst the prices for cartelled products, fuels and metals, have remained unchanged. The great demand for coal in England has caused American coal to rise slightly in price in the last few weeks. It is, in any case, a rare occurrence for a high tide of economic prosperity to be accompanied by falling prices.

If we follow up the literature dealing with American economics, we come to the conclusion that two main factors enable America to produce cheaply, in spite of high wages: the extreme extent to which manufacture is standardised, and the rapid turnover of capital.

The fall in the cotton prices has developed into a catastrophe. At the Manchester cotton exchange the price of Mid. American cotton, pence per pound, has fallen as follows:

20. Oct.	7. Oct.	2. Sept.
6,93	7,17	10,14

On 7. October the price for the same quality and quantity was as follows:

1926	1925	1924	1923	1922	1921
7,7	12,33	14,17	16,56	13,15	13,64

³⁶⁾ Financial Chronicle." 18. September 1926. p. 1433.

³⁷⁾ "Financial Chronicle", 25. September 1926. p. 1577.

The price has fallen to one half of the average of the last five years, and below the prewar level. The cause of this extreme drop in prices is two successive exceptionally good cotton crops in America.

The estimate made on 15. September last year anticipated 13.9 million bales, but after the ginning process the yield was found to be 16.1 million bales. Should this year's estimate fall below the final result to the same extent, the crops will be 18 million bales, the highest ever known. Besides this, the American cotton reserves are much greater this year than last. The reserve stock on 31. August compares as follows:

1925	1,72 million bales
1926	2,64 " "

The American home consumption is something under 6 million bales yearly, so that 12 million bales must be disposed of in the world's markets. The figures issued by the International Federation of Master Cotton Spinners²⁹⁾ show the world's consumption of American cotton, for the year ending 31. July 1926, to be 13,73 million bales, 6,17 of this is consumed in America. There is thus a surplus of 4 to 4½ million bales of American cotton. Hence the sharp drop in prices.

The abrupt fall in cotton prices has aroused the greatest consternation in the cotton growing regions of the United States, and the government is hastening to aid the cotton firms to raise the prices again. The following measures are planned:

The establishment of a cotton pool, which is to withdraw and store one million bales of the present crop. The amount thus withdrawn from consumption is to be increased to 4 million bales if necessary.

Prerequisite: A 25 per cent decrease of the area under cultivation. The pool will not take over the cotton of the farmers refusing to agree to this condition.

Valuation credits up to 75 per cent of the market price of the stored cotton. The government has already given 30 million dollars for this purpose, and this sum is to be increased to 65 million. The Southern banks are equally prepared to support the reservation of cotton by every available means.

It is to be seen that the American government is creating a monopolist organisation for cotton. It is doing precisely what Hoover condemns so bitterly when other nations do it to the detriment of the American bourgeoisie.

The position of the farmers is a permanent problem in the United States, and their difficulties a constant political question. The farmers declare that whilst the eastern states, supported by trade and industry, are enjoying unexpected prosperity, the farmers have been living under the most difficult conditions since 1920. 35 millions of human beings, one third of the population of the Union, have been obliged to lower their standard of living, and to sink to a level unworthy of any American citizen. As the prices for wheat and maize are even lower this year than last, and as the cotton prices have fallen to such a catastrophic extent, the farmers' movement is gaining in strength. In view of the coming election, much is heard of the "farmers' legislation", but it is perfectly obvious that a state ruled by the big bourgeoisie will do nothing to prevent the exploitation

of the farmers by the railways, banking houses, and grain speculators. And although the farmers are not in such a desperate position as in 1922/23, still there is great disproportion between the enrichment of the big bourgeoisie of the East and the severe struggle for existence of the farmer of the West. The interest felt by the American bourgeoisie for the "free" farmer of the West is declining in proportion to the extent to which the bourgeoisie succeeds in becoming an organisation for the exploitation of the whole world, in pocketing the surplus profits of the whole world, and in forming a labour aristocracy of its own. Nothing but self-help can, like the pool in Canada, relieve the American farmer.

Foreign trade developments point to a worsening of economic conditions. During the last few months the trade balance of the States has been favourable. The following shows foreign trade in million dollars:

	Export		Import		Surplus	
	1925	1926	1925	1926	1925	1926
May	371	357	328	321	+43	+36
June	323	338	325	336	- 2	+ 2
July	340	368	326	339	+14	+29
August	380	386	340	336	+40	+50
8 months, ending August	3083	2961	2978	2729	+105	+232

Classified according to countries, export to Europe shows a considerable decrease during the first seven months — the statistics go no further — as compared with last year.

	Export in million dollars	
	1925	1926
Europe	1427	1168
North America	650	680
Asia	249	340
All parts of the world	2703	2575

The falling off of export to Germany is particularly conspicuous. The drop is from 252 to 152, obviously due to the diminished import of copper, cotton, and other raw materials. Exports to England and Italy have also fallen off.

The influx of gold to the United States has again increased. During the first eight months there has been a net import to the value of 78 million dollars as compared with a net export of 142 million dollars during the same period last year.

The issue and export of capital have increased as compared with last year.

It is easily comprehensible that there is much uneasiness felt in Europe at the growing extent of American penetration. The sympathy won by America by its participation in the great war, in the Entente countries, has been lost again by its insistence on the war debts. The "public opinion" of Europe, trusting in Wilson's phrases, and hoping for "help" for Europe from America, now sees that this help, in obedience to the inexorable laws of capitalism, signifies economic exploitation. And so long as Europe is dependent on American capital, it will have to accept in its bargain the expansion of American influence, and the exploitation by American capital. For the United States are on the upward road, Europe on the downward.

²⁹⁾ Manchester Guard. Com. 9. Sept., p. 306.