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## Economics and Economic Policy in the Third Quarter of 1929.

(Concluded up to October 20th, 1929.)

By E. Varga.

### I. The Hague Conference, the Disarmament Manoeuvres and the Aggravation of Imperialist Antagonisms.

The last few months have been characterised by the frantic efforts of the imperialists to camouflage the constantly increasing differences between them by means of pacifist phrases and the pompous announcement of an agreement between the United States and Great Britain as to the limitation of naval armaments. This fact is established not only by us Communists, but also by the "Economist" (of September 21st), one of the most reputed organs of the British Liberal bourgeoisie.

"To make out that this provisional agreement is an essential step towards the diminution of naval armaments, is sheer mystification.

"The agreement between Great Britain and the United States is hardly more than a concerted programme of naval construction within limits which possibly represent that minimum which is acceptable in either country to the advocates of a big navy."

Thus writes this leading bourgeois organ in regard to the naval disarmament agreement which has already been agreed upon in its general outlines between Great Britain and the United States. It is no agreement for disarmament, but a concerted programme of naval construction.

The aggravation of imperialist differences and the war preparations against the Soviet Union naturally do not permit of any actual disarmament, but they oblige the imperialist Powers to hide their war preparations behind a pacifist smoke-screen, so as to lull the suspicions of the proletariat. In this object, they are actively supported by the reformists. The nearer the danger of war approaches, the more eagerly is this pacifist mystification carried on.

These strenuously pursued war preparations naturally do not exclude temporary agreements in certain directions. Such an agreement of a sectional nature was also concluded on the occasion of the Hague Conference, where the arrangements of the Paris commission of experts were accepted in their essential details. But it is just the course of the Hague Conference that

### I. The Hague Conference, the Disarmament Manoeuvres and the Aggravation of Imperialist Antagonisms:

*The Spa Agreement, the Balfour Note, and the Young Plan. The Significance of Great Britain's Policy at the Hague. The Outcome of the Hague Conference. The Dispute regarding the Character of the Reparations Bank. The Aggravation of Imperialist Differences and the Disarmament Struggle.*

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NOTE: All quotations from English and American sources contained in this Report have been retranslated from the German.

shows how entangled and indissoluble the imperialist differences of the third period actually are.

Last year, especially after the conclusion of the Franco-British naval agreement, two great rival camps appeared to be outlined, viz. the British Empire, France (with its colonies and its European vassals) and Japan on the one hand, and America, Germany, and China on the other. This was the main constellation in all imperialist differences, based on the rivalry between the United States and the British Empire. In view of the decisive preponderance of these two world powers it was to be foreseen that all imperialist differences of a secondary nature would in one way or another adapt themselves to this main difference.

all smaller imperialist States arraying themselves behind the one or the other of these two great rivals.

The outward aspect of the Hague Conference, however, appeared to be in pronounced contradiction to this constellation. The struggle for the realisation of the Young Plan ensued almost entirely within the British bloc, whereas the United States were merely represented by an "observer", of whose activity no actual conception can be gained from the press. China was not represented and Germany was the only debtor confronting the numerous Reparations creditors.

But for a long while the struggle at the Hague did not turn upon the extent and manner of the Reparations payments due by Germany, but referred merely to the distribution of the Reparations payments. Of the six Powers concerned, France, Italy, Belgium, Japan, and Germany unreservedly spoke in favour of the Young Plan, while Great Britain was in favour of the German obligations established by that plan, though with a reservation regarding the distribution of the German indemnity among the Entente Powers. Germany was therefore in a position to watch the fight with relative equanimity up to the time when, towards the end of the Conference, there was a turn of affairs which led to a solution of the difficulty of distribution partly at the expense of Germany. The main fight was waged for a long time within the Franco-English bloc, where the following curious situation resulted.

In the matter of a distribution of the German Reparations payments, Great Britain was isolated in its opposition to the other Reparations creditors, France, Italy, Belgium, and Japan. Nor did the British attempt to gain over the smaller Reparations creditors, Rumania, Yugoslavia, and the like, meet with any lasting success.

As regards the evacuation of the occupied territory, France was isolated in opposition to the bloc of Great Britain, Germany, and Belgium. Italy and Japan are not greatly interested in this question.

#### THE SPA AGREEMENT, THE BALFOUR NOTE, AND THE YOUNG PLAN.

For the distribution of the German Reparations payments, there are three different bases, furnished respectively by the Spa Agreement, the Balfour Note, and the Young Plan. The Spa Agreement provided for a percentage distribution of all German Reparations payments among the Reparations creditors. The key of distribution — prior and subsequently to the lapse of the privilege granted to Belgium for several years, would have figured as follows:

	Original Key	Upon Lapse of Belgian Parity (Paris Agreement of 1925)
France . . . . .	52	53
Great Britain . . . . .	22	23
Italy . . . . .	10	10
Belgium . . . . .	8	5
Small Creditors together . . . . .	8	8

The Balfour Note established that, in view of the obvious impossibility of an all-round cancellation of the inter-Allied debts, Great Britain must receive as much from Germany and the other Allies as it was itself bound to pay to the United States.

The Young Plan ignored both the Spa Agreement and the Balfour Note, reducing the Britain share in the German payments to 19½ per cent, and allowing Great Britain no share in the immediately mobilisable annuities devoid of "transfer" protection.

This called forth vehement protest on the part of the entire British press, and the declaration by Churchill in Parliament that Great Britain would consent to no reduction of its quota established at Spa. Although the British delegates joined in signing the Young Plan, Snowden's attitude at the Hague was hardly surprising after the previous announcements on the part of Churchill.

Snowden set up the following claims:

a) In keeping with the key of distribution established at Spa, Great Britain's share was to be increased by 48 million marks annually, not by an increased burden upon Germany nor at the cost of the smaller creditors, but at the cost of Italy, France, and Belgium, which countries were according to the

Young Plan to receive more of the German payments than Great Britain's expense than was due to them under the Spa Agreement.

At the extremely complicated Paris expert negotiations the procedure had been such that each interested Power registered and defended its own claims, irrespective of the Spa Agreement. On the basis of the Young Plan there resulted the following average annuities between 1929 and 1965:

France . . . . .	1046.5
Great Britain . . . . .	409.0
Italy . . . . .	213.7
Belgium . . . . .	115.5
Rumania . . . . .	20.1
Yugoslavia . . . . .	84.0
Others . . . . .	100.0
	1988.8

Compared with the Spa Agreement, this distribution entailed for Great Britain a reduction of 48.3 million marks per annum, for Italy an addition of . . . 36.8 million marks per annum, for France an addition of . . . 1.7 million marks per annum, for Belgium an addition of . . . 12.2 million marks per annum.

(According to calculations by the "Wirtschaftsdienst" August 29th.)

b) Great Britain was to receive such a proportion of the payments not protected by transfers as had been established under the Spa Agreement.

c) The deliveries in kind were to be abolished with great despatch.

These demands were put forward by Snowden with altogether undiplomatic brusqueness and rudeness, so that the "Times" rightly observed, the Hague Conference was in a state of critical excitement from its very inception. The British delegation, whose attitude — after an abortive attempt on the part of the French press to play off the pacifist MacDonald against Snowden, who was "endeavouring the final liquidation of the war" — was supported by a widely published letter from MacDonald's and by the entire public opinion of Great Britain, refused all offers made by the "Four-Power Bloc" (France, Italy, Belgium, and Japan) on the grounds that it was satisfied with the Young Plan, and would not accept any new claims but was merely defending those which had already been sanctioned by the Spa Agreement. The fact, according to the Young Plan the sums due to Great Britain would for the future cover the British payments to the United States but not such amounts as had already been paid by Great Britain to America (roughly 4,000 million marks per annum) that the principle set up by the Balfour Note, that Great Britain should receive just as much as it stood to pay, appeared not to be observed, gave the British demands a further justification and an increased popularity among the British public.

#### THE SIGNIFICANCE OF GREAT BRITAIN'S POLICY AT THE HAGUE.

a) The British Labour Government desired to show the British bourgeoisie that it was defending the capitalist interests of Great Britain in the matter of Reparations, and especially in relation to France, more decidedly and successfully than the Conservative Government had done by the Francophile policy of Chamberlain.

Both for the Labour Party itself and for the British bourgeoisie, this step was of moral rather than material importance. Great Britain's budget amounts to 750 or 800 million pounds per annum; the 1.8 million pounds which the British Government has succeeded in securing out of Reparations there constitute only 0.25 per cent. of the entire British budget — a relatively insignificant amount. Nor is Great Britain's participation in the non-protected payments of any immediately practical value.

b) The British bourgeoisie was from the first rather averse to the Young Plan, particularly so in regard to the Reparations Bank, which under American influence would be liable to menace the importance of London as a monetary centre. Any pronounced hostility to the Young Plan would have placed Great Britain in opposition to all the other imperialist Powers and would have incurred for it the stigma of acting as an obstacle to peace. It was in the interest of the new British

icy, however, to render the position of the Conference critical by an obstinate adherence to the original British claims, whereby a modification of the Young Plan might be effected.

c) The British bourgeoisie was, in point of fact, opposing the hegemony of the United States in international politics, though there was naturally no mention of any such intention in the Hague negotiations. This would appear to be in contradiction to the outward aspect of the Conference, to the simultaneous ostentatious preparations for naval disarmament on the part of Great Britain and the United States, and to the effusive demonstrations of friendship exchanged between MacDonald and Dawes. The contradiction, however, is only on the surface.

At the Paris Conference; the experts of the United States look both Italy and Germany under their protection. (This applies to Germany only in so far as its oppression by the other Powers is concerned, for all German attempts to play the rôle of an active imperialist Power, to regain some of its lost colonies, and the like, were rigorously opposed by the United States in full agreement with France and Great Britain.) At the Hague Conference, on the other hand, Great Britain at first acted as the friend of Germany, for several weeks refusing to accept of any fresh encumbrance of Germany beyond the limits of the Young Plan for the satisfaction of the British claims, and at the same time announcing its intention of starting the evacuation of the Rhineland on September 15th independently of France and of the issue of the Hague negotiations. Great Britain, moreover, emphatically demanded certain sacrifices on the part of Italy. Finally, however, it turned out, as has so often been the case of late years, that an agreement was to be reached at the expense of the weakest party, i. e. Germany.

The entire attitude of Great Britain at the Hague, however, a demonstrative show of strength and obduracy, was intended to serve as a warning to the United States, to the effect that Great Britain was not prepared without very serious resistance to comply with the American wishes in regard to a reduction of its naval forces. On the other hand, the prospect of being able by means of a naval agreement with the United States to diminish, at least temporarily, the menace to Great Britain of a military preponderance of France on the European Continent, is undoubtedly one of the factors which encouraged the British bourgeoisie, through the mouths of their present official representatives, MacDonald and Snowden, to make such a firm stand against the French aspirations at the Hague.

It is obvious, however, that the effusive demonstrations of friendship between MacDonald and Dawes or even a possible agreement in regard to naval disarmament, cannot change the fact that the fundamental antagonism between Great Britain and America must continue to be the main factor in inter-imperialist differences altogether and that this difference must only increase under the pressure of economic conditions. We may observe that the industry of the United States, entrenched behind ever-higher protective tariff walls, seeks to increase its exports from year to year, that American capital exportation is increasing that of Great Britain from South America, Canada, and Australia, that the United States capitalists are systematically fighting and seeking to render ineffective the British raw-material monopolies, and that, relying on its tremendous gold holdings, America is employing its credit policy for the coercion of Great Britain, which is experiencing difficulty in staying the continuous outflux of gold.

On the other hand, we may remark that Great Britain is not altogether unsuccessful in defending its position. The commercial mission sent to South America under the lead of Lord Abernethy, formerly British Ambassador to Berlin, was eminently successful in Argentina. A contract was concluded, under which the Argentine railways will in the course of the next few years derive railway material from Great Britain to a value of 20 million pounds, while British importers will expend the same sum in purchasing foodstuffs in Argentina. The conclusion of this contract is at the same time a political move of no small importance against the United States' exploitation of South America.

This economic struggle between the two most powerful imperialist States will undoubtedly be enhanced after the imminent economic crisis in the United States and must sooner or later lead to open war. This state of affairs was summed up as follows in a resolution passed by the X. Plenum of the E. C. C. I.:

"No manner of negotiations, or even transient agreements, on the part of the MacDonald Government with the United States, can eliminate the inevitability of an armed conflict between America and Great Britain; on the contrary, they will merely form a stage in the development of such a conflict, just as the attempts at an understanding among the imperialist Powers on the eve of the late war merely served to pave the way for the hostilities of 1914/18."

d) The inevitable aggravation of the antagonism between Great Britain and the United States renders it necessary that Great Britain should not pursue an anti-French policy for any length of time. However vehemently Snowden may have spoken against the claims of France at the Hague and however bad the personal relations between the French and British delegations at the Conference may have been, the material claims of Great Britain were finally satisfied not at the expense of France but at that of other Powers, particularly Germany, though it must be admitted that the British resolve to start with the evacuation of the Rhineland on September 15th, constituted a severe pressure on France to the benefit of Germany.

Nevertheless, we cannot agree with the opinion expressed by part of the German and French press, to the effect that the "Entente Cordiale" is now definitely a thing of the past. If it is a fact that the differences between Great Britain and the United States are making for war, Great Britain must needs remain on good terms with France, for a simultaneous war against France and the United States would entail the possibility nay, probability, of a destruction of British power, whereas a war between Great Britain and the United States without the support of the latter by any European Power in the vicinity of England, might mean a severe struggle on the Ocean and in the colonies and greatly impair Great Britain's position as a world Power, but could hardly involve the possibility of any actual invasion of the British Isles.

More generally speaking, those technical developments which have deprived Great Britain of the advantages of an insular position in relation to France in the case of war, force Great Britain to pursue a policy tending to eliminate the possibility of war with France until the greatest problems of Great Britain's international relations, viz. the differences between the British Empire and the Soviet Union or the United States, respectively, have been settled by the arbitrament of the sword.

Finally, it is not to be expected that the differences between Great Britain and the United States could lead to a war prior to the assault of the imperialist world under the lead of Great Britain on the Soviet Union. And such an assault unavoidably calls for co-operation on the part of Great Britain and France, with the inclusion of the latter's European vassals.

We are therefore of opinion that the significance of British policy under the Labour Government does not lie in the attempted substitution of an Anglo-American for an Anglo-French alliance, but rather in the endeavour to regain the lead in European politics and to play the leading, instead of the secondary, rôle in the Anglo-French Entente. So as to weaken France's position in Europe, Great Britain supports Germany in the question of evacuation; in place of the absolute military predominance of France it seeks to establish a more equal division of forces, quite in keeping with the time-honoured traditions of British foreign policy. In this way, the British bourgeoisie and their Labour Government seek to restore the hegemony of Great Britain in its old rôle of a mediator on the European Continent, on which basis it can more successfully confront the United States.

At the same time, however, Great Britain can naturally not support the economic and imperialist development of Germany to more than quite a moderate extent. At the present time, Germany's industry is already second to that of the United States as a competitor of Great Britain on the world market. Therefore there can be no question of an Anglo-German Entente in place of the Anglo-French alliance. In a political and military sense, Germany is far less dangerous to Great Britain than France is, but economically it is far more so. What induces Great Britain to adopt a friendly attitude towards Germany at the present juncture, is in the first place the important rôle which, thanks to its central position in

Europe, Germany would be called upon to play in the event of an attack on the Soviet Union.

### THE OUTCOME OF THE HAGUE CONFERENCE.

The material outcome of the Franco-British duel is before all an alteration of the Young Plan to the disadvantage of Germany. The following are the changes which have been made in this regard:

a) Within the limits of the Young Plan, that section of the German payments which is not under the transfers protection has been raised from 660 to 700 million marks per annum.

b) Outside the Young Plan, the alterations are as under:

1. The 300 million marks which, between the months of April and August, Germany has paid on the basis of the Dawes Plan in excess of what it should have paid under the Young Plan, will not be refunded to Germany, the employment of this sum being left to the common decision of the Allies.

2. Germany incurs the obligation to pay a sum of 30 million marks for the cost of occupation from September 1st, 1929, until the evacuation has been completed. According to the Young Plan, this question was also to have been decided by agreement among the Allied Governments.

3. Germany waives all claim to indemnity for damages caused by occupation.

Meanwhile, though these new sacrifices naturally represent a considerable sum, they cannot be said materially to impair those advantages which Germany derives from the Young Plan as compared with the Dawes Plan, viz. abolition of the "welfare index", considerable reduction of the yearly payments, especially in the first ten years, and abolition of the railway and industrial obligations, the control of the Reichsbank, and the like. It is symptomatic that the news of the latest changes, disadvantageous as they are, was answered on the German stock-exchanges by a vigorous upward movement of the rates.

The greatest advantages at the Hague Conference were secured by Great Britain. Snowden put through his claims to the extent of 80 per cent. The sum accorded him over and above the limits of the Young Plan was 40 million marks yearly, whereas he had claimed 48 millions. The sum of 40 millions is made up as follows: Out of the surplus of German payments rendered on the basis of the Dawes Plan between April and August over and above the extent of the Young Plan, 100 million marks are paid out immediately to Great Britain, which corresponds to an annuity of 7.2 millions. Another 28.8 millions are guaranteed by the other Reparations creditors, Italy contributing 9 millions (v. "Times" of August 29th). Great Britain stands to receive only 36 million marks more, but since the Reparations payments are made monthly, while Great Britain's payments to the United States are rendered quarterly, the interest of two months at a time increases the total from 36 to 40 million marks as between America and Great Britain.

Of the transfer-protected payments of Germany, Great Britain receives, counting the above 48 millions, roughly 100 millions per annum, whereas in keeping with the Spa percentages Snowden had demanded 120 millions. Finally, as regards the deliveries in kind, Italy has engaged to purchase annually, for a period of three years, one million tons of British coal for its railways.

France made no material sacrifices at the Hague, having received its full share of the German payments, both according to the Young Plan and as regards the transfer-protected sums.

Sacrifices had to be made not only by Germany but also by Italy and the smaller Reparations creditors. Italy sacrificed the above-mentioned seven million marks per annum. The smaller States had to waive their claim to a share in the transfer-protected payments in favour of Great Britain and are to be indemnified in various ways in connection with inter-Allied indebtedness.

### THE DISPUTE REGARDING THE CHARACTER OF THE REPARATIONS BANK.

One of the most interesting "results" of the Hague Conference is the fact that the appointment of an "organisational committee of the Bank for International Payments", provided

for in the Young Plan, has not been effected. The Young Plan, therefore, is really being put into practice, without the Reparations Bank, which formed its culminating item, simultaneously coming into being. This is not because the negotiations regarding the distribution of Reparations payments and the evacuation of the Rheinland have been so greatly protracted; on the contrary, the British have obviously — apart from other reasons — delayed these negotiations so long as to prevent the simultaneous foundation of the Reparations Bank. It is undoubtedly a provisional success of British banking in relation to that of the United States.

It is obvious that the interested Powers are of widely different opinions regarding the character and the functions of the Reparations Bank. And since that conception of the Reparations Bank which is embodied in the Young Plan, essentially represents the views of the American international bankers Morgan and Lamont, who have found an individual ally in the person of the British delegate, Josiah Stamp, there naturally ensued most serious differences in regard to the character of the Bank and the place where it is to be established, since the proposals of the representatives of the various Powers would not submit to the American plans. In this struggle, the most important part was that of British-financial capital, which was most seriously affected.

It was that part of the prospective Bank's programme which surpasses the functions of a mere Reparations Bank that particularly roused the representatives of British capital to resist the latter interpreting the entire plan as an attempt on the part of the United States to create an instrument under an international flag for the purpose of attacking London's position as an international financial centre. The resistance of the British capitalists was already partially successful during the Young Plan Conference, seeing that the share capital of 300 million dollars originally provided by the Americans was reduced to 100 millions, only 25 millions of which are to be paid up at present.

Since then the propaganda of the British against the Bank has been successfully continued. It is pointed out with particular emphasis that the United States Government does not share the opinion of the bankers. In the United States there are opinions which are very sceptical as regards the international tasks of the Reparations Bank, especially with regard to the possibility of financing undeveloped countries in the interest of the German deliveries in kind.

In France, too, there are misgivings regarding the Reparations Bank.

Even in Germany, in the interest of which country the Reparations Bank is allegedly to act as an international institution, opinions as to its practical feasibility are growing more and more sceptical.

In keeping with the Young Plan, the United States bankers desire to give the Reparations Bank as wide a scope as possible. The greater the activity developed by the Bank, the greater will be its dependence on the capital of the United States, seeing that its own means would be absolutely inadequate for such a range of business. It must therefore become more and more a tool of American banking. British bankers, on the other hand, and British industry in general, would wish to see the scope of activity of the Bank narrowed as far as possible, so that it should be nothing more than a clearing-house for the liquidation of the Reparations and inter-Allied debt payments.

At the same time there are on either side also other opinions. In the United States it is mainly the industrial capitalists who oppose the extravagant plans of the bankers; in view of the present high rate of interest for loans the industrialists of America are not at all interested in an employment of American credit abroad. In Great Britain there are likewise certain circles that favour the idea of an international "super-bank" with great authority; Stamp, a member of the Dawes and Young Commissions, is an enthusiastic champion of the Reparations Bank. He may, however, be looked upon as an exception.

As regards Germany, the German capitalists hope, without cherishing any exaggerated expectations in this connection — that the Reparations Bank will help to finance German export trade, especially through the investment of the non-transferable German payments in Germany itself (an organisational pro-forma transfer); whereas the "undeveloped" countries dependent on capital importation do not desire their import requirements to be financed by the Reparations Bank. It

gueness prevailing in regard to the Bank is so great, that the League of Nations session Poland, Denmark, and Norway voted that the Bank be attached to the League, which was declined by Loucheur in the name of the chief Powers interested in Reparations.

The outcome of these contradictory interests, to which must be added the struggle regarding the place of establishment, lies in the fact that, although the Young Plan has virtually, albeit not officially, been in force since September 1st, the organization of the Reparations Bank is still in its infancy. After long discussions in regard to the question of how the Commission is to be convoked and where it is to take place, the members were finally appointed at the end of September and early in October the Commission began to sit at Baden-Baden. As regards the results of its deliberations, all that has as yet transpired is that a share capital was established at 100 million dollars, as provided for in the Young Plan. The United States Government, it will be remembered, has forbidden the Federal Reserve Bank to be any official part in the Reparations Bank, for which reason Regnold, Chairman of the "First National Bank of New York" and at the same time a manager of the New York Federal Reserve Bank, was appointed by the managers of the European central banks and upon the recommendation of the League and Young to figure on the organisational commission.

The most difficult question is, where the new Bank is to have its headquarters. In this regard the "Kölnische Zeitung" of September 16th reports that at Geneva a compromise has been arrived at with the British, who wanted to have the Reparations Bank in London, and that the seat of the Bank will be in Switzerland, while the governor of the Bank will be the well known British banker Niemayer. Whether this is in keeping with the facts or merely represents an attempt at mediation on the part of Germany, is at present still uncertain.

In some form or other the Bank will presumably come into being. It is obvious, however, that the ambitious plans of the United States bankers will have to be greatly diminished and that the fight of the imperialists will continue within the Bank, and that all action on a truly large scale will be impeded.

## THE AGGRAVATION OF IMPERIALIST DIFFERENCES AND THE DISARMAMENT SWINDLE.

The outcome of the Hague Conference is that the Young Plan will in future replace the Dawes Plan in determining the tribute due by Germany to the Entente Powers. We shall attempt in this article to outline the way in which this change influences imperialist differences and the formation of blocs among the imperialists. We are obliged first to enumerate these differences separately, though in reality they are indissolubly interwoven and interconnected.

1. **The fundamental antagonism existing between the capitalist world and the Soviet Union**, is enhanced by the acceptance of the Young Plan, and the attempt at a violent solution of this difference by means of war is accelerated. In the united front of the capitalist countries against the Soviet Union, Germany forms the weakest link. The German bourgeoisie, crushed in the war and seriously hindered in their new imperialist development by the loss of their colonies, foreign capital investments, and fleet, by the tribute imposed upon them, the foreign control of their economically commanding positions, their disarmament and the military occupation of important regions, attempted temporarily to find support in the Soviet Union, but was not to be altogether at the mercy of the Entente brigands.

In the same measure, however, in which the capitalist reconstruction of Germany progresses, the difference between capitalist Germany and the Socialist Soviet Union becomes increasingly pronounced. The policy of manoeuvring between an "Eastern" and a "Western" orientation has given way to more and more definite lining up in the anti-Soviet front. It is a question no longer of principle but of price. The compromise arrived at at the Hague in the Reparations question — the evacuation of the Rhineland and the termination of the open control of the economic key-positions in Germany — makes it easier for the German bourgeoisie to join in a common fight with the West European Powers, Germany's former enemies, against the Soviet Union.

The internal imperialist antagonism recedes into the background in face of the antagonisms of the social systems (on the one side the capitalist order of society with the rule of the

bourgeoisie and on the other the rule of the proletariat). The acceptance of the Young Plan constitutes an acceleration in the incorporation of Germany in the anti-Soviet front and therefore an increased menace of war to the Soviet Union.

How energetically the war preparations are being carried on by part of the German bourgeoisie, may be seen by the revelations regarding the activity of the German Reichstag deputy Klönne, who has repeatedly had discussions in regard to a military agreement with French generals and with the French deputy Reynold, considered more and more to be a leader of the Right<sup>1)</sup>. Of these discussions, Klönne even informed the German Foreign Office. A similar impression is created by the assertion of Rechberg that the increasing relations between French and German capital is bound to have corresponding political consequences.

Less well known, though no less characteristic, is a suggestion of the British financier Strakosch for the organisation of financial support by the League of Nations for States which are unprovokedly attacked<sup>2)</sup>.

There can be no doubt that the entire plan is directed against the Soviet Union, though the latter is not so much as mentioned. The main idea is that attacked States are to be accorded a League of Nations credit, which is to be secured by a triple guarantee, viz. on the part of the State benefited, on that of some States "of undoubted financial stability" (which obviously means the leading imperialist Powers), and on that of all the signatories to the convention. The entire mechanism is to be prepared in peace times and to come into force immediately in case of war. The reasons advanced are naturally pacifist, it being pointed out that in this way the nations will be spared the necessity of great armaments in times of peace. That the entire plan is directed solely against the Soviet Union, may be seen by the following stipulation:

"The Convention is to come into force in favour of any member of the League of Nations which has joined the Convention and which is unanimously (by the Council of the League of Nations) recognised to be menaced by, or the victim of, an attack<sup>3)</sup>).

It is obvious that the League of Nations, in which capitalist Powers with the most antagonistic interests are represented, cannot be expected ever to arrive at a unanimous decision as to who is the aggressor unless it is a question brandmarking the Soviet Union as the aggressor. It is therefore quite obviously a matter of securing to countries bordering on the Soviet Union the guarantee in advance of financial support on the part of the League of Nations, so that they may more readily commence an attack on the country of the workers.

If, in addition, we take into account the uninterrupted provocation carried on during the last few months on the Manchurian frontier by the Chinese Government, which cannot for a moment be supposed to be acting without the express approval of the leading imperialist Powers, we may see how systematically the war against the Soviet Union is being prepared on all sides.

2. **The antagonism between the bloc of European debtor countries, including Germany on the one hand and the United States on the other**, is organically established in the Young Plan. The entire construction of this plan; the division of the annuity into a sum (the larger portion, protected by the transfer agreement) which accrues to the United States, and another (the smaller part, not so protected) which falls to the share of the actual Reparations receivers, the limitation of the latter part to 37 annuities, whereas the annuities for the United States must still be paid for another 22 years; the stipulation that two thirds of any possible rebate allowed the Allies by the United States must in turn be accorded to Germany; the immediate combination of the German obligations with those of the Allies to America — all this means an attempt to co-ordinate Germany with the European debtors confronting the United States, a simplification and organised comprehension of the European

<sup>1)</sup> "Frankfurter Zeitung" of September 23rd.

<sup>2)</sup> Sir Henry Strakosch, "A Financial Plan for the Prevention of War", London, 1929. See also "League of Nations Economic and Financial Publication", 1929, II., 14.

<sup>3)</sup> v. Strakosch, "A Financial Plan for the Prevention of War" p. 6).

debtor countries in their dealings with the stubborn American creditor, and thus also an aggravation of the European-American antagonism.

A continuation of this policy is to be found in the attempt of Briand to propagate the creation of the United States of Europe, an attempt obviously directed against both the United States and Soviet Russia. This propaganda has so far met with no tangible success. Great Britain, in particular, has proved adverse to the idea, it being pointed out, inter alia, that it is the object of Great Britain's policy to render the British Empire a fully separate economic unit, stronger than either the United States of America or the United States of Europe.

The United States of America consider the Pan-European idea with indifference and reserve. Julius Klein, Under-Secretary of State for Trade, declared on September 18th that "America has nothing to fear from the European economic union", the less so seeing that the economic rivalry of the individual States makes their economic union without a political fusion extremely improbable.

3. The antagonism between Great Britain and the United States, the predominant imperialist antagonism of the present time, was apparent at the Hague negotiations in various ways, as we have indicated above. The problem of Reparations and inter-Allied debts, however, is a single, albeit important, factor in the entire complex of world-wide antagonisms between Great Britain and the United States.

While the Powers were quarelling at the Hague regarding the "final liquidation of the results of the war", MacDonald was carrying on "amicable" discussions with Dawes regarding a restriction of naval armaments and the avoidance of future wars. In relation to the United States, however, the rôle played by Great Britain is widely different from that acted in relation to the representatives of Continental Europe assembled at the Hague.

At the Hague, Great Britain was attacking. Since all the participants desired the acceptance of the Young Plan, Snowden was in a position to act the part of the strong man and to emphasise the position of Great Britain as a world Power.

In relation to the United States, Great Britain is the menaced party. All the world over, the United States are successfully attacking the economic hegemony of the British Empire. America's exports are expanding at the expense of those of England. Great Britain's raw material monopolies are faced with the monopolised purchasing organisations of the United States. In regard to capital exportation, England is being ousted from one market after another. Relving on a tremendous home market, protected by high tariffs, with a capacity of absorption several times exceeding that of the British, American imperialism is constantly gaining ground at the expense of British imperialism. This pressure is all the greater, seeing that the capitalism of the United States is "over-ripe" and capital investments abroad are becoming more advantageous than the development of productive forces within the country. The economic fight must culminate in a passage of arms.

The negotiations regarding a restriction of naval armaments are part of the preparations for war. The United States, economically and financially the stronger of the two Powers, have already forced Great Britain to give up the traditional "Two-Power Standard" in regard to great battle-ships in favour of parity with America: they now demand the same parity as regards cruisers: Great Britain has the choice of permitting the United States to attain such equality by tremendous new constructions or of "voluntarily" agreeing to establish equality by a restriction of its own armaments. The second way is the cheaper and affords the possibility of camouflaging the real nature of the concession by means of pacifist phrases. It is therefore unlikely that MacDonald's visit to the United States will lead to any "success" in regard to the restriction of armoured-cruiser construction. The "success" will consist in the fact that through parity in cruisers it will be easier for the United States to choose the moment for the outbreak of a war.

An agreement in regard to cruisers is rendered easier by the change in naval technics, which are making even the large cruisers an antiquated naval arm. Small and very fast units, submarines, aeroplanes with their parent ships, and airships are the craft which both Powers will continue to compete in constructing once the United States have attained parity in regard to the cruisers.

With reference to the personal discussions between MacDonald and Hoover in the United States, the following communiqué has been published:

"There is unanimity on the following points:

"1. That the present discussions are the outcome and continuation of the agreement on the renunciation of armaments (Kellogg Agreement);

"2. That the principle of parity of fleets is accepted and that this parity shall be attained by December 31st, 1922. On this point the British Government has conferred with the Governments of the British Dominions, and the definite parity is to cover all naval forces of the British Empire.

"3. That it is desirable to raise the question of a reduction of the period of service for battle-ships, so as to avoid the execution of the entire supplementary programme proposed by the Washington Agreement of 1922.

"4. That both Governments are of opinion that submarines should be completely abolished, but that this step cannot be effected without the agreement thereto of all Powers involved.

On the basis of this agreement, an invitation was issued to a conference of the five great naval Powers in London early in January 1930.

This agreement for the purpose of restricting naval armaments meets with no inconsiderable amount of opposition in England. A typical letter, written to the "Times" (of October 8th) by a leading member of the Navy League, declares: "It cannot be too emphatically stated that in this sphere of time has not yet come to cut the English coat according to the American cloth, seeing that the dangers which render armaments necessary, do not threaten America at all."

The other side of the medal in the United States is the Shearer scandal. In 1927, the great shipbuilders paid the venturer some tens of thousands of dollars to go to Geneva and render abortive the naval conference; he now claims additional 225,000 dollars seeing that his activity at Geneva procured for the interested shipbuilding enterprises orders for warships to the value of 600 million dollars.

On the other hand, the mention of the "freedom of the sea" by Borah at the time of MacDonald's presence in America shows that the Americans are not wholly satisfied with the agreement either.

The agreement, however, is only to come into force with the other three naval Powers, Japan, France, and Italy, and to it and adapt their naval constructions to the rate agreed upon. There is obviously not much prospect of this being the case, nor would a failure of the conference be particularly agreeable to the initiators of the agreement, Great Britain and America, since then they could continue their armaments, lay the blame upon the others, thus saving their faces in the eyes of the pacifists. France is also anxious to sabotage the agreement, suggesting that the naval question be settled by means of a "disarmament conference".

This represents a sabotage, not of disarmament, of which there can be no question, but of the intended restriction in the rate of armaments, seeing that the disarmament conference of the League of Nations in reality means against disarmament.

Great Britain and the United States, the strongest Powers, suggest the abolition of submarines, while France, Japan, and Italy are quite unwilling to renounce this weapon so useful in a fight against an enemy stronger in cruisers and battle-ships.

Italy demands to have the same strength in all smaller categories as France, a suggestion to which the latter will also agree.

There is, moreover, another point deserving consideration. By reason of its antagonism with the Soviet Union, Great Britain is forced to play the defensive rôle in regard to the United States. Since the Soviet Union is the natural focus of the workers' movement but also of the revolutionary emancipation movement of the oppressed colonial peoples, as Great Britain is the country which is most immediately threatened by colonial revolutions, Great Britain is at present the leader in the struggle against the Soviet Union. Later this lead will pass to the United States. But if it is to be able to start a war against the Soviet Union, Great Britain must first temporarily avoid a war with the United States and to gain the "benevolent neutrality" of that country.



The conversation between Hoover and MacDonald apparently also referred to their attitude towards the Soviet Union, strengthened by their success at the Hague, the British bourgeoisie intend to conclude a temporary agreement, so as to concentrate all their forces on encircling the Soviet Union. The assumption of diplomatic relations with the Soviet Union, cited under pressure on the part of the workers, is by no means contradictory to this political line.

4. **The Franco-British antagonism**, which was cloaked over by no means eliminated by the Francophile policy of Chamberlain, has again come sharply to the forefront. Nevertheless, we have already pointed out, there can be no question of termination of the Entente in such a sense that the relations between the two countries could be expected to be completely different from what they were under the Conservative regime. In view of present-day military techniques and of the present political position (war preparations against the Soviet Union and a constant aggravation, of differences with America) Great Britain is compelled to entertain a "friendly" relationship with France; it must at any rate be certain of a "benevolent neutrality" on the part of that country, if it is to have a free hand to proceed against the Soviet Union and the United States.

5. **The British-German antagonism** was particularly noticeable at the Hague in the question of deliveries in kind. Great Britain succeeded in attaining certain advantages at the expense of Germany, e. g. the coal agreement with Italy.

Great Britain's relations with Germany are of a dual character. On the world market, Germany is competing more and more actively with Great Britain. In coal-mining, engineering, shipbuilding, the electric industry, and the artificial silk industry, Germany is Great Britain's most dangerous rival.

On the other hand, Great Britain is politically dependent on Germany in three different respects. In the struggle against the Soviet Union, Germany is of the greatest importance as the hinterland of Poland, as a powerful industrial region for the manufacture of war material, and as a corridor for the passage of troops and ammunition. In the struggle against the United States, Germany is invaluable as a component of the European bloc of debtor nations confronting America. In relation to France, Germany serves to prevent France (with its European Vassal States) from acquiring an absolute hegemony on the European Continent, thus standing for the preservation of a balance of power to the advantage of Great Britain.

The sharpening economic struggle, however, cannot but lead to a more pronounced political hostility. The hope cherished by the German Social-Democrats and Left bourgeois parties that the effect that the Franco-British Entente may now be replaced by an Entente between Great Britain and Germany, is based on an absolute misinterpretation of fundamental economic facts.

6. **The antagonism between Germany and all the other imperialist Powers** was shown up very forcibly in Paris and at the Hague. The internal economic development of Germany, the development by leaps and bounds of its monopolised capitalism — despite the Reparations onus — urgently calls for the monopolised control of regions for the sale of its industrial products and the supply of its raw materials. The economic basis is in too great a contradiction to the political superstructure, the disarmament of the country, and the lack of colonial regions of exploitation. In foreign politics, this is reflected in the desire of the German bourgeoisie to attain a fresh distribution of the world, a desire which entails hostility to all colonial Powers, especially Great Britain and France which are in possession of the former German colonies.

This fundamental antagonism between the German bourgeoisie and the colonial Powers has in no way been mitigated by the Hague Conference.

The Young Plan, which was sanctioned at the Hague with only slight alterations, is a temporary compromise which naturally does not remove the differences on the Reparations front but merely subjects the Reparations question to a new international settlement, seemingly better suited to present political conditions than the Dawes Plan was. This solution, however, is merely provisional; no one takes these stipulations, established for six years, seriously. Thus Lord Melchett writes in his pamphlet on "International Industry and the Young Plan" (p. 10):

"It is impossible for any commission to try to solve a problem which obviously surpasses the limits of human

understanding, to try to predict for 60 years the outcome of international business in an economic world the most essential conditions of which are changing before our very eyes."

Lloyd George puts it more simply and emphatically:

"Here no one really believes that Germany will be able for nearly two generations to pay its creditors 100 millions pounds a year in foreign money." ("Neue Freie Presse" of August 31st.)

As soon as political conditions change, which they are bound to very speedily, a yet more vehement struggle will ensue for a new regulation; indeed, this struggle has already been commenced on the German side.

The most important of the immediate consequences of the compromise attained in Paris and at the Hague in regard to Reparations is undoubtedly the possibility afforded the international bourgeoisie to take up the fight against the Soviet Union more decisively. The main outcome of the Hague Conference is thus an increased danger of war against the Soviet Union.

## II. Problems of Monopolisation and the Doctrine of "Organised Capitalism".

If we compare national and international cartels from the standpoint of their stability and durability, we can see that the national monopolies, covering the territory of a single State, are much more durable than are the international monopoly organisations. The reason is mainly that in view of the intimate association between monopoly capital and State authority, the State is able to work in the interests of the monopoly within national limits, whereas the conflicting interests of the individual national bourgeoisies generally force the respective State Governments to observe a more hostile attitude towards international monopolies.

The chief instrument of economic policy, making for a stabilisation of national cartels, if not, indeed, representing the presupposition for their formation, is that of protective tariffs. These enable the home producer — even in the case of free competition within the customs boundaries — to sell his goods at the world market price plus the import duty or part of it, provided the output of tariff protected goods within the customs boundaries does not satisfy the demand. If the output surpasses home consumption, the price-appreciating effect of the tariff can be felt only if the producers combine to form a trust, with a view to keeping production below consumption or else disposing of the surplus of their production outside the customs area. At a certain stage of development, the existence of a protective tariff becomes the most powerful incentive to the formation of monopolies.

A national monopoly and a protective tariff naturally lead to dumping, i. e. to sales outside the customs boundary at a price which is lower than the monopoly price at home ( $C + pm$ ), in almost all cases also below the price of production ( $C + p$ ), and sometimes even below cost price ( $C$ ). It is a necessary presupposition for a sale at the monopoly price within the country, that no output surplus should ever be placed on the home market. Since sales at home are almost invariably several times as great as sales abroad, the foreign sale price may if necessary be put very low. If the average result of all sales at home and abroad is to be  $C + p$ , which would mean at any rate a realisation of the average rate of profit, the price abroad, on the basis of a small percentage of foreign sales, can be reduced quite considerably below cost price.

It is obvious that if equally strong national monopolies face one another — equally strong in the sense that their cost price, the protective tariff, and the absorbing capacity of the home market are equal, or else, if these items are unequal, but the respective differences balance so as to produce an equal profit to the monopolies on a full exploitation of the customs protection — mutual dumping will destroy customs protection and the monopoly profit as well. It follows:

a) That the industrialisation of the small States with narrow home markets must prove difficult, seeing that even high pro-

protective duties afford no sufficient protection against the dumping of the big industrial countries.

b) That there is a tendency towards a continual increase in industrial protective duties.

c) That there is a tendency towards the formation of international monopolies (cartels, trusts, rings, etc.)

### INTERNATIONAL MONOPOLY FORMATION AND ITS LIMITATIONS.

The monopoly profit hoped for on the national market under the protection of tariffs is endangered by mutual dumping. The logical continuation of the monopoly formation would naturally lie in the creation of international monopoly organisations. As a matter of fact, there were even before the war a number of international cartels; after the war their formation made further progress, without, however, attaining to such speedy development or such stability as experienced in the formation of national monopolies.

The main causes of the failure of international monopolies lie in the unequal development which, in keeping with the changing importance of the raw materials and with the changes in technics, brings first one and then another branch of industry to the fore, causing first one country and then another to make a spring forward in its development. This unequal development changes the proportion of strength on which the international cartels have been based, the result being that either the agreement must be revised or else the cartel must be dissolved. (Even for a national monopoly organisation there is no greater danger of dissolution than that emanating from unequal development.) An unequal development sets narrow limits to the stability and expansion of international cartel formation.

These limits are somewhat less narrow in regard to international trust formation in all its variations. Reduction in the cost of output in the case of one enterprise, one branch of industry, or one country below the social average forms the economic basis of unequal development. If therefore, generally in consequence of a new technical process, the costs of production of an enterprise forming part of an international cartel or those of all enterprises of a country, forming a national monopoly, drop below the average, affording the possibility of still greater profits in the way of free competition, the international cartel is destroyed. If it was a price cartel, it is destroyed because some enterprise or group of enterprises finds it more profitable to sell greater quantities at a lower price level; if it was a quota cartel, its destruction will serve the purpose of breaking the bonds of sale limitation.

International trust organisations, however, in which the amalgamation of capital has reached the degree of a more or less uniform distribution of the aggregate profits in keeping with the size of the capital contributed, are less seriously affected by an unequal development among their participants, since the independence of the latter is small and their secession from the trust a matter of some difficulty. Therefore the formation of international monopolies is coming more and more to favour the trust, as opposed to the cartel form.

An international trust formation, however, meets with considerable opposition on the part of the bourgeoisies of the individual nations. In international trusts it is obvious that the economically strongest party will soon get the upper hand, which means a partial subordination of the economy of the weaker country to that of the stronger, a development which the bourgeoisie of the menaced country is naturally anxious to prevent.

Thus we see that, although there is undoubtedly a tendency towards the formation of monopoly organisations both on a national and on an international scale, this tendency by no means leads uniformly upwards to a "general cartel" and to a form of super-imperialism, being constantly set back, economically by reason of unequal development and politically by the rivalry of the imperialist countries. In this way the anomalies of capitalism are enhanced and acutely revolutionary situations result.

### THE THEORY OF "ORGANISED CAPITALISM".

The theory of "organised capitalism" has of late found frequent discussion within the Communist Party of the Soviet Union. This theory is indeed of great political significance. It forms the basis of the entire philosophy of the present-day

reformists. The theory of a peaceful transition to Socialism, assumedly already in progress, the theory that the State of the present day is no longer a class-State of the bourgeoisie, the theory of super-imperialism — all these are based on the theory of "organised capitalism".

This problem has gained actual political importance through the activity of Comrade Bukharin. True, it was long known that Comrade Bukharin differed from Lenin in his estimate of the imperialist phase of capitalism. His deviation, however, first acquired political importance when it became apparent that it was no isolated fact but an element of the systematic deviation of Comrade Bukharin. In view of this fact it appears all the more necessary to treat the matter in detail.

### What is Really Meant by "Organised Capitalism"?

In the first place it must be pointed out that the idea of "organised capitalism" is not only no Marxian idea, but that it contains an internal contradiction if we consider the development of society implied by this idea as ended. As a matter of fact, we understand capitalism to mean a commodity-producing society the mechanism of which is controlled by the law of value, which in its turn presupposes a market for development. In a perfected state of "organised capitalism", a worldwide "general cartel", there could only be one employer, one proprietor of all goods. There would be no market, merely a distribution; there would be no commodities, no law of value, no competition, no necessity of accumulation. We can imagine such universal capitalism in the form of a world society, supposing a larger number of owners of the means of production covered by the "general cartel" to be distributed, the surplus product of the workers; it would, however, by no means represent a form of capitalist society as understood by Marx. Therefore the idea of "organised capitalism" contains an internal contradiction as soon as we come to imagine it in a completed form.

Let us see how the adherents of "organised capitalism" present the matter.

In his report at the Kiel Party Congress of the S. D. P. Germany Hilferding gives the following definition:

"The era of free competition, during which capitalism was governed by the action of blind market laws, is at an end. We now come to a capitalist organisation of the economy, i. e. from an economy of the free play of competition to an organised state of economy.

"Organised capitalism means the substitution of the Socialist principle of systematic production for the capitalist principle of free competition."

What is right and what is wrong in this definition?

It is right that the era of free competition is at an end. This fact is one of the fundamental elements in Lenin's definition of imperialism.

"The feature that is economically essential in the present process (the transformation of capitalism into imperialism) is the substitution of capitalist monopolies for capitalist free competition. Free competition is the fundamental principle of capitalism, and of commodity production generally. Free monopoly is exactly the opposite of free competition. As we have this latter beginning to be transformed into free monopoly beneath our very eyes, creating big industry by eliminating small, replacing big industry by still bigger industry, finally leading to such a concentration of production and capital that monopoly has been and is being the result: cartels, combines, and trusts, and, fusing with them, the power of a dozen or so banks, manipulating thousands of millions." ("Imperialism, the Last Stage of Capitalism", page 102, C. P. G. B. edition.)

And he gives the well known "short definition":

"Imperialism is the monopolist stage of capitalism."

The establishment of the fact that "the era of free competition is at an end" is the only right and truthful thing in Hilferding's definition of "organised capitalism". The concept that competition is completely eliminated as a result of monopolisation or that in the era of monopolies capitalist economy is governed by the "Socialist principle of systematic production" as Hilferding affirms, is totally wrong. Competition will be



to exist in spite of monopoly formation, while of a "systemic" economy there can be no question.

We shall attempt to give a closer definition of the various forms of competition in monopolised capitalism.

In this connection we must distinguish between two forms of competition, such as prevails among the non-monopolised elements of capitalism still existing within monopolised capitalism and between these and the monopolies, and competition among the monopolised formations.

1) The former variety comprises all non-capitalist producers, as Marx calls them, independent producers, viz. farmers and artisans.

2) The latter variety covers competition between outsiders and the monopolies. Full, 100-per cent. monopolies are as yet rare occurrences.

But even if we assume the monopoly formation in a State to be fully developed, this does not put a stop to competition. There are the following main forms of competition within and among monopolies:

a) If the formation of monopolies has not yet attained the stage of complete fusion, i. e. the destruction of the independence of individual enterprises in regard to profit distribution, there is a constant struggle within the cartels, a fight for the sake of the development of output capacity without regard to the purpose of an increase of the quota and of better competitive conditions in the eventuality of a dissolution of the cartel. Since, by reason of the differences between the aggregate economic positions of the individual countries, there is hardly ever a complete fusion on an international scale on the part of the enterprises united in an international cartel, this form of competition within an international, horizontal monopoly is of particular importance.

b) If the formation of monopolies has reached the stage of complete fusion, the international competition is eliminated, as is the case in regard to national monopolies; this, however, does not mean implies the end of competition altogether. New forms of competition then arise.

1) Various commodities can serve the consumer's purpose equally well. One may use coal, oil, wood, or peat as fuel, and with steel, bricks, cement, or timber, travel by rail, motor-car or aeroplane. The existence of a complete monopoly in regard to one special sort of goods therefore by no means constitutes the possibility of an arbitrary dictation of prices, nor the elimination of competition, since the producers of goods serving similar purposes may still compete even if there is a monopoly in regard to each of these articles.

2) Seeing that in a capitalist order of society the power of competition is always smaller than that of production, there will still be competition on the market between the different varieties of goods, even if all varieties of goods were produced and sold by monopolised enterprises. This "fight for the consumer" will be seen in its highest development in the United States, where the formation of monopolies is most advanced. The American automobile manufacturers announce that every American must possess his own car, while the constructional industry endeavours to draw attention to better living conditions and the fruit-growers exhort the public to eat more fruit. Naturally, not only advertisements but also price reductions are brought to bear upon the public. There is thus a continuation of competition in spite of the monopolies.

3) Even though the creation of competitive enterprises to interact the monopolies is rendered difficult by the amalgamation of banking capital and industrial capital to form financial capital, since in many branches of industry it is extremely difficult to raise the necessary funds for the foundation of new competitive enterprises without recourse to the banks, we may nevertheless see that monopoly organisations at times establish competitive enterprises in the lines worked by other monopolies. Thus we have the liquification of coal and the production of hydrogen now carried on by the German iron industry, the intrusion of the "I. G." dyestuff industry into the realm of metallurgy, and the like. Only an international general trust, such as is envisaged by the adherents of the theory of organised capitalism may picture to themselves — i. e. a fusion of all capitalist enterprises of every kind — would entail the absolute elimination of competition.

If, however, we logically follow up this fantastic perspective, we come to the following conclusions:

a) There would still be an exploiting class of society, but no longer any actual capitalism, since the circulation of commodities would be replaced by a mere distribution of goods and working forces.

b) Such a state of society would entail an aggravation of class differences which in its very development would bring about the ruin of society, as Lenin pointed out in contradistinction to Bukharin.

c) Even if we assumed — an altogether fantastic assumption — that competition could be completely eliminated within the boundaries of one country, there would still be competition on the world market in the form of mutual undercutting on the part of the national monopolies.

International monopolies so far form an exception. It is generally known that the cartel duties and in general the influence exercised on the economic policy of the individual countries by the national monopoly organisations, afford the possibility of realising super-profits at home, part of which is sacrificed for the sake of capturing a greater share of the world market. Goods are sold abroad below the production price and sometimes even below cost price for the sake of a better exploitation of productive capacity and to avoid the accumulation of surplus commodities on the home market.

We may thus see that in spite of the high degree of monopoly formation which present-day capitalism has attained, there can be no question of an elimination of competition. Even if all kinds of production were governed by monopolised organisations, such monopolies would sometimes be engaged in competition in the endeavour to see a certain want satisfied by their own particular product instead of the product of some other monopoly and a relatively greater share of the national income spent on their goods rather than on others.

We must therefore recognise how right Lenin was — here again in opposition to Bukharin — in pointing out that monopolies by no means remove competition. On page 102 of "Imperialism" he writes as follows:

"At the same time monopoly, which has sprung from free competition, does not drive the latter out of existence, but co-exists over it and with it, thus giving rise to a number of very acute and very great contradictions, antagonisms and conflicts."

#### Monopoly Formation and Systematic Economy.

As we have seen, the Social Democrats look to the development of organised capital to overcome the anarchy of production and to replace the capitalist principle of free competition by the Socialist principle of systematic production. Since in the case of monopolies production is united in one hand, they infer that there is a possibility of adapting it to actual requirements. This possibility in itself, however, does not constitute a systematic economy, but only a one-sided adaptation of output to an anarchistic demand, whereas a systematic economy would consist in a mutual adaptation of supply and demand, production and consumption.

This means that in a state of organised capitalism, i. e. a state of capitalism governed to a great degree by monopolies, crises could not be altogether eliminated. This was most emphatically pointed out by Lenin.

"The statement that combines do away with crises is only a tale for the marines... On the contrary, when monopoly appears in certain branches of industry, it increases and intensifies the chaos proper to capitalist production as a whole." ("Imperialism" page 27.)

Crises can be modified in their character in so far as an existence of monopolies and of the immediate connection between producers and ultimate consumers by as great as possible an elimination of commercial capital prevents the accumulation in the sphere of circulation of the commodities produced by such monopolies production being more speedily adapted to consumption. Hence there is no necessity of liquidating the surplus of commodities produced beyond the requirements of society by means of a sharp price drop reducing the total price of commodities to the socially necessary amount of prices, as in the crises of classic capitalism. There are therefore fewer bankruptcies and no breakdown of gigantic concerns.

This does not mean, however, that a systematic economy would thus be established and all crises eliminated. If we under-

stand a crisis to mean a compulsion, caused by unsalability of commodities, to effect a far-reaching restructure of output, which is needs connected with a wholesale discharge of workers, it is obvious that there can be no question of any "organised capitalism" in the sense of a prevention of crises by means of monopolies. We need but to glance at the curve of production of the entire industry of the United States or that of some fully monopolised industry of post-war times, to see that there can be no question of a systematic course of production or an elimination of crises in the above sense.

Nor would a far-reaching monopolisation of capitalist economy lead to a systematic state of economy devoid of crises. Such a monopolisation, in connection with a far-reaching elaboration of statistics, might eliminate the lack of proportion among the individual branches of production as a cause of crisis, but it could by no means remove the anomaly of the restricted consumptive capacity of society in antagonistic circumstances of distribution.

### Organised Capitalism and State Capitalism.

The idea of organised capitalism is closely allied to that of State capitalism. The economic significance of the State grows larger and larger. The foundation of this development is the tendency, innate in capitalism, towards socialising production. On Pages 22 and 23 of "Imperialism", Lenin writes as follows:

Capitalism, in its imperialist phase, arrives at the threshold of the complete socialisation of production. To some extent it causes the capitalists, whether they like it or no, to enter a new social order, which marks the transition from free competition to the socialisation of production. Production becomes social, but appropriation remains private. The social means of production remain the private property of a few.

The essence of state capitalism is the endeavour to find a means of overcoming the contradiction between an increasingly socialised production and a private appropriation, while at the same time safeguarding the class interests of the bourgeoisie or of their most essential sections as against the private interests of individual capitalists (monopolists) who are simply hunting for the highest possible profits.

The more pronouncedly the fundamental contradictions of capitalism appear, and the less the internal mechanism of capitalism is able to get the better of them from time to time, the more the policy and ideology of "laissez faire" tends to disappear, giving place to the State as a regulator of economy. (Alongside the State, provincial, municipal, and local administrations come to the fore in a similar capacity; hence the German expression of "Gemeinwirtschaft"). Therefore the regulatory activity of the State was most pronounced during the period of so-called "war Socialism" in Germany.

The regulatory activity of the State changes with the character of the bourgeoisie controlling the State apparatus. For a long time, as long as the influence of the unorganised bourgeoisie was stronger than that of the newly-arising monopolies, the State attempted to impede the process of monopoly formation by means of anti-trust legislation. At present there are only weak ideological echoes of this policy; in fact the State is already controlled by the monopolies, at whose dictate its outward economic policy — customs, commercial treaties, colonial policy, wars — is conducted.

If the interests of different monopolies come into conflict in the economic policy of the State, the strongest monopoly carries off the victory. It is a well-known fact that the Franco-German commercial treaty could never have been concluded if the French and German iron and steel cartels had not previously come to an agreement; also that the German-Japanese trade treaty embodies a private agreement between the Japanese Government and the "I. G.". The State itself, which plays a great part as the proprietor of capitalistically conducted enterprises, joins the respective cartels together with these concerns (as in the case of the German potash cartel, the Anglo-Persian Oil, etc.).

In internal politics the State is often forced, in the interest of the hegemony of the bourgeoisie as a class, to oppose the profiteering efforts of individual capitalists. This is felt all the

more seriously by the capitalists in question, the state bourgeoisie feels in its class predominance. Hence the tenfold attitude of the bourgeoisie in relation to State capitalism.

### Organised Capitalism, the Social State, and Economic Democracy.

The idea of organised capitalism is closely allied to the idea of the "Social State" and to that of economic democracy. The reformists aver that the present-day State is not an instrument of bourgeois dictatorship but a social State. In this connection they point in the first place to the social-political arrangements of the bourgeois State.

In representing the social-political activity of the State as being solicitude for the working masses on the part of the State "superior to the classes", the reformists are merely deceiving the masses. As a matter of fact, all social welfare policies serve the interests of the bourgeoisie, and this in no less than four different respects:

(a) They seek to prevent any such unbounded exploitation of the working class by the individual capitalist as would lead to a premature consumption of working forces, to the degeneration and dying out of the working class, the indispensable basis for the utilisation of capital in its entirety. (Prohibition of child labour and of night-work on the part of women, restriction of working hours, etc.)

(b) They seek to mitigate the revolt of the paupered and exploited masses against the capitalist order of society by means of doles (unemployment and sick funds). In this way social welfare policies serve the interests of the bourgeois class rule. It is no mere matter of chance that in countries and periods in which the bourgeoisie were unable to employ a sufficient amount of their super-profits, the corruption of wide circles of the "labour aristocracy" with an eye to ensuring their class hegemony, there were unemployment and other insurance schemes, just as in the case in the United States down to the present day.

(c) What appears in the guise of "social welfare measures" in many cases (e. g. obligatory arbitration) a policy decidedly hostile to the workers. The State stands as defender and protector before the capitalists, so as to prevent the workers from enforcing their demands by the weapon of strikes. This is an element of Fascism.

(d) Finally, the giving of well-paid positions throughout the social-political apparatus to reformists serves the purpose of a personal corruption of the reformist cadres; it is tantamount to a coalescence of the State apparatus with the reformist leaders and is an important means of combatting the revolutionary movement.

The realm of State capitalism also comprises what is known as "economic democracy".

"Economic democracy", Hilferding said at Kiel, is the subordination of private economic interests to social interests.

State capitalism, as we have seen, also in part represents the subordination of the economic interests of individual capitalists to the aggregate interests of the bourgeoisie, which is designated as "social" interests. The deception practised by reformists lies in the fact that they profess to believe that capitalism admits of other, more general, interests than the aggregate class interests of the bourgeoisie. The most fashionable ideas are mooted as means of realising economic democracy, e. g., participation in the management of the monopoly organisations by the appointment of State councils consisting of capitalists, workers, and consumers (Otto Bauer); an influence on the economic policy of the State by participation of Socialist parties in the Government; economic democracy as a means of the trade unions and factory councils; participation of the workers in the profits of the capitalists in the form of profit-sharing, workers' shares, etc.; ousting of the capitalists by the accumulation of workers' savings in co-operatives, etc.

It is obvious that as long as the rule of the bourgeoisie continues there can be no question of the workers exercising any influence upon economy. The theories of an "economic democracy" — just like the theories of Brandler and his adherents as to a "control of production" in not acutely revolutionary situations — merely serves the purpose of raising obstacles in the path of the revolutionary struggle of the workers.

### "Organised Capitalism" and Super-Imperialism.

The character of present-day capitalism, which Lenin dates as "monopolistic" and the bourgeois and Social Democrats as "organised" capitalism, is viewed from three different standpoints by Lenin, Bukharin, and the reformists. Lenin's thesis is, briefly expressed, that the monopolies do eliminate competition, do not introduce system into economy, and do not obviate crises. They aggravate internal and external differences and lead to the downfall of the bourgeoisie, with or without external wars, long before the final object of a world-wide union of the separate national financial capitals can be realised. Monopolistic capitalism contains visible elements of decay and is by no means a "superior" form of capitalism, as the reformists declare "organised" capitalism to be. It is, however, the "highest" form of capitalism in the sense that in it the preconditions to its downfall reach full maturity and make the proletarian revolution a historically inevitable task.

Bukharin's thesis is as follows: Monopolies destroy competition within the limits of each State economic territory and produce system in internal economy. They mitigate the economic contradictions of capitalism within each State economic territory, but greatly aggravate the outer differences, the struggle for markets and for colonies, necessarily leading to new wars, which, by their conversion into civil wars, entail the downfall of capitalism. ("State capitalism in its ultimate form means the disappearance of competition among the capitalist States." — Bukharin, "Pravda" of May 26th, 1929.)

The reformists maintain that organised capitalism destroys competition, brings about a systematic development of economy, tends to eliminate crises. Organised capitalism constitutes a newer and better form of capitalism, a form still destined to experience a prolonged upward development. Internal and external antagonisms decrease. The State becomes a social State. Means of democracy the working class, through the medium of its political parties, gains influence on the State (the reformists alone or else in coalition with the bourgeois parties), while by means of economic democracy it gains influence on economic administration and the distribution of surplus values.

The last-named connection, one of the chief means lies in the rational investment of workers' savings by co-operatives, our banks, trade-unions, and the like. Consequent on an excursion by the Berlin "Rote Fahne", the leaders of a German reformist trade union of chemical workers were recently compelled to admit having invested three million marks of the union's funds in shares of the "I. G. Farben"). The international weaving of capital by means of cartels and trusts tends to mitigate differences among the States and creates the economic basis of super-imperialism, the official organ of which is the League of Nations.

It is sufficiently apparent from what has been said that the error Bukharin's standpoint is wrong and that his conception betrays certain elements in common with the theory of the reformists.

The standpoint of Comrade Bukharin in regard to a diminution of internal economic antagonisms in the capitalism of the individual countries is wrong, since the formation of monopolies, while reducing the number of competing capitalist enterprises (i. e. effecting a reduction in the number of competitive economic elements), will tend to enhance the differences between monopolist enterprises, realising a monopolist profit rate, and the great mass of small unorganised capitalists, whose profit is depressed by the monopolies below the average, they themselves being subordinated to the monopolies. The contradiction, moreover, between the consuming capacity of society and the producing capacity of the rationalised monopolist enterprises, the contradiction between the possibilities of producing and selling, respectively, between socialised production and private appropriation, must needs increase: so must, consequently, the antagonism between the working class in its entirety and the monopolist bourgeoisie, leading, even without external wars, to acutely revolutionary situations and to the overthrow of the bourgeoisie.

Upon the theory of organised capitalism the reformists erect their theory of super-imperialism. The international interconnections of capitalism, they aver, deprive war among the capitalist States of all justification. Only States which elect to remain outside the reach of organised capitalism, States which — like the Soviet Union in the opinion of Kautsky — represent

a bad and inferior order of capitalism, can be a danger to peace. Therefore, there must be a superior organ like the League of Nations, for the purpose of ensuring peace.

It is not worth our while seriously to set about refuting this mendacious theory. The inequality of development upsets every attempt at a super-State organisation of capitalism. It is only a thoroughly rotten capitalism, without the possibility of accumulation or technical progress, a capitalism at a standstill in its economic development and vegetating in a process of simple reproduction, that could submit to a super-State organisation. But as long as there is technical progress, as long as with the technical progress new raw materials acquire decisive importance and new industrial centres replace older ones, economic development will continue to proceed unequally. And on an unequally developing economic basis there is no possibility of building up a permanent international super-State organisation save by the forcible subjection of the weaker imperialist Power by the stronger, which would be in flat contradiction to the theory of super-imperialism.

This brings us to the question of the future development of capitalism. The main problem is whether it is conceivable for the monopoly formation to progress as far as the creation of an international general trust. Lenin gives Bukharin, who admits this possibility, the following answer in his little known preface to Bukharin's book on "World Economy and Imperialism":

"In an abstract theoretical estimate we can but come to the conclusion that the time is no longer distant for these magnates of capital to unite to form one worldwide association, a uniform international trust, turning competition and the struggle of the financial capitals of individual States into an internationally combined financial capital.

"There can be no doubt but that there is a progressive development in this direction, in the direction of a single worldwide trust, comprising all enterprises without exception and all States without exception. But the development in this direction proceeds under such conditions, with so many contradictions, conflicts, and concussions, not only of an economic but also of a political and national nature, that it appears inevitable that, before it comes to an ultra-imperialist, world-embracing association of the national financial capitals, imperialism itself must explode and capitalism must be turned into its opposite."

This criticism of Lenin's in regard to the opinion that there is a possibility of a uniform, non-competitive capitalism inside a country (Bukharin) or else in the world in general (Social Democrats), is at the same time a criticism of the entire reformist theory of organised capitalism and its development into super-imperialism; we have no need to add anything to it.

## III. General Section.

### THE GENERAL ASPECT OF WORLD ECONOMY.

The general aspect of international economy, viewed from the standpoint of business opportunities, shows but slight changes in the third quarter of the year. In this connection it must be remembered that the third quarter of each calendar year is regularly characterised by a seasonal falling off in economic activity. In general it may be established that the elements of progress perceivable in the first two quarters have experienced no continuation in their development, though on the other hand those elements of crisis to which we have drawn attention have likewise failed to evolve into an acutely critical situation. The final outcome is a maintenance of the basis formerly attained with the prospect of an imminent deterioration.

The formation of economy was meanwhile greatly influenced by the following factors:

#### a) The Credit Crisis.

The monetary shortage prevailing throughout the year was aggravated by the fact that at the beginning of August the New York Federal Reserve Bank raised its discount rate to 6 per cent. After more than one month's hesitation, the Bank of England followed suit at the end of September, as did also a number of smaller European note banks. But while in

America, in view of certain circumstances which will find fuller discussion further on, the raising of the bank rate led to no particular deterioration in the business position, the higher rates in Europe exercised a very depressing influence on business, especially as regards building activity, in the less capitalised countries in particular.

#### b) The Outcome of the Harvest.

The harvest turned out satisfactory in Europe but very poor in the oversea countries, Canada in particular. This failure of the crops in the most important grain-exporting countries entailed a sharp rise in the grain price on the world market, which caused the agrarian crisis, so acutely apparent during the second quarter of the year, to assume a more latent character. We shall still have occasion to speak of this development in detail. Suffice it to point out at present that the satisfactory harvest in Europe greatly diminished the necessity of importing grain, a fact which is bound to influence the development of foreign trade and the conditions of currency exchange favourable in the current economic year.

#### c) The Acceptance of the Young Plan.

One of the results of the great tension on the money market was a crisis in stock-exchange speculation. While in the United States — in spite of the higher bank rate and although the rate of interest for stock-exchange advances rose to 12 per cent. and more — the upward movement of stock-exchange quotations continued, albeit with interruptions, until quite recently, a serious setback ensued in Europe. In the course of the month of September, the rates in Germany (influenced in part by the failure of the Frankfurter Allgemeine and by the speculation in artificial silk) dropped so considerably that the leading banks were forced to initiate a relief action on the stock-exchange on September 23rd. This synchronised with the breakdown of the Hatry concern in London and the arrest of that large-scale speculator, an event which entailed great reductions of rates on the London stock-exchange too, with the suspension of the quotation of shares of enterprises belonging to the Hatry concern. The breakdown of the Frankfurter Allgemeine Versicherungs A. G. and the enforced merger of the Vienna Boden-Credit-Anstalt likewise come under the head of stock-exchange speculation.

In the stock-exchange movements of the last few years, the shares of the big artificial silk enterprises have played quite a remarkable part. The drop in artificial silk values during the year 1929 was mainly due to the dissolution of the artificial silk convention and the consequent fierce price struggle on the artificial silk market. By this instance we may again see that the formation of international monopolies is by no means a straightforward process, but subject again and again to sharp setbacks. If we consider the most important events in the realm of international monopoly formation during the last few months, we cannot but recognise a vigorous advance on the part of United States capital in the new international monopoly formations. Let us review the main facts in this connection.

The Allgemeine Elektrizitäts-Gesellschaft and the General Electric Company combined to co-operate on a worldwide scale in the beginning of August. The friendly relations already formerly existing in a technical sense were financially developed, the General Electric Company taking over 30 million ordinary shares of the A. E. G. at a rate of 200 per cent. Owen Young, the famous chairman of the Paris Reparations negotiations and President of the General Electric Company, will join the board of the A. E. G. together with four other Americans. Young is known to be backed by the Morgan trust. In this way the capital of the United States has acquired influence on the German electricity industry and it may be said that there is no longer any really important electricity enterprise in the world that is not connected with American capital.

The largest monopoly organisation that has come into being during the last few months with the aid of American capital, is that emanating from the fusion between Lever Brothers, the giant British enterprise for the manufacture of soap and margarine, and the Dutch Margarine-Uni, which in its turn is controlled by the American soap trust and thus by the Morgan concern. The tremendous dimensions of this new monopoly may be seen by the fact that the capital of the British firm figures at 56 million pounds and that of the Dutch

firm at about 19 millions, making together roughly 75 million pounds. The activity of the two enterprises together covers the manufacture of soap and margarine with an accessory of products, extending as far as the production of the raw materials — with enormous plantations in Africa — the transportation and distribution of the products in question right down to the sale. The part played by American capital in this concern is not to be established on the strength of newspaper reports, but there is doubtless a considerable American participation.

American capital — Rockefeller and Guggenheim — controls the international copper cartel, on whose great appreciating campaign in the early months of the current year we have already had occasion to report. 90 per cent. of the world's copper output is produced by two concerns, the Anaconda belonging to the Guggenheim family and the American Smelting and Refining Company of Rockefeller. According to the "Wirtschaftskurve", the initial expenses in the biggest of the Guggenheim concern figured at the close of 1928 at 56 million pounds, while in the Anaconda mine they were 6.7 million. In the first few months of the current year, therefore, the concern attained a profit of something between 300 and 400 per cent. of the sale price of copper. Even at the present price levels, the profit amounts to more than half the gross price. The total profit of the two American concerns figures at over 25 million pounds a year.

Though the formation of monopolies on an international scale is progressing, this does not mean the elimination of competition on the world market. In spite of individual international monopolies the competitive struggle on the world market is keener than ever. Thus the German steel cartel effected a further considerable reduction for native iron- and steel-producing industries in keeping with the quantities of iron and steel exported. In the case of rod-iron, e. g., the increase in rebate was from 10.5 marks to 27 marks per ton. What a difference exists between the home and the foreign price may be seen by the fact that band-iron, e. g., is sold at home at 120 marks per ton and abroad at 78 marks.

Interest also attaches to the crisis on the sugar market caused by the tremendous increase in the output on the island of Java, where the best sorts of sugar-cane were grown and where production realised a gigantic profit. ("The production of sugar has become the foundation of the country's prosperity; the producers are simply coining money," writes Marcel Ray in the "Bulletin Quotidien" of September 16th.) Therefore the producers of Java will not hear of a cartel, but will sell at prices which represent a loss to European sugar producers. The change of attitude towards the monopolies is characterised by the following dictum of the same author: "Free trade without organisation spells the disorganisation of monopoly."

We shall now briefly sketch the development of the business position in the most important individual regions.

**United States.** Although during the last few months there has been a slight seasonal decline, production remains upon the whole on a very high level. In the months of August and September there was a slight decrease in output, a smaller number of orders, a smaller reserve of orders in the case of the trusts, etc., making it appear probable that the end of the business boom is in sight. A remarkable fact is the vigorous development of the export trade in industrial products, less in conjunction with the high rates of interest, to the importation of gold. Until quite recently, stock-exchange speculation continued unchanged, the total of brokers' loans reaching the tremendous figure of 8,000 million dollars. The latest lapse, however, shows that the end of the boom cannot be distant.

**Great Britain.** In the last few months the economic position has changed very little. In certain branches of industry, such as coal and iron, the business trend is better. In the textile industry it is unsatisfactory. According to official statistics, unemployment has somewhat decreased.

**Germany.** There has been no great change in the economic position. The output of coal, iron, and steel continues on a high level, while the business development in the finishing industries is less satisfactory. This points to a diminished capacity of consumption on the part of the home market, which, however, is counter-balanced by increased exports. In August, Germany had an export surplus of 117 million marks, the first

monthly surplus registered for a long while. This surplus was brought about to a small extent by a diminution of imports, being mainly attributable to the greater exportation of finished goods. The pronounced lack of capital and the high rate of interest for loans hinder investment activity, especially as regards the construction of dwellings.

Among the other European countries we can distinguish two groups, a western one comprising France, Belgium, Holland, Switzerland, and the Scandinavian countries, in which the business development still shows an upward curve, and an eastern group, Poland, Rumania, Yugoslavia, etc., in which there is a considerable depression. In Italy and Czechoslovakia the tendency appears to be favourable.

As regards the great overseas countries, the poor harvest in Canada does not appear to have entailed any setback in the favourable business position. This is to be explained by the close economic connection with the United States. In the countries of Latin America, with the exception of Mexico and Brazil, there is a depression, the business position is improving. Japan is still suffering from a depression, though with certain slight indications of an improvement. The economic development of Australia is dependent on the coming harvest.

**UNEMPLOYMENT.**

During the last few months there has been no marked change in relation to unemployment. As is usually the case in the summer, the harvest work absorbed a certain part of the unemployed workers. But already in September there were reports from Germany and elsewhere in regard to renewed discharges, partly for seasonal reasons and partly in view of the effects of rationalisation, which is still proceeding, although at a slower pace.

In countries with a great amount of unemployment and an unemployment relief system organised by the State, such as prevails in Great Britain and Germany, great efforts are being made to cut down expenditure for unemployment relief. The results of this tendency are partly administrative (the workers being deprived of benefit on all sorts of pretexts) and partly legislative (in the form of changes in the unemployment-insurance laws, as is noticeable in Germany). In consequence of these measures the number of unemployed in the relative statistics has diminished, which is by no means tantamount to a real diminution in unemployment. In spite of these reservations, however, it appears to be a fact that both in the West European countries, including Great Britain, and in the United States the total of unemployed is smaller than was the case a year ago as a result of the development of production.

**Percentage of Unemployed in Trade Unions (or among the Insured).**

Time	U. K.	Belgium	Holland	Denmark	Sweden	Germany
June 1928 . . .	10.8	0.6	4.7	13.7	7.6	6.2
July 1928 . . .	11.7	0.7	5.3	13.6	7.4	6.3
August 1928 . . .	11.7	0.5	5.3	13.1	7.1	6.5
June 1929 . . .	9.8	0.4	2.6	10.3	7.4	8.5
July 1929 . . .	9.8	0.6	3.1	9.8	6.5	8.6
August 1929 . . .	10.1		3.3	9.3	6.3	8.9
September 1929 . . .	10.1					9.6

**PRICE FORMATION.**

The price indices of the last few months show a certain general upward trend. If, however, we pass from the contemplation of the general index to that of indices regarding individual groups of industrial production, it will be apparent that the price appreciation is solely attributable to the rise in the price of agricultural products, particularly grain. Both the price index of industrial raw materials and that of finished goods remained practically unchanged in all leading capitalist countries right down to September.

We subjoin a table showing the development of the total indices in the principal countries:

	United States	U. Kgd. (Economist)	Germany	France
August 1928 . . .	151	139.4	141.5	629
January 1929 . . .	147	136.1	138.9	630
May 1929 . . .	143	131.5	135.5	623
June 1929 . . .	145	131.7	135.1	611
July 1929 . . .	149	134.6	137.8	613
August 1929 . . .	148.5	134.5	138.1	596
September 1929 . . .	—	131.9	138.1	597

**The World Harvest and the Formation of Grain Prices.**

In our last survey we pointed out that the long latent agrarian crisis again assumed an acute form at the close of the last grain year, when there was a serious price drop on the international grain market. It will be remembered that at the close of May the price of wheat at the Chicago grain exchange dropped below the pre-war level.

With the new harvest there was a sudden change in the price formation of wheat, as is reflected in the following figures:

Time	Hamburg	Buenos Aires, per 100 Kilogr.	New York Cents per Bushel	Chicago (Average) Cents per Bushel
May 13th . . .	219	8.70	118.50	104.50
June 3rd . . .	207	8.30	114.87	103.87
June 17th . . .	212	8.40	117.62	105.62
July 1st . . .	228.50	9.25	127.50	115.43
July 15th . . .	243	11.10	152.37	141.50
Aug. 1st (Max.)	265	11.45	155.50	147.43
Aug. 16th . . .	256	10.80	140.87	138.80
Sept. 2nd . . .	238	10.95	138.75	133.87
Sept. 16th . . .	233.50	10.40	134.25	130.68
Sept. 17th, 1928	206	9.45	126.62	109.12

Prices have rapidly recovered from their lowest ebb at the end of May and by the end of July recorded a peak. In the following two months there was a slow crumbling-off process, the rate around the middle of September still figuring at an average of 10 per cent. higher than in September 1928.

The main reasons of this vigorous rise in grain prices are as follows:

a) The considerably poorer outcome of the harvest in the most important grain-exporting country, Canada. This country, which generally supplies more than one third of the wheat placed upon the international market, had a very poor crop this year by reason of an unprecedented drought. While in the year 1928, 479 million bushels were raised, this year's estimates fluctuate between 200 and 350 million bushels; the last official estimate in September was 294 million bushels. The Eastern-European wheat-exporting countries, too, viz. Rumania, Hungary, and Yugoslavia, had a far poorer harvest than last year. Thus we have the following estimates published by the Roman Agricultural Institutes for two of the countries in question:

	1929	1928
Millions of Double Centals		
Hungary . . . . .	19.2	27.0
Rumania . . . . .	25.8	31.4

In regard to the other overseas countries exporting wheat, the crops in both Australia and Argentina are reported to be unsatisfactory, as in those countries, too, there was great drought.

b) It is obvious that the prices on the world market have been forced up by various artificial means, e. g., the systematic spread of unsatisfactory rumours of harvest catastrophes in Canada, the United States, and at present also Argentina.

c) The Canadian grain pool naturally profited by the occasion of a poor harvest for the purpose of withholding grain from the market and thus forcing prices up. Therefore, Canadian prices were for several months higher than would have been



justified by the world market prices and by parity with the United States\*).

d) The Federal Farm Board undoubtedly has a price-raising tendency. At the beginning of August, the Board warned the Western farmers not to flood the market with wheat, seeing that there was some prospect of a rise of price in view of the considerable reduction of the supply of wheat on the world market<sup>6)</sup>. The outcome of this warning was great reserve on the part of grain exporters in America.

Provided the harvest in the southern hemisphere turns out anything like normal, the high price of grain cannot be justified at all by the relation of supply and demand on an international scale. The world's requirements of grain are amply covered by the tremendous stocks remaining over from last year<sup>6)</sup>.

How greatly speculative factors have contributed to the raising of grain prices, may be seen by the all-round overstocking of granaries in the grain exporting countries. The visible stocks in the United States constantly increase; the elevators and storehouses are filled to their maximum capacity; early in September the Rumanian railway authorities had to announce a transport ban to the seaboard towns, seeing that the elevators could not accommodate any further grain.

A special characteristic of the harvest in Europe is the fact that it was most satisfactory in the West-European countries, which generally import grain. The wheat crop in France is 87 million double centals as compared with 77 millions last year, that of Italy 67 millions as against 62 millions. Spain, too, has a most satisfactory crop of 40 million double centals. Seeing that these countries otherwise import grain and have an import duty on grain (so that the price within the country is generally higher by the amount of the duty than the price on the world market), whereas in the current year they even have a small exportable surplus, it follows that in spite of the undoubtedly poor outcome of the world's harvest, the price level in these countries must be relatively very low, since the import duties do not take effect.

In summing up, we may say that the price appreciation of grain at the close of the last grain year and the present high price level by no means indicate that the latent agrarian crisis has been overcome or that there is no probability of its re-appearance in an acute form for a long space of time. The present high prices are in part an outcome of artificial price formation, rendered possible by the poor result of the crops, which in its turn is not the result of economic reasons but merely attributable to a natural phenomenon, the great drought of last summer.

The economic causes of the latent agrarian crisis may be enumerated as follows: The greater yields and increased output of the capitalist enterprises in consequence of the new techniques of agricultural production; the tendency towards a smaller consumption of bread per head of the population in the highly capitalised countries; the incapacity of the poor peasantry to produce at the same low figure as recorded by the big capitalist enterprises, while land rents develop parallel with the profits of the capitalist undertakings in agriculture. All these factors contribute to the latent agricultural crisis, which is bound to

\*) The disparity between wheat prices in Chicago and Winnipeg, respectively, has led to the curious fact that the farmers of the Western States are exporting their wheat to Canada, although obliged to pay 12 cents a bushel import duty upon it. This is the first time in history that such exports have been effected, this development being immediately attributable to the price-regulating activity of the Canadian wheat-pool. ("Times" of August 21st, 1929.)

6) "Times" of August 5th, 1929.

7) According to the latest publications of the Roman Agrarian Institute, the world's harvest is estimated as follows:

World's Harvest (Millions of Double Centals):	
	1929
Wheat: Europe (19 countries)	363
North America (3 countries)	297
Asia (4 countries)	102
North Africa (3 countries)	16
Wheat Total (29 countries)	778
Rye	229
Barley	270
Oats	300

assume a more virulent form under normal world harvest conditions or as soon as the Soviet Union reappears, as it very soon will, upon the world market as an exporter of grain.

**THE INTERNATIONAL CREDIT CRISIS.**

The great tension on the money market already noticeable since the beginning of the year continued to increase during the months here under review, leading to a raising of the bank rate first in New York and then also in London and other European centres. Save at Paris and in Switzerland, the rates are everywhere as high as they are ordinarily wont to be immediately prior to a general economic crisis.

The following table shows the level of the bank rates at the close of September 1929, together with the dates since which they were in force.

		per cent.
Austria	September 28th 1929	8
Belgium	August 1st 1929	5
Bulgaria	July 2nd 1929	10
Czechoslovakia	March 8th 1927	5
Denmark	September 27th 1929	5
Danzig	April 30th 1929	7
Estonia	September 2nd 1928	7
Finland	November 16th 1928	—
France	January 19th 1928	3
Germany	April 26th 1929	7
Great Britain	September 26th 1929	6
Greece	January 5th 1929	8
Holland	March 25th 1929	5
Hungary	April 24th 1929	8
Japan	October 9th 1927	5.5
India	June 6th 1929	5
Italy	March 14th 1929	7
Latvia	April 4th 1928	6
Lithuania	February 8th 1925	7
Norway	September 27th 1929	6
Poland	April 18th 1929	9
Portugal	July 26th 1926	8
Rumania	May 14th 1929	9
Spain	December 19th 1928	5
Sweden	September 27th 1929	5
Switzerland	October 22nd 1925	3
United States	August 9th 1929	6
Yugoslavia	June 23rd 1922	7

France and Switzerland thus form a little island in an ocean of high bank rates, which, rising higher and higher in every direction around France, reach their peak in Bulgaria at a level of 10 per cent.

If we investigate the causes of the higher bank rates in the two leading money markets, New York and London, we shall immediately recognise that they are widely different in the two cases. Bank-technical or currency reasons, such as a sinking of the currency rate below the gold point, an outflux of gold, or an inadequate cover of the note circulation in gold, play no part in New York. On the contrary, the raising of the bank rate took place at a time when there was a very high gold cover and large gold imports. On the other hand, the increase of the bank rate in London ensued for "classical" reasons; for months the bank rate had again and again been dropping below the gold-export point, in three months the note bank had lost 30 million pounds worth of gold and the ratio of cover had greatly deteriorated. We may quote some figures as illustration of this fact.

The raising of the bank rate of the New York Federal Reserve Bank from 5 to 6 per cent. was effected on August 9th. The main items of the status of the Federal Reserve System are as follows:

	Millions of Dollars
Gold Holdings	2040
Thereof Cover for Fed. Reserve Notes	1557
by Reserve	74.6 per cent
Total Resources	5231
Total Circulation of F. R. Notes	1811
Cover of Note Circulation and Deposits by Reserve	74.6 per cent

7) New York Federal Reserve Bank. Other Federal Reserve banks, 5 per cent.

8) "Annalist" of August 9th, 1929.



The note circulation was thus covered to the extent of more than 80 per cent, by that portion of the gold reserves which is especially allocated to this purpose. The entire gold reserves figured at 160 per cent. of the note circulation 384 million dollars' worth of gold certificates, i. e. notes valued to 100 per cent. by gold, were still in circulation). As regards the currency crisis, it was favourable almost exclusively in New York, as is proved by the great importation of gold throughout the year.

**Pure Gold Imports into the United States**  
Millions of Dollars

January	February	March	April	May	June	July	Aug.	Sept.
47	25	25	23	24	30.2	35	19.3	17.6

Neither from the standpoint of the currency rates, therefore, or from that of the gold cover, was there any reason to raise the bank rate. That these factors did not play any rôle in connection with the measure in question is proved by the following circumstances:

a) Only the rate of the New York Federal Reserve Bank was raised, while all other Federal Reserve banks have maintained the rate of 5 per cent.

b) Perhaps also an attempt to exercise pressure on Great Britain for the purchase of bills on the open market was reduced from 5½ to 5 per cent.

These facts show that the raising of the New York rate cannot be regarded as a normal case but must be attributed to special circumstances, viz.

a) An attempt to stem the continual increase of credit for stock-exchange purposes, and

b) Perhaps also an attempt to exercise pressure on Great Britain at the Hague negotiations and particularly in connection with disarmament.

As we have often pointed out, the sum total of brokers' loans has for several years been uninterruptedly on the increase.

Within the two and a half years from the beginning of 1927 down to the present day, the loans advanced upon securities have increased by no less than 5000 million dollars, which means that they have been trebled.

It is obvious that the possibility of obtaining such enormous sums for speculative purposes (albeit at rates ranging as high as 20 per cent.), has in itself greatly contributed to maintaining the high rates on the Stock Exchange. The increase of the rate of interest of the Federal Reserve Bank of New York served the purpose of preventing the further increase of stock-exchange credits without harming commercial credit. As was to be foreseen, this object was not attained. Speculation cannot be separated from "legitimate trade". The great monopolist organisations, which use only part of their profit as interest for loan capital and for the payment of dividends, while a great part is employed for the extension of their operations and for "self-financing" purposes, have at all times great funds at their disposal, which they loan on the stock-exchange at anything from 10 to 20 per cent. rather than deposit it at a bank at a rate of 4 or 5 per cent.

As regards the pressure on Great Britain, it is difficult to see quite clearly. It will be remembered that in July Montagu Norman, Governor of the Bank of England, visited New York for the purpose, not publicly admitted, of arranging for some action or other in support of the sterling rate, which is invariably lowest in the autumn, at the time of the great purchases of foodstuffs and raw materials. The raising of the New York rate of discount ensued immediately after the return of Norman to England. Simultaneously with this step, rumours were spread abroad to the effect that a big loan had been negotiated in America for the purpose of bolstering up the sterling rate. It will be remembered that in 1925, when Great Britain returned to the gold standard, a credit was negotiated in the United States (i. e. 200 million dollars with the New York Federal Reserve Bank, and 100 millions with the Morgan group). This, however, was never made use of.

Almost all the big newspapers of the Continent published reports somewhat to the following effect on or around August 15th:

"The Bank of England has concluded a loan of 250 million dollars in New York which can be put into effect at any moment subject to telegraphic instructions to

the New York Federal Reserve Bank. This credit has not been accorded by the Federal Reserve Bank itself but by the Federal Reserve Bank in representation of a group of American bankers, who remain unnamed but are to hold certain sums at the disposal of the Bank of England, the latter having full power to employ these loans for the immediate purpose of propping the sterling rate or else for increasing its gold reserves." ("Kölnische Zeitung" of August 16th, 1929.)

This report was denied both by the British and by the American Governments; many reputable journals, however, did not take the report seriously recognising that it was merely intended to prevent the reputation of the Bank of England from suffering harm. Since after the raising of the New York bank rate the Governor of the Bank of England declared that a similar measure would not be necessary for London, since British bills were actually being purchased in great numbers by the American Reserve Bank, and since on various days the dollar rate in London would have rendered profitable an exportation of gold to America, but no such exports were actually made — allegedly at the desire of the Federal Reserve Board — the general opinion was that, in spite of the official denial, some agreement or other had been arrived at between the note banks.

Meanwhile, the development of monetary conditions clearly shows that, even if an agreement had been concluded, the American help by no means sufficed to balance the effects of the higher discount rate. Not only were short-termed loans transferred from London to New York on account of the difference of interest, but even British capital participated in the New York stock-exchange speculations. The status of the Bank of England was continually deteriorating, the outflux of gold being particularly great in the last few days before the raising of the discount rate.

The great gold losses of the Bank of England are all the more serious, seeing that normally the bulk of the gold newly produced in South Africa flows into the coffers of the Bank of England, so that its loss was not really 30, but 60, million pounds. The contrast is all the more striking, if we compare the development of the gold holdings of the four big note banks.

**Gold Holdings**

	Beginning of May	End of August	End of September
Federal Reserve Banks of the United States (Millions of Dollars)	2,841	2,962	2,983
Bank of England (Millions of Pounds)	161	138	130
Bank of France (Millions of Francs)	35,788	38,930	39,411
German Reichsbank (Million of Marks)	1,766	2,183	2,212

Under such circumstances the Bank of England had to decide, after much hesitation, to raise the bank rate a full per cent. This decision was forced upon it by the big bourgeoisie, seeing that uncertainty as to the future development of the rate of interest acted as a hindrance to business activity. The higher bank rate was welcomed by most of the bourgeois newspapers, the only criticism being that this measure had been adopted so late.

One of the few adverse opinions was that voiced by the "Daily Herald", the organ of the Labour Party, which decidedly opposed the raising of the bank rate, declaring it to be in opposition to the interests of the working class and the Labour Government. In response to this allegation, Snowden made a big speech in defence of the measure at the Congress of the Labour Party and thus pacified the malcontents.

In spite of the higher bank rate, however, the outflux of gold did not come to a standstill by the end of September.

In post-war times, we had a bank rate in England of 7 per cent. during the crisis of 1920, i. e. from April 15th 1920 till April 28th, 1921, after which there was a rate of 6½ per cent. right down to the end of June 1929. It is therefore more than eight years that Great Britain has had such a high bank rate.

There can be no doubt but that the raising of the bank rate in Great Britain, entailing as it has done, similar measures on the part of the note banks of most of the other European countries, is a serious blow to the business development of Europe. In this connection we see the pronounced dependence

of Europe on the United States in general and on the policy of the Federal Reserve Banks in particular. It is probable that the tension on the money market and the very high rates of interest in Europe will continue until the complete break down of stock-exchange speculation in the United States, which will be the precursor of an approaching economic crisis in America. Only when the acute phase of this no longer distant American crisis is over, can a period of lower interest rates ensue.

## IV. Special Section.

### GERMANY.

The elements of improvement in the business position, which have been noticeable since the beginning of the year in German economy, did not develop into anything like business prosperity in the three months here under review. In the first place, a speedy improvement was prevented by the interruption in the influx of foreign capital, caused by the international credit crisis and the Reparations negotiations. On the other hand, the absorbing capacity of the internal market appears for several reasons to have suffered a certain restriction.

Diminished home sales were partly made up for by increased sales abroad. The geographical advantages of German industry, the decrease in the cost of production thanks to rationalisation, and in particular the lower wage level compared with other highly-capitalised countries, exercise a slow but steady influence on the world market. German export trade, especially in regard to finished industrial goods, is constantly on the increase, apart from certain small setbacks. In August, Germany had an export surplus of 117 million marks.

The Reparations onus, the dearth of capital, and the high rates of interest on the one hand, and geographic advantages, rationalisation, and a low wage level on the other — such are the main elements contributing to make the development of German economy such as it is, an upward curve in the face of difficulties and with a growing subordination to foreign capital. This state of affairs makes the German business position sensitive in relation to occurrences on the world market in general and the foreign capital market in particular. It is just for this reason that the undoubtedly existing fact of an upward tendency could not find expression within the last few months.

As regards individual branches of industry, it may be stated in general that the business position of such industries as are engaged in producing means of production is better than that of industries engaged in manufacturing articles of consumption. Thus the output of the heavy industries maintains a high level.

### Output of the Heavy Industries

	Millions of Tons				Thousands of Tons			
	Hard Coal		Brown Coal		Iron		Steel	
	1928	1929	1928	1929	1928	1929	1928	1929
April .	11.7	13.4	12.3	14.2	1048	1112	1161	1416
May .	11.9	12.8	13.0	13.7	1041	1151	1250	1421
June .	11.8	13.2	13.2	13.8	1021	1164	1297	1431
July .	12.5	14.4	13.5	14.9	1036	1204	1315	1466
August	13.0	14.5	14.3	15.9	1031	1168	1332	1401
Sept. .	12.2	13.5	13.6	14.2	985	1109	1190	1231

The home consumption of coal appears to be keeping pace with the production, pithead stock being smaller than one year ago. On the other hand, the consumption of iron and steel is smaller than a year ago and production can only be maintained by means of forcing foreign sales. Seeing that the world market for iron is weak, export prices have had to be reduced. The difference between home and foreign prices is 33 per cent. in the case of malleable iron and band iron. But even at such greatly reduced prices, exportation meets with growing difficulties and there have been individual reports of discharges of workers.

A relatively good business position exists in engineering and the electric industry as a result of vigorous exportation. In both these branches of industry exports have developed most satisfactorily. Engineering heads the export list. A comparison of the value of exports in August with those in August 1928 figures as follows:

	1928	1929
	Millions of Marks	
Textile Machinery . . . . .	14.8	20.9
Machine Tools . . . . .	12.3	19.7
Other Machinery . . . . .	38.0	59.1
Electro-technical Goods . . . . .	36.5	42.7
	101.6	142.4

So far, building activity shows a considerable falling-off from last year's figures only in the case of industrial constructions; the construction of dwelling-houses is pretty much on last year's level.

As regards the most important articles of consumption, there was a very slight improvement in the summer, and it yielded in September to a renewed relapse.

The position of agriculture is fairly complicated. The crops have turned out rather worse than last year, but in spite of a great increase in duties the prices are considerably lower than they were a year ago, especially with reference to rye. The low rye prices mainly affect the large landowners in the East and the big peasant farmers in the North. There can, however, be no question of a general crisis of agriculture. Nevertheless, the agrarians have succeeded in mobilising large numbers of the peasantry in favour of the increase of agrarian duties.

### Price Development.

The price index of such goods as react to the general business position has greatly fallen, in contradistinction to the general business trend; otherwise the prices of industrial goods have changed but little, as may be seen by the following figures of the Institute for Business Research:

### Price Index Figures

(On the Basis of 100 to Represent the Level of 1913)

	July 1928	January 1929	April 1929	July 1929
Goods liable to react to the Business Position . . . . .	135	130	127	127
Finished Goods in general . . . . .	160	159	158	157
Means of Production . . . . .	137.6	137.7	137.6	137.6
Articles of Consumption . . . . .	176.1	174.7	173.0	173.0

The divergence between "free" and "regulated" raw-material prices has continued to grow. The free prices have receded, while the regulated prices have remained almost unchanged.

### Index Figures of "Free" and "Regulated" Raw-Material Prices

(On the Basis of 100 to Represent the Level of 1926)

	Free Prices	Regulated Prices
July 1928 . . . . .	108.4	103.1
January 1929 . . . . .	101.9	104.6
April 1929 . . . . .	99.7	104.8
July 1928 . . . . .	96.9	104.9

Naturally it is questionable whether the cartel sales are always effected at the official price rates on the strength of which the above index was compiled.

### Foreign Trade.

Foreign trade has continued to develop satisfactorily. Exports are still on the advance; imports, after rising considerably in July, fell again in the same proportion in August. Together with the Reparations deliveries, the exports of the month of August figure at a surplus of 117 million marks. A comparison between August 1929 and August 1928 shows that the total of exports increased by 100 million marks, while imports remained fairly unchanged. In place of the import surplus of 58 millions, there is thus an export surplus of 50 million Marks — without Reparation deliveries. With Reparations, the surplus amounts to 117 millions.

Foreign trade is endeavouring to adapt itself to the increase of exports necessitated by Reparations payments; in the month of August the exportation of finished goods reached its

mark since the end of the war and amounted — computed in pre-war marks by means of the wholesale index — to just as much as the average monthly exports of 1913, in spite of the reduced territory of the country and of the fact that 1913 was particularly favourable year in regard to exportation. At the same time there can naturally be no question of covering reparations and the interest on foreign capital out of the surplus of exportation.

### Capital Market and Stock-Exchange.

The great tension on the money market, which led in the spring to the raising of the rate of interest of the Reichsbank, materially eased up during the summer, so that there was already some talk of a possible reduction of the bank rate, a hope which was dashed by the higher rates adopted in New York and London. But while the status of the Reichsbank experienced some relaxation during the summer, the data of the capital market indicate that the formation of capital in Germany, though advancing pretty rapidly, still falls far short of requirements. This is particularly the case in regard to long-termed loans. On October 1st, the actual rate of interest on securities with a fixed rate, reckoned according to stock-exchange rates, was 8.5 per cent. for rentes and 10.4 per cent. for short-termed bonds<sup>1)</sup>.

In spite of this very high rate of interest, the possibility of raising loans or emitting shares on the home market has been very restricted during the last few months. At the same time, the influx of foreign loans was almost completely at a standstill. In the months of August and September together, less than five billion marks worth of foreign loans were raised; those in September being exclusively Dutch ecclesiastical loans.

The influx of short-termed foreign capital, meanwhile, not only appears to have come to a standstill, but a certain amount of foreign capital has even been removed from Germany to New York, attracted by the high rate of interest and the possibility of speculative profits.

Since, however, German industry absolutely requires capital, it has to a great extent resorted to an alienation of industry by the organised sale of whole batches of shares to foreign capitalists, especially Americans. This development is frequently attacked on "national" grounds. However, a further alienation in the narrower sense of the word appears inevitable.

The dearth of capital in the country, the heavy losses of quotations — especially in the case of the I. G. Farben and the artificial-silk industry — and the return of German shares from abroad by reason of the tension on the stock-exchanges of New York and London, made a serious stock-exchange crisis in Germany seem imminent towards the end of September. To prevent this eventuality, subsidiary measures were initiated on September 23rd by the four "D-Banks" with the inclusion of a number of other leading banking firms. This action was successful, inasmuch as the crash was averted, another indication of the tremendous economic power of the great German banks.

This power has been yet enhanced by the subsequent concentration. On September 26th, the German public was surprised by the announcement that two of the four D banks, the Deutsche Bank and the Discontogesellschaft, had resolved to effect a complete fusion. This concentration has resulted in a giant concern which is unsurpassed save by the Big Five in London and by two or three great New York banks. All other banking associations on the European Continent have been absolutely left behind.

The object of the fusion was in the first place that of facilitating the importation of capital from abroad, as also of effecting a wholesale rationalisation by the closing down of branches in all cases of overlapping, a measure entailing the discharge of several thousands of employees. Finally, the fusion will necessarily represent a further incentive to monopoly-formations in industry in the form of amalgamations among such industrial concerns as are dependent on the two banks in question and have hitherto been competing with one another. In particular, great amalgamations are to be looked for in the electricity industry and probably also in navigation, seeing that the Hamburg-America Line and the North German Lloyd were

financed, respectively, by the Deutsche Bank and the Discontogesellschaft.

We are thus faced with a period of intensified monopolisation, all the more so seeing that the other two D-banks, the Darmstädter Bank and the Dresdner Bank, will obviously do all in their power to reduce the distance between themselves and the new giant concern by an absorption of numerous smaller banking enterprises with which they have connections.

### The Position of the Workers.

In spite of the improved business position, the percentage of unemployed in the trade unions has throughout the year been greater than was the case last year. The number of unemployed in receipt of benefit on August 1st, when it had reached its lowest ebb, was 236,000 above that a twelvemonth earlier. In consequence of the deterioration of unemployment relief under the latest enactments, the number of workers in receipt of relief will in future be an even less reliable index of the actual extent of unemployment than hitherto. Therefore, we can only be guided by the development of the percentage of unemployed in the trade unions.

These figures show that the increase of unemployment has been more radical this year than it was last year. There can be no doubt but that around the turn of the year the total of unemployment will again have exceeded the two-million limit.

The development of the wages of industrial workers is depressed not only by the immediate pressure of the capitalists and of their Social-Democratic henchmen, but also by the great migration of agricultural workers from the agrarian regions in the East of Germany. The increased use of machinery on the one hand and the failure of numerous big agricultural enterprises on the other, drive tens of thousands of agricultural workers into the cities and industrial districts.

In such circumstances it is no wonder that the German Fascists have apparently been able to increase their influence of late among the unenlightened rural workers.

### FRANCE.

Among all the imperialist Powers, France has experienced the quietest development of its economy in the last few years, i. e. since the stabilisation of the franc. The general aspect of business is very similar to what it was before the war, with a slow advance of production, no unemployment, low rates of interest with an abundance of loan capital, a well-ordered state budget, and a good tax revenue especially as regards indirect taxation. The development of the trade balance, too, is coming more and more to resemble that of pre-war times.

The outward similarity, however, does not mean that there have been no changes in the internal structure of French economy. As a matter of fact, things have changed considerably, though in view of the inadequate economic reports published in France it is not easy to say anything definite on the subject. We are under the impression, however, that rationalisation is making constant progress in French industry, as may be inferred from the satisfactory development of electrification.

In this regard there is still room for great expansion. There is a big project on foot in connection with the Rhone, the gradient of which river is to be divided into 16 power-stages and thus fully exploited for the production of electric energy. Individual railway-lines, especially those from Paris to Orleans and from Paris via Lyons to Marseilles, are now in process of electric economy exceed 1000 million francs per annum. electric economy exceed 1000 million francs per annum.

The elaboration of electric economy — together with the fairly material reduction in the export of finished goods this year in particular — points to the fact that the competitive capacity of French industry is no longer secured by the thorough renovation of its productive apparatus in war and early post-war times. So as to maintain its ability to compete on the world market, French industry will be obliged to effect a further rationalisation. In this respect it has an advantage over British and German industry, inasmuch as it has at its disposal an abundance of cheap loan capital. We therefore believe that in France, as in England, we are likely soon to experience a fresh wave of rationalisation.

During the last three months, the business position improved at a somewhat speedier rate than in the spring. "The

<sup>1)</sup> "Frankfurter Zeitung" of September 20th, 1929.

trend of business", says the "Manchester Guardian Commercial" of September 12th, "indicates renewed expansion; many deferred projects are now being carried out. Big contracts are in preparation, which will especially benefit the iron and steel industry and all branches of engineering. A considerable revival is noticeable in the building trade; in Paris in particular some very substantial orders have been placed for steel constructions. The electricity works throughout the country are placing orders for material. The railway orders for rolling-stock are so numerous that the factories are finding it difficult to procure sufficient numbers of skilled and unskilled workers."

It is obvious that in such circumstances business in the heavy industries must be very favourable. On the other hand, business in the light industries appears to be far less satisfactory. The textile industry in particular is subject to the depression prevailing in this branch of industry almost all the world over. The orders in the hands of French spinners and weavers in July were far smaller than those in June.

The harvest, as already pointed out in the General Section, turned out very well this year, in which connection the employment of better methods of cultivation certainly played a considerable rôle. The crops were far larger than before the war. As in Great Britain, there appears to be a tendency towards diminishing the area under cultivation and concentrating on particularly suitable soil. Since in view of the favourable outcome of the harvest there is some danger of the grain duties, established in the spring at 50 francs per ton, not being effective, the introduction of an export-voucher system has been resolved on, so that at all events — even in the case of an export surplus — the price can be maintained by the amount of the duty above the world market level.

During the last few months, foreign trade has continued to decline. The adverse trade balance continues, mainly as an outcome of the diminished exportation of finished goods. The trade-balance deficit of the first eight months amounts to 7000 million francs, as against no more than 1000 million francs in the corresponding period of 1928.

#### The Balance of Payments and the Capital Market.

No official balance of payments is published in France. The following figures represent the estimates of Meynal in the "Revue d'Economie Politique"; they are rough estimates, possessing the limited reliability which characterises all balance-of-payments returns. By these figures we can see that — supposing trade with the colonies to be reckoned as home trade — the deficit of the trade balance was 330 million francs in 1927 but as much as 4480 millions in 1928. According to the data to hand for 1929, there would result for the entire year a deficit of about 10,000 million francs.

On the other hand, there were in 1928 the following items of income for the country apart from goods traffic:

	Million Francs
Freights . . . . .	3,150
Expenditure of Tourists . . . . .	7,500
Yield of Capital Investments Abroad . . . . .	3,500
Reparations . . . . .	5,180
	<hr/>
	19,330

The expenditure of foreign tourists has, as we pointed out in our last survey, rather a falling tendency, seeing that since the stabilisation of the franc there is no longer the possibility for tourists to live cheaply in France. The revenue from Reparations will likewise decrease now that the Young Plan has come into operation. A debit item outside foreign trade, are the payments to the United States and Great Britain and the remittances made by immigrants, representing together 4410 million francs. Apart from smaller items, the account was balanced in 1928 by the following figures:

	Million Francs
Movement of Precious Metals . . . . .	6,140
Foreign-Bill Purchases of the Note Bank . . . . .	7,140
	<hr/>
	13,280

Finally, there is a visible and invisible exportation of capital to a total of roughly 5000 million francs, probably in-

vested abroad, particularly in New York, in the form of so-called money. Reliable as these figures are, it yet appears that on a deficit of 10,000 million francs on the balance of trade there can be no question of any capital exportation on a large scale, even if there is no further increase in the gold and foreign-bill holdings of the note bank.

For the time being, however, there is plenty of gold and foreign bills, and loan capital in France. The bank rate has not yet been influenced by the increase in the British rate, and does the status of the Bank of France afford any indication that an increase of the rate will prove necessary in the near future. The currency rates, too, give no cause to look for an increase in the bank rate; they are all in favour of France, a fact which renders possible the constant importation of gold.

We are therefore faced with the peculiar circumstance of a low rate in Paris which is three per cent. lower than that in London. This appears to be a great advantage for the French business world. At the same time, as the "Times" pointed out on the occasion of the increase of the rate, French business men and industrialists do not actually obtain credit any cheaper than can be obtained in England. The French banks reckon not at the bank rate but at the mortgage rate of the Bank of France, which is at present 5½ per cent., to which the banks then add 1 or 1½ per cent.

Nevertheless, there is a great difference in the position of the money market in France in comparison with countries like Great Britain or Germany. Even though the French banks ignore the low bank rate and charge their clients practically as much interest as the British banks do, they are easily able to satisfy the needs of industry and commerce, whereas there is a constant dearth of capital in Germany, and in Great Britain there is now likely to be a fairly lengthy period of dearth of money. As a matter of fact, the liquidity on the money market has led to increased emissive activity in France. What is not so easy to explain is the reason why, despite the abundance of free capital and the low rate of interest, there should be a greater exportation of capital to foreign countries.

Wholesale prices fell considerably in the month of August, mainly by reason of the satisfactory harvest. This applies particularly to vegetable foodstuffs.

#### Price Index Figures of the Statistique Générale

	At the Close of the Month				
	August 1929	July 1929	June 1929	May 1929	September 1928
Total Index . . . . .	609	626	623	636	636
Native Products . . . . .	616	639	635	649	649
Imported Goods . . . . .	595	603	604	614	614
Foodstuffs (total) . . . . .	559	596	592	608	608
Veg. Foodstuffs . . . . .	520	585	577	642	642
Anim. Foodstuffs . . . . .	586	603	606	584	584
Coffee, Sugar, Cocoa . . . . .	583	604	589	581	581
Industrial Materials . . . . .	653	653	652	662	662
Minerals, Metals . . . . .	623	622	621	622	622
Textiles . . . . .	673	690	696	722	722
Miscellaneous . . . . .	659	649	644	650	650

The cost-of-living index figure, which in France is reckoned merely for every quarter, shows no change for the third quarter of the year.

2nd Quarter 1928: 519;	4th Quarter 1928: 531;
1st Quarter 1929: 547;	2nd Quarter 1929: 556;
	3rd Quarter 1929: 556.

According to the official index, too, the cost of living has risen by 5 per cent. since the end of 1928 and by 10 per cent. since the end of 1927. It appears that the increase in money wages has not kept pace with this rise in the cost of living.

The foundations of France's State finances, which were established by Poincaré in his capacity as Minister of Finance, have proved completely satisfactory. Of late months, the State revenue has surpassed the estimate by more than 500 million francs and also shows a great increase over last year.

	Total Tax Revenue	Excess over 1928	Excess over Estimates
May . . . . .	3204	99	547
June . . . . .	4003	509	635
July . . . . .	5488	1288	759
August . . . . .	3581	388	567

The institution of the Amortisation Department has also proved wholly satisfactory. This year 3000 million francs' worth of bonds will be redeemed and 12,000 million francs' worth of National Defence Bonds and rentes converted, which will mean a budgetary economy of several hundred million francs per annum. This office has at present deposited 7000 million francs in the Bank of France, to be employed in the coming months for the purposes of amortisation and conversion, which will entail a corresponding increase in the note circulation and in the liquidity of money<sup>10</sup>.

There are constant complaints on the part of French capitalists as to the shortage of labour. It is stated that the possibilities of production cannot be fully exploited for lack of skilled workers. Labour is being constantly recruited from the eastern European countries, Austria, Hungary, the Balkan States, and Poland, in which connection the services of the C. G. T. and of the reformist trade unions of the said countries are employed, on the one hand to keep away politically unreliable elements and on the other hand to strengthen the influence of the reformist trade unions through their participation in organising emigration to France.

The great influx of foreign labour may also be the reason why, in spite of the alleged lack of workers and the increasing cost of living, labour struggles have not attained the extent that might well be expected in such circumstances.

**ITALY.**

It appears that Italian economy has participated in the present year in the general improvement of business more than first seemed to be the case. Almost all the data hitherto published point in this direction. We here reproduce the most important figures.

	1928	1929
<b>Import of Fuel (Thou. Tons<sup>11</sup>)</b>		
First 5 Months:		
Mineral oil of all Kinds . . . . .	375	456
Coal . . . . .	3466	4448
<b>Consumption of Electric Current (Mill. Kilowatt-Hours<sup>12</sup>)</b>		
First Half Year . . . . .	4.10	4.50
<b>Output of Iron (Thou. Tons<sup>13</sup>)</b>		
First 5 Months . . . . .	173.3	284.9
<b>Output of Steel (Thou. Tons<sup>13</sup>)</b>	722.8	923.6
<b>Traffic at Ports (Mill. Tons<sup>14</sup>)</b>		
First 7 Months . . . . .	20.8	21.9
<b>Import of Raw Materials (Thou. Tons<sup>14</sup>)</b>		
First 6 Months:		
Cotton . . . . .	123	133.5
Jute . . . . .	30.8	35.5
Wool . . . . .	32.7	36.3
Pig-Iron . . . . .	56	98.5
Cellulose . . . . .	85.3	95.5

In the last few months, in regard to which there are not yet any comprehensive data to hand, the improvement continued. The output of the heavy industries has remained at the same high level. Even the cotton, silk, and artificial silk industries are contented with the business development.

The data now published regarding the year 1928 show that, thanks to the support afforded them by the Fascist regime, the capitalist enterprises have made quite handsome profits even in that bad business year. 1504 joint stock companies with

at least one million lire of capital each and 24,260 millions in the aggregate have — after allowing for the losses incurred by 393 enterprises — made a total profit of 2160 million lire, or an average of 8.9 per cent. The dividends distributed aggregated 1829 million lire or 7.52 per cent.<sup>15</sup>

The Fascist economic policy aims at promoting the union of similar enterprises so as to open the way for a greater rationalisation. Thus the "Frankfurter Zeitung" of September 10th writes as follows in regard to the concentration in the heavy industries:

"Under the auspices of the Government, a consortium of heavy industries has been brought about, to which all Italian enterprises belong. So far, all such attempts had only met with partial success, because the Ferriere Lombardo of Milan refused to co-operate. The aim of the consortium lies in rationalisation with the elimination of works and dwarf enterprises, the concentration of production on specialities, and the regulation of the market."

A similar process is in progress in the cotton industry.

More interest attaches to the suggestion of the former Finance Minister de Stefani, to the effect that import trade should be promoted by being controlled by industrial syndicates. Italy now buys grain and potatoes to the value of 3000 million lire, cotton to the value of 2000 millions, coal for 1500 millions, and oil for 1000 millions. Why should not syndicates establish the total requirements and appear on the market as buyers for the whole of Italy?

The idea is that of an import monopoly on a private economic basis, a capitalist distortion of the foreign trade monopoly of the Soviet Union.

Certain achievements have also been made in the "grain struggle", though the result attained may also be due to favourable weather conditions. The wheat harvest of the year 1929 is said according to an announcement by the chairman of the permanent "Wheat Committee" to amount to 7 million tons, as against 6.2 millions in the year 1928, an average of 6.1 millions between 1926 and 1929, and an average of 5.05 millions between 1911 and 1914.

A still greater increase is recorded per hectare:

Wheat Yield per Hectare (in Tons)	
1911 to 1914 . . . . .	1.06
1926 to 1929 . . . . .	1.25
1929 . . . . .	1.44

Far greater yields than this are recorded in Lombardy, where a competition was organised between the provinces of Brescia and Cremona, leading to an average yield of 4.3 tons per hectare. In the province of Milan attempts are being made to gain a rice and a wheat crop from the same soil in the course of a year; in 1928 a double crop was already raised on 1500 hectares. How much of all this is mere Fascist propaganda, cannot be ascertained.

After the heavy deficit of the early months of the year, foreign trade improved during the summer.

**Foreign Trade of the First Half Year (Expressed in Millions of Lire)**

	Imports	Exports	Import Surplus
1929 . . . . .	11.7	7.3	4.4
1928 . . . . .	11.1	7.0	4.1
1927 . . . . .	11.8	8.0	3.8
1926 . . . . .	14.3	8.5	5.8

The months of June and July show a decreased import surplus; the good harvest naturally reduces the need of importing grain, so that the commercial balance is likely to prove more favourable in the next few months.

The deficit of the commercial balance is covered by the expenditure of tourists, the remittances of emigrants, and the raising of foreign loans. At any rate, the Bank of Italy was thus enabled to regain part of the gold forfeited last year.

As regards the position of the working class, no changes have occurred of late. Unemployment, which according to Bacchi

<sup>10</sup> "Statist" of September 28th, p. 456.  
<sup>11</sup> "Wirtschaftsdienst" of August 9th, 1929.  
<sup>12</sup> Bacchi, "Wirtschaftsdienst" of August 16th, 1929.  
<sup>13</sup> "Frankfurter Zeitung" of August 27th, 1929.  
<sup>14</sup> "Economist" of September 14th, 1929.

<sup>15</sup> "Bulletin Quotidien" of August 22nd, 1929.

himself is "only approximately covered by statistics", figures as follows in the official returns<sup>16)</sup>:

Unemployment at the Close of the Month  
(Expressed in Thousands)

	1928	1929
January . . . . .	439	462
February . . . . .	413	489
March . . . . .	412	293
April . . . . .	357	258
May . . . . .	307	228
June . . . . .	247	173
July . . . . .	234	200

It must be taken into consideration that according to the latest census there are no more than 3,213,096 industrial workers in Italy<sup>17)</sup>. The above official figures — which are certainly materially smaller than the actual totals — therefore show a proportion of unemployment of something between 6 and 14 per cent. for the current year.

### POLAND.

Among the great European States, Poland is practically the only one that did not take part in the general improvement of the business position in the year 1929. The structural formation of economy in Poland is not at all easy to understand. The most important facts in this regard are as follows:

a) The country, composed of economically and culturally widely different regions, does not yet form a uniform area. The highly industrial region of Upper Silesia is severed from its economic basis in Germany, as is also the agriculturally highly developed country of Posnan. The individual parts, Congress Poland, Galicia, and the portion separated from Germany, have their own railway systems, the structure of which is adapted to the economic and strategic requirements of the countries to which these regions formerly belonged.

b) The economy of Congress-Poland was based on a connection with the Russian market; the relations with the Soviet Union is still a serious problem for all the Border States.

c) This dependence on the East is closely connected with the fact that Poland's rôle in the economy of the world is still altogether vague. The powers that be in Poland urge a speedy industrialisation of the country, particularly for military reasons. Some success has certainly been attained in this direction. But the development is impeded by the relatively small absorptive capacity of the home market, the keen competition on the international market and the lack of native capital. Since 1925, when the regulation enforced by the peace treaty came to an end, the endeavour to develop industry led to a customs war with Germany and to a certain neglect of the interests of capitalist agriculture (policy of export duties on grain, etc.).

d) A particularly important factor is the poverty of the country<sup>18)</sup>, which is tantamount to the poor receptive capacity of the home market and leads, together with industrialisation, to a pronounced foreign indebtedness and alienation. Before the war the savings deposits in the territory of present day Poland amounted to 8000 million gold francs; now they are roughly 2500 millions, or as much as the deposits of the Dresdner Bank in Germany<sup>19)</sup>. Hence the recourse to foreign capital. The long-

termed obligations of Poland to foreign countries now figure as follows<sup>20)</sup>:

Total	Millions of Zlotys
Thereof State Debts . . .	3800
Cities and Districts . . .	340
Industry . . . . .	660

Besides this, there is a short-termed indebtedness of roughly 750 million zlotys.

In comparison with the potential possibilities of the country this indebtedness is by no means exorbitantly great, but so in relation to the country's own formation of capital, the pronounced dependence of the country on foreign capital, the very high rates of interest. It is well known that the stabilization loan of the year 1927 was only possible on condition of foreign control of the note bank; Mr. Dewey, the Commissioner appointed by the United States, is no less powerful than Mr. Parker Gilbert at the time of the Dawes Plan in Germany.

In the current year the influx of foreign capital was practically greatly restricted by the international credit crisis; there was a great stringency of credit accompanied by extremely high rates. According to Dewey's report, the price paid for foreign bank credits at Warsaw in the spring was 3 per cent. more, while at Lodz it was 3 1/2 per cent. It is obvious that in view of this exorbitant share of loan capital in the profits, the development of industrial capital is greatly impeded.

e) The poverty of the country and the slow formation of capital are aggravated by the unproportionately high costs of the governmental superstructure, a costly militarism, very high expenses for the internal apparatus for suppressing the nationalities and the working class, together with the costs of the promotion of industry and subsidies to the agrarians. 4 per cent. of the national income, estimated at 350 million polonaises, passes to the State in the form of taxes, railway freight, revenue from State monopolies and State enterprises<sup>21)</sup>.

As a matter of fact, the number of protested bills figures in the summer months at almost 6 per cent. of all bills.

In spite of the difficulties above mentioned, Poland has succeeded of late years in improving its agriculture and industry not inconsiderably.

The following index figures show the

### Development of Industrial Production in Poland Last Few Years.

("Quarterly Report on Business Research", vol. No. 4, No. 2)

On the Basis of 100 to Represent the Average between 1926 and 1927.

	Total <sup>22)</sup>	Articles of Prod. <sup>23)</sup>	Articles of Cons. <sup>24)</sup>	Textile Industry	Metals and Machinery <sup>25)</sup>
Monthly Average 1926	91.8	88.1	88.1	88.0	88.0
Monthly Average 1927	114.3	117.4	118.0	125.7	114.3
Monthly Average 1928	129.1	145.9	124.7	131.0	141.0
First 6 Months 1929	130.7	147.0	122.4	124.1	151.0

The development of Poland's heavy industries in the last five years may be seen by the following table ("Neue Presse", special Polish number).

<sup>16)</sup> *ibid.*

<sup>17)</sup> 60 per cent. of the oil industry, 45 per cent. of the electricity production, and 35 per cent. of the electric industry are immediately in foreign hands (*ibid.*).

<sup>18)</sup> "Times", of May 14th, 1929.

<sup>19)</sup> Arithmetic mean from indices of various branches of mining and industry.

<sup>20)</sup> Iron ore, iron and steel, stones and earths, building materials and machinery, chemicals.

<sup>21)</sup> Textiles, outfitting, leather, foodstuffs, salt, paper,

<sup>16)</sup> "Wirtschaftsdienst" of August 16th, 1929.

<sup>17)</sup> v. "Bulletin Quotidien" of August 31st, 1929. How backward Italian industry still is, in spite of its vigorous development in Northern Italy during the last few years, is proved by the fact that for 3,200,000 industrial workers there are no fewer than 1,825,639 proprietors of enterprises, which means that there are less than two workers per proprietor.

<sup>18)</sup> Poland's national income is estimated at 350 million pounds ("Times" of May 14th, 1929). This would mean the eighth or ninth part of the national income of Germany, which, it is true, has double the population of Poland.

<sup>19)</sup> Data culled from Wiemiowski in the "Bulletin Quotidien", Polish supplement to number 759.



## Output in Thousands of Tons.

Year	Pig-Iron	Crude Steel Incl. Castings	Rolled Material	Coal
1924 . . . . .	333	678	472	
1925 . . . . .	315	779	587	29,081
1926 . . . . .	327	788	562	35,747
1927 . . . . .	618	1244	918	38,084
1928 . . . . .	684	1437	1045	40,618

Polish agriculture, too — partly as the result of low fodder prices — has been through a process of intensification of no small importance. While the yield per hectare has increased but significantly, the number of cattle and the sugar output have own considerably.

The "Statist" of July 22nd, 1929, puts the number of estock, in millions, at the following figures:

	Cattle	Horses	Pigs	Sheep
1923 . . . . .	7.9	3.2	5.1	3.1
1928 . . . . .	8.6	4.1	6.3	1.9

The decrease in the number of sheep also points to a more tense agricultural cultivation. A great part of the products of cattle-breeding is exported in view of the poverty of the population; these exports have grown from year to year.

Export of Products of Cattle-Breeding<sup>26)</sup>.

(Expressed in Millions Zlotys)

	1925	1926	1927	1928
Meat . . . . .	51.5	60.2	63.6	82.2
Milk Products . . . . .	5.5	28.9	43.2	89.9
Eggs . . . . .	51.3	132.0	169.4	184.6
Ham . . . . .	74.2	79.9	168.0	249.7
Poultry . . . . .	8.7	11.9	10.9	14.4
Total . . . . .	190.2	312.9	555.2	620.7

The last few years have witnessed a great development on a part of the sugar output, which now exceeds that of pre-war times<sup>27)</sup>.

	Number of Sugar Refineries in Operation	Area under Beet in Hectares	Sugar Output in Terms of White Sugar (100 Tons)
911/12 . . . . .	87	176	544
921/22 . . . . .	68	82	151
924/25 . . . . .	75	166	442
927/28 . . . . .	72	198	504
928/29 . . . . .	71	230	672

The progress made by Polish industry was attained in keen competition with the industries of the highly-capitalised countries. The most important branches of industry in Poland are those in regard to which there has of late years been an acute or latent crisis throughout the world, viz. coal, oil, iron, sugar, and steel. It was only by the exertion of all governmental means in support of these industries and by exportation on the strength of systematically depressed wages, that such an achievement was possible.

In its coal exportation Poland was successful in competition with Great Britain and Germany. Its competitive capacity, however, apart from the far lower level of wages, is based on the hidden subvention afforded the industry by the State by means of very low railway freights, representing a loss to the manage-

ment<sup>28)</sup>. In its iron and steel industry, Poland comes up against the very keen competition of the Continental Steel Cartel, which is able to sell very cheaply abroad in view of the high profits it reaps within its wide customs barriers. In the output of naphtha, there is a latent over-production and keen competition. In regard to sugar, there is an international crisis, as there is also in regard to the textile industry, which is of such vital importance to Poland. Here the home market is restricted by the poverty of the country and foreign trade is rendered difficult by the existence of a rival industry in almost every country of the world.

During the last few months there has been a slight improvement in the business position, which is reflected in the higher output figures and in the trade balance<sup>29)</sup>. The latter showed an export surplus in July and August, but this was mainly due to a diminution of raw-material imports. But with the advent of a crisis in the United States, now no longer far distant, these signs of an incipient improvement will speedily disappear. In view of the dire poverty of the country<sup>30)</sup>, and the waste of a great part of the product value for the maintenance of the relatively far too extensive State apparatus, there is no seeing in what way Polish capitalism is to stabilise its economic and political position.

## GREAT BRITAIN.

The economic position of Great Britain during the last few months has been characterised by a growing tension on the money market and by the long expected and finally realised raising of the bank rate.

Among industrialists, however, the raising of the bank rate very naturally led to some opposition, which is in a certain sense the continuation of the opposition offered by the selfsame circles some years ago to the return to the gold standard. The higher bank rate means that a greater share of the profits of industrial capital will pass to the banks, a fact which the industrial circles consider as diminishing their own profit and weakening their competitive capacity on the world market.

There is a unanimous opinion to the effect that the raising of the bank rate will prove a setback to the slowly progressing improvement of business this year. This sentiment was voiced by Wise, a member of the Labour Party, and far more vehemently by Bevin at the Trade Union Congress, finally also by the "Daily Herald" itself in a leading article on September 28th, in which the Bank of England is reproached with increasing unemployment with a view to placing difficulties in the way of the Labour Government.

"Unemployment", it has been said, "put this Government in. Unless it is overcome, unemployment will put this Government out."

It is therefore demanded that a committee of investigation be appointed — a demand already advanced at an earlier date by the Mond-Turner Conference and now supported by Lord Melchett, MacKenna, and Keynes. In answer to Bevin's attack at the Trade Union Congress, Snowden was obliged to deliver a long speech in defence of the Bank of England, so as to prevent the adoption of a resolution directed against the policy of the Bank. In this speech he repeatedly pointed out that the Treasury had no influence on the fixing of the bank rate and was also in no way responsible therefor. He reminded his hearers that since the raising of the bank rate in February unemployment had continually declined until the end of August (seasonal influences!), so that there was no obvious connection between a higher bank rate and increased unemployment.

<sup>26)</sup> Of late, foreign trade developed as follows:

## Value of Foreign Trade in Millions of Zlotys

	Imports	Exports
First 8 Months 1929 . . . . .	268.0	218.0
Monthly Average 1926 . . . . .	129.1	187.8
Monthly Average 1927 . . . . .	241.0	209.6
Monthly Average 1928 . . . . .	280.1	209.0

<sup>27)</sup> A Government Commission recently established that in Warsaw more than half the total number of families inhabited a single apartment (room or kitchen). ("Manchester Guardian" of July 5th, 1929).

<sup>26)</sup> "Statist" of August 3rd, 1929.

<sup>27)</sup> "Neue Freie Presse", special Polish number.

<sup>28)</sup> In 1928, the coal exports of Great Britain receded by 0.7 per cent., those of Germany by 7.6 per cent.; the exports from Poland, meanwhile, rose by 17.6 per cent. Poland's exports to Scandinavia and the Border States increased by a million tons, while German exports thither receded by 600,000 tons. (Report of the German Coal Board.)

It may be supposed in this connection that it would have been possible to avoid an increase in the rate by establishing an equilibrium in the balance of payments by means of an overt or covert prohibition of long-termed capital exportation, as was the case immediately after the return to the gold standard. In his speech at the Trade Union Congress, Snowden declared that three months ago he had expressly advised a meeting of bankers to avoid capital exportation especially to countries whose currencies were at an agio in relation to sterling. Such a policy would be in the interests of such industries as work for the home market, but it would be contrary to the interests not only of banking circles but also of those industries which work for exportation, since in view of the present very acute competition on the world market commercial exportation is very greatly dependent upon the exportation of capital<sup>31)</sup>.

If, therefore, there are critical opinions in regard to the policy of the Bank of England, the raising of the bank rate was in any case a better solution for the authoritative circles of the British bourgeoisie than a prohibition of capital exportation would have been. The scarcity of capital would, moreover, itself have had the effect of restricting such exportation as will appear from the following figures, culled from the "Statist"<sup>32)</sup>:

#### Capital Exportation (Expressed in Millions of Pounds)

	Total Emission		United Kingdom		Empire Overseas		Foreign Countries	
	1928	1929	1928	1929	1928	1929	1928	1929
May . . .	44.1	22.7	29.1	11.9	10.3	8.7	4.6	2.1
June . . .	37.0	28.1	24.4	14.1	7.9	6.0	4.7	7.9
July . . .	41.5	22.3	21.1	14.7	14.0	4.5	6.4	3.0
August . . .	8.6	4.7	7.5	3.8	0.5	0.3	0.6	0.5
September . . .	17.7	2.0	5.1	0.7	3.2	1.1	9.4	0.2
October . . .	43.7	17.0	25.7	3.1	3.6	4.1	14.5	9.7
First 10 Months . . .	322.1	241.9	188.4	134.9	71.0	57.5	62.6	49.6

The tension on the money market and the raising of the bank rate led to the breakdown of the Hatry concern and to the arrest of its chairman and his confederates. This matter is worthy of special mention since it shows how callously speculators deal with the money of the small capitalists even in such a "serious" seat of business as London. For this was the second occasion on which the undertakings of the same speculator, Hatry, collapsed.

#### The Development of the Business Position.

The slow improvement in the business position lasted until the raising of the bank rate. In spite of the great tension on the money market, the usual seasonal relapse failed to occur this summer. The position of the heavy industries, the electric industry, shipbuilding, and the constructional industry is fairly favourable; in the last-named instance, however, credit difficulties are beginning to make themselves felt. The general trend of business may be seen by the following index figures:

#### Production Index of the Board of Trade (On the Basis of 100 to Represent the Level of 1924)

	2nd Quarter		1st Quarter		2nd Quarter	
	1927	1928	1928	1929	1929	1929
106.8	105.5	103.6	110.3	111.4		

The level of production in the third quarter of 1929 differs very little from that of the second quarter.

<sup>31)</sup> The September bulletin of the Midland Bank asserts that the outflux of gold was by no means caused by too great an exportation of capital.

<sup>32)</sup> "Statist" of November 9th, 1929, p. 349.

#### Index Figures of Business Development (From the "Economist". 100 to Represent the Level of 1924)

	August 1928	June 1929	July 1929	August 1929	September 1929
Net Imports of					
Raw Materials . . .	88	105	96	92	96
Coloured Metals . . .	113	135	132	123	117
Consumption of					
Iron and Steel . . .	83	106	105	114	115
Cotton . . . . .	98	103	98	85	76
Rubber . . . . .	143	265	278	290	290
Coal . . . . .	88	98	94	95	102
Electricity . . . . .	95	108	104	102	102
Railway Freight Traffic	90	94	94	—	—
Exports of					
Brit. Manuf'd Goods . . .	109	106	111	109	111

As regards the individual branches of industry, the prices of coal on the world market have constantly improved throughout the last few months. In South America and Canada in particular, United States competition was successfully met; the same may be said of other parts of the British Empire. On the other hand, British coal had still to cope with keen competition in Europe on the part of German and Polish coal. Nor do the prices appear to have been profitable, since in spite of the improved foreign sales coal-mining continues to record a deficit.

A particularly good degree of occupation is reported by the iron and steel industry; the output in August was the best since the end of the war.

#### Iron and Steel Production (in Thousands of Tons)

	Iron	Steel
Monthly Average 1913 . . . . .	869	649
Monthly Average 1927 . . . . .	617	770
Monthly Average 1928 . . . . .	560	722
First 8 Months 1929 . . . . .	627	818
June 1929 . . . . .	668	844
July 1929 . . . . .	672	804
August 1929 . . . . .	682	753
September 1929 . . . . .	664	848

The position of the railways, which was long very precarious, especially in view of the competition of automobile traffic, has likewise improved of late.

On the other hand, the position of the textile industry in general and of the cotton industry in particular has, if anything, deteriorated rather than improved. In the artificial silk industry, too, there has been a relapse. Upon the whole, however, the entire situation of British industry has improved somewhat in the last three months.

#### FOREIGN TRADE.

The improvement of the economic position in Great Britain is obviously based on the home market, since foreign trade has only improved in a very slight degree.

#### Imports and Exports (in Millions of Pounds)

	Imports		Exports	
	1929	1928	1929	1928
Monthly Average 1913 . . . . .	54.9		43.8	
Monthly Average 1927 . . . . .	91.4		59.1	
Monthly Average 1928 . . . . .	89.7		60.3	
First 8 Months 1929 . . . . .	90.1		61.0	
May . . . . .	93.0	87.6	67.4	58.6
June . . . . .	81.9	87.9	49.9	59.5
July . . . . .	85.6	87.0	66.5	61.9
August . . . . .	92.0	89.0	63.0	62.2
September . . . . .	91.6	80.8	55.1	56.6

Exports in the first eight months of the year were thus on an average not quite one million pounds greater than in 1928 — a rise of 0.5 per cent., which can on no account be taken as a basis for the improvement in the business position.

<sup>33)</sup> The August figures are partly provisional.

If we examine the export figures of the principal staple **vares**, we can observe an increased exportation of products of **he heavy industries** and a stagnation or decrease in regard **o the exportation of textiles.**

#### Exports January to August

	1929	1928	1927
Coal (Millions of Tons) . . . . .	38.9	33.0	34.8
Iron and Steel (Millions of Tons) . . . . .	3.0	2.8	2.7
Cotton Yarn (Millions of Pounds) . . . . .	116.0	114.2	137.4
Cotton fabrics (Millions of Sq. Yards) . . . . .	2610.8	2612.5	2773.7
Woolen fabrics (Millions of Sq. Yards) . . . . .	110.8	120.3	112.0
Woolen Yarn (Millions of Pounds) . . . . .	36.6	39.8	38.3

Apart from these staple goods, the exportation of ships, automobiles, and machinery has increased during the last few months.

The "Statist" (of August 31st) points out that deposits with the Post Office Savings Bank have increased from 187 million pounds before the war to 285 millions at the present time, and deposits with the smaller savings banks from 54 to 81 million pounds, while the National Savings Certificates, which were non-existent before the war, are now in circulation to a value of 485 million pounds, half of which sum may be estimated to belong to small savers. Thrift has therefore by no means decreased.

#### Monopoly Formation and Rationalisation.

In our last report we pointed out that the bourgeoisie of Great Britain looks to the Labour Government for vigorous support in the direction of monopoly formation and rationalisation. The Labour Government has come up to these expectations. In his maiden speech, Graham, President of the Board of Trade, announced that the Government intended to bring out the formation of a syndicate in coal-mining by coercive means if the mine-owners failed by the middle of September to submit a definite plan for the formation of a coal cartel. This announcement had an accelerating influence on the long-protracted cartel negotiations among the mine-owners. Two days after the Minister's announcement of July 23rd, a meeting attended by 400 mine-owners resolved on the discussion of a combination of the district cartels already in existence. The Government announced that it expected a national cartel to come into operation by January 1st, 1930. The negotiations are so far advanced that the coal-owners are now engaged in considering the following scheme:

A National Committee is to be formed which will a) regulate the coal output of the whole country, b) allocate a quota to each district, c) control the district price-lists, d) appoint arbiters in cases of disagreement between two districts or between the districts and the central committee, and e) impose penalties on districts for the transgression of regulations. For each separate district a commission is to be appointed for the purpose of distributing the quota of the district among the individual enterprises, regulating the price of coal, come to price agreements with other district-commissions, and punish the transgressions committed by individual enterprises. The national cartel will thus regulate output and distribute quotas among the districts, while the establishment of prices is left to the individual district and the cartel will merely control adherence to the price thus established.

This plan will probably meet acceptance. The possibility is thus given of founding an international cartel between the British, German, and Polish-coal-mines, a step hitherto rendered impossible by the unorganised state of affairs in Great Britain.

A similar movement is also in progress in the iron and steel industry.

A gigantic monopoly, again, has been established by the amalgamation of the soap and margarine concern of Lever Brothers with the Dutch Margarine Unie.

Thus we see that British industry is being impelled by the force of circumstances gradually to abandon its old individualist attitude and not only to form national monopolies but even to join international monopoly formations.

#### The Labour Government and the Working Class.

In our last survey we pointed out that great labour conflicts were to be looked for in Great Britain and a general aggravation of the relations between capital and labour, seeing that the British working class was bound to call upon the Labour Government to fulfil its election promises and in general to demand an improvement of its economic position. As a government of the bourgeoisie, however, the Labour Government would neither wish to nor indeed be able to fulfil these demands.

To-day, after four months of Labour Government, we can establish that the position of the British working class has deteriorated, that the Government of the Labour Party has fulfilled none of its election promises, and that it has nevertheless so far succeeded in avoiding serious friction or else, as in the case of the cotton industry, in speedily settling matters to the full satisfaction of the capitalists.

The deterioration of the position of the working class in the last few months is in the first place to be ascribed to the rapid rise in the cost of living, which (on the basis of 100 to represent 1924) developed as follows:

#### Cost of Living.

Beginning of June	July	August	September
160	161	163	164

In the last four months, therefore, the cost of living has risen by 2½ per cent. On the other hand, there has been a great reduction of wages in the case of the textile workers.

It will be remembered that the cotton employers locked out their workers on July 29th. The Labour Government observed "strict neutrality". The trade union leaders had determined in advance to agree to a cut in wages, but the mood of the workers was such as to make it impossible for the leaders to give in without a fight. Therefore the lockout had to remain in for several weeks.

On August 5th the representatives of the local trade unions of the strikers turned down the suggestion of the trade-union leaders of negotiations with the employers with a view to a wage reduction. When the strikers had grown slightly less resolute, MacDonald appointed a reactionary judge to arbitrate between them and the employers; the result was that the wage cut demanded by the capitalists was simply halved, the wages being reduced by 6½ per cent.

A similar process is now noticeable in the wool industry. The employers ask for a wage cut of 10 per cent. 160,000 workers are involved. Arbitration proceedings are in progress and will probably end as they did in the case of the cotton industry.

The railwaymen who claimed a wage increase of 2½ per cent. by reason of the increased cost of living, were induced by the Government to shelve this demand indefinitely.

Thus all along the line we see the increase in the cost of living synchronising with a reduction in wages, while the Labour Government successfully defends the interests of the capitalists against the workers.

The position of the Labour Government is most difficult in regard to the problem of a reduction of working hours in coal-mining. In this respect the Labour Party at the election made clear and definite promises, which it will not find easy to get out of. After lengthy secret deliberations, the Miners' Congress arrived at the following resolution on July 26th:

"We demand an immediate repeal of the Eight-Hour Act and instruct the Executive Committee to take such steps as it considers necessary to ensure this repeal."

Cook, Secretary of the Miners' Federation and formerly the representative of the extreme Left, openly sides with the Government in this matter. In his latest speech, in which he made no mention at all of the restoration of the seven-hour day, he said, inter alia:

"The public knows now that the officials and representatives of the miners are not clumsy and tyrannical people who want to harm industry and bring about conflicts. The miners and their representatives want peace, but they are determined not to return to the district agreements, for now the time has come for a national tariff agreement."

Besides the increase in the cost of living and the reduction of wages, the scourge of unemployment continues unchanged. In the summer months there was, as usual, a certain diminution in the extent of unemployment, but in September the total rose again and is now only 120,000 smaller than a year ago.

#### Number of Unemployed (in Thousands)

At the Close of	
March . . . . .	1204
April . . . . .	1181
May . . . . .	1177
June . . . . .	1164
July . . . . .	1178
August . . . . .	1150
September . . . . .	1160

The percentage of unemployed among insured workers has remained almost unchanged for the last six months. It fluctuates between 9.8 and 10.1 per cent. The promises of the Labour Party to deal successfully with the question of unemployment after their coming into office, have so far not been fulfilled. Certain public works have been accelerated and a Bill is to be introduced providing six million pounds for public works. J. H. Thomas has been negotiating with the railway companies so as to induce them to accelerate their orders and extensions. But all these are only sham measures which in no way alter the present state of unemployment.

#### UNITED STATES OF AMERICA.

Although production continued during the last three months on a very high level, there are increasing indications that the business boom has passed its peak and that the deterioration of business in August and September is not merely seasonal but the beginning of a transition from boom to crisis. The most important indications of a downward trend (prior to the stock-exchange crash not yet covered by this report) were the allround decrease in the volume of output in August, the constant diminution of the volume of orders received by the steel trust, the smaller degree of occupation, recorded in August for the first time since last November, and the repeated minor relapses on the stock exchange.

As is always the case at the end of a boom, the bourgeoisie is unwilling to believe that the period of prosperity is drawing to a close. The majority of bank reports and other critics of the situation are still full of optimism.

On the other hand, reports from circles of a more scientific character are far more cautious in their tone. Thus the well-known business-research expert Babson draws attention to the fact that sooner or later a general restriction of credit will lead to an economic crisis<sup>31)</sup>.

The fact remains that there was a decided restriction of output in August.

#### Index Figures of the Federal Reserve Board

	Index of Ind. Output (Av. 1923-25 = 100)	Index of Degree of Occupation (1919 = 100)	Index of Laden Rlws. Waggon (Av. 1923-25 = 100)	Constructional Index (Av. 1923- 25 = 100)
Monthly Av. 1927 . . . . .	106	92	—	128
Monthly Av. 1928 . . . . .	110	89	103	135
July 1928 . . . . .	110	89	102	139
January 1929 . . . . .	117	91	104	100
April 1929 . . . . .	122	94.2	111	156
May 1929 . . . . .	124	94.6	111	130
June 1929 . . . . .	126	94.3	108	122
July 1929 . . . . .	124	94.3	108	156

The deterioration of the economic position is drastically shown by the business index of the "Annalist", which eliminates seasonal influences and thus presents more reliable business indications, in so far as this is possible at all.

<sup>31)</sup> "Financial Chronicle" of September 15th, 1929.

#### Business Index Figures of the "Annalist"

	Sept. 1929	August 1929	July 1929	June 1929	May 1929	April 1929
Iron Output . . . . .	118.7	126.3	127.4	123.1	116.5	107.2
Steel Output . . . . .	117.1	120.2	130.8	131.6	121.7	111.1
Laden Freight Wgs. . . . .	101.7	101.8	102.1	101.9	102.3	101.5
Output of El. Energy . . . . .	—	103.5	103.9	101.7	105.2	101.0
Coal Output . . . . .	96.0	92.0	94.7	93.5	95.0	95.1
Automobile Output . . . . .	128.9	136.8 <sup>32)</sup>	146.8	150.5	145.9	131.2
Cotton Consumption . . . . .	103.6	100.4	104.9	104.8	113.5	107.5
Wool Consumption . . . . .	—	117.9	117.1	105.6	105.5	105.5
Output of Footwear . . . . .	—	111.0	110.2	111.2	114.3	114.3
Zinc Output . . . . .	103.7	105.6	102.5	100.2	99.3	99.3
Combined Index . . . . .	106.0 <sup>32)</sup>	106.5	108.5	107.5	108.8	108.8

Among the already known elements of the "Annalist" for August, only the production of zinc shows a rise. In all other respects there is a recession. In automobile production and cotton consumption a pretty considerable recession. Judging of the trend of business, the dynamics of production and not its actual extent is of importance. The volume of orders was still very great in August, as a comparison with the years will show.

#### "Annalist" Index of Production in August

1929	1928	1927	1926	1925
105.7	101.3	101.9	100.5	100.7

Business activity in August was thus relatively higher in the last four years. But while in the last three years there was a considerable increase between July and August, this was this time a substantial falling off.

That this was no transient phenomenon may be seen from the development noticeable in the last few months in the

#### Volume of Orders of the Steel Trust (Expressed in Millions of Tons)

	(In Percentage Proportion to Capacity)		Order in Hand
	Orders Received	Orders Executed	
April . . . . .	101	96	43.1
May . . . . .	107	99	45.4
June . . . . .	108	104	45.7
July . . . . .	95	108	45.3
August . . . . .	74	104	36.4

The dynamics of economy are fully apparent from the returns; in July and August the volume of orders sinks rapidly below the productive capacity of the trust; in August the orders in hand greatly decrease, showing that in the few months there must necessarily be a further restriction of output.

In regard to the month of September there are not yet comprehensive returns to hand, but in the middle of the month the "Iron Age" reported that the volume of orders showed further decline and that the output of steel had sunk to 85 per cent. of capacity.

One of the weakest points in the American business situation is the automobile industry. In the first eight months of the current year, 4,223,414 cars were placed on the market against 3,054,905 cars in the first eight months of last year. On the other hand, the monthly output figures show a constant decline since April.

#### Output of Automobiles.

April . . . . .	612,336
May . . . . .	604,071
June . . . . .	545,375
July . . . . .	500,393
August . . . . .	499,629
September . . . . .	415,332

<sup>32)</sup> Provisional Figures.

<sup>33)</sup> "Annalist" of September 20th, 1929. The original figures have been revised for the purpose of eliminating seasonal variations with the exception of those in the volume of orders to hand. While we are writing we are informed that the volume of orders rose again by the end of September.

In spite of the very great increase in the exportation of automobiles and automobile parts, the question of a glut on home market recurringly arises in the last few months.

So as to increase the sale of cars, new models are continually being put on the market. Particular interest attaches to creation of quite a small two-seater, which is being turned in great numbers. This little car is priced at \$200 and is to be sent through the post, as it weighs no more than 150 lbs. It is intended to supply it with a watertight cover, which when stretched on a frame can serve as a miniature garage for the car. This car is said to do 50 miles an hour<sup>37)</sup>. Obviously an attempt is here being made to extend the use of motor-cars to yet poorer sections of the population, skilled workers and small clerks who seek cheap dwellings outside big cities.

A very serious setback has also been experienced in the building industry. The contracts concluded in August for the construction of dwelling houses are at their lowest figure since September 1923<sup>38)</sup>. Though a single month is not of decisive significance, this also points to the fact that there is likely to be a further deterioration in the next few months, particularly in the production of building material.

It should also be pointed out that the "Annalist" index for August shows a diminution in the degree of occupation for the first time in almost a twelvemonth<sup>39)</sup>. The development of occupation and earnings in the last few months is to be seen in the following index of the "Annalist":

	Degree of Occupation	Wages Paid
April . . . . .	97.9	109.7
May . . . . .	98.9	109.0
June . . . . .	99.3	107.1
July . . . . .	100.9	106.5
August . . . . .	100.4	107.4
September . . . . .	99.5	107.6

The returns as to the volume of output, the number of orders received, and the degree of employment of the workers early show that in August there was a sharp setback in business and make it appear probable that the boom phase of business is approaching a rapid liquidation. If we add the dash on the stock-exchange to this decline in production, it will not appear improbable that the present relapse should speedily turn into a regular crisis.

**Money Market and Stock Exchange.**

The last few weeks have furnished additional proof that the attempt of the Federal Reserve Boards to restrict stock-exchange credits with a simultaneous extension of credit for commercial purposes has failed. Since the raising of the New York bank rate, the brokers' loans have increased from week to week, roughly about 100 million dollars weekly, and have now again reached a record height, their total (for New York, other American, and foreign firms together) having surpassed the eight hundred million limit.

At the same time, however, there have been sharp drops in the New York stock exchange, first immediately after the bank rate had been raised and subsequently in early October, when 110 values were at their lowest quotation during the year. Such drops on the stock exchange are known generally to be the precursors of an economic crisis.

It is universally recognised that the rates of American rates had been artificially appreciated<sup>40)</sup>. The average yield of

the leading shares (last year's dividend calculated at the stock-exchange rate) figures at hardly more than three per cent. Even if the dividend prospects of next year are better than in the current year — in which, nevertheless, some very handsome profits were attained — the extraordinarily high quotations are by no means justified by this prospect of dividends. The uninterrupted concentration of industrial enterprises and the prospect of yet further monopolisation are also alleged to be reasons for the higher quotation of shares. At the same time, the very speculative character of these quotations cannot be denied; no more can the danger of a crash thereby involved.

By the end of September there had been repeated individual drops, but not yet any essential general recession of the rates. Babson, the well known expert, gives an interesting analysis of the situation at the commencement of September. He points out that in the course of a year (September to September) the "forty leaders" (or leading values) rose from 190 to 270, an increase of 42 per cent. This does not apply, however, to the other securities. The number of different shares in which there were dealings on the New York stock exchange is 1200.

Babson furthermore points out that at the present rates the yield of the industrial shares is 4.5 per cent., whereas that of many public utilities is only 2.5 per cent. He attaches great importance to the activity of the investment trusts in forcing up the rates of the shares<sup>41)</sup>.

These views of Babson's are opposed by Professor Irving Fisher, who maintains that there may be a relapse in the share prices but that it will not take the form of a regular crash. The present high quotations and relatively low yield he explains firstly by a calculation on higher dividends in the near future and, secondly, by the lessened risk of the capital investor in view of the variety of the investments which the investment trusts make possible. Fisher sings the praises of increasing prosperity and the consistently growing possibility of profit for companies and individuals.

Naturally Babson will prove to be in the right<sup>42)</sup>. Since it is an undeniable fact that the number of workers immediately engaged in creating value and surplus value in agriculture, industry, and mining in the United States is on the decline, it is incomprehensible whence a lasting increase of the profits of all enterprises such as Fisher predicts, is to be derived. True, surplus profits are constantly accruing to the capital of the United States from the capital investments abroad, but this source is insignificant compared with the surplus value appropriated within the country, which has a sinking tendency in consequence of the rapid accumulation of capital with a decreasing number of workers. It cannot be doubted that after the next crisis the profits of the majority of enterprises not united in monopolies will continue to diminish.

**Price Formation.**

It is one of the most curious characteristics of the business boom in the United States that it should have been accompanied by no price appreciation whatever. The following is the

Wholesale Index of the Bureau of Labour (on the Basis of 100 to Represent the Level of 1926).

	Farm Prod.	Hides & Leather	Textiles	Metals & Met. Values	Heating & Lighting	Build. Materials	Chemicals	Total Index
August 1928 . . . . .	107	121	96.3	100.4	84.6	94.6	94.7	98.0
January 1929 . . . . .	105.9	113.6	96.4	103.6	82.5	96.6	95.9	97.2
May 1929 . . . . .	102.2	106.8	94.2	105.2	81.1	96.8	94.2	95.8
June 1929 . . . . .	103.3	108.0	93.3	105.1	83.3	96.4	93.2	96.4
July 1929 . . . . .	107.6	109.2	92.8	105	82	96.7	93.2	98
August 1929 . . . . .	107.1	109.7	93.1	104.3	80.9	96.7	93.7	97.7
September 1929 . . . . .	106.6	110.8	93.1	104.1	81.1	97.5	93.9	97.5

<sup>37)</sup> "Times" of August 5th, 1929.

<sup>38)</sup> "Annalist" of September 13th, p. 494.

<sup>39)</sup> The index of the Department of Labour shows a slight rise in August.

<sup>40)</sup> The share index of the "Wall Street Journal" shows the following development:

Average Share Quotations in Percentage Proportion to the Nominal Value:							
1922	1923	1924	1925	1926	1927	1928	1929 (7 months)
92	95	100	134	103	175	226	315

In this connection it has not been taken into consideration that during this time many companies distributed shares gratis or far below the official rate among their shareholders.

<sup>41)</sup> "Financial and Commercial Chronicle" of September 7th, 1929.

<sup>42)</sup> What tremendous dimensions speculation has assumed, is to be seen by the fact that in the month of August 96 million shares changed hands on the New York stock exchange, as against 67 millions in August 1928.

We can observe that in regard to the important groups of commodities it is only the prices of metals and constructional materials that have risen by something between 2 and 4 per cent. in the course of one year; all other groups have remained unchanged or else declined and the total index is 1.3 per cent. lower than a year ago. The growing productivity of labour is making itself felt in spite of the formation of monopolies. The next crisis will obviously bring prices down sharply to something like the pre-war level.

### Foreign Trade.

In keeping with the present phase of the business boom, compared with last year exports have fallen off in relation to the internal output though augmenting in an absolute sense. Imports have risen: the export surplus has remained unchanged. The import surplus in the month of May was an isolated occurrence. In the first eight months, foreign trade figured as follows:

	Imports	Exports	Export Surplus
1928	2756	3136	380
1929	3017	3408	391

In the last few months, foreign trade showed the following development

	Imports	Exports	Million of Dollars Import Surplus	Export Surplus
April . . . . .	411	425	--	14
May . . . . .	400	385	15	--
June . . . . .	353	393	--	40
July . . . . .	354	403	--	59
August . . . . .	377	382	--	5
September . . . . .	358	439	--	71

### Capital Exportation.

Again and again the question arises as to the real form in which Europe is paying its war debts to America, seeing that the trade balance of the United States almost invariably shows a considerable export surplus. The balances of payments do not give any wholly satisfactory reply to this question. Part of the debt is counter-balanced by the expenditure of United States tourists in Europe and part by the remittances of emigrants<sup>43)</sup>. The rest is accounted for by foreign capital emissions. But this item, too, shows a falling tendency; in August not more than 21 million dollars out of a total emission of \$42 millions was destined for foreign countries.

### Emission in the First Eight Months<sup>44)</sup>

(in Millions of Dollars)

	1929	1928	1927	1926	1925
Total Emission of New Capital . . . . .	7109	4802	5057	4389	4065
There of for Foreign Countries <sup>45)</sup> . . . . .	500	555	893	650	595
Percentage Proportion <sup>46)</sup> . . . . .	7%	12%	18%	15%	15%

If we bear in mind that very much European money has been invested in speculation on the New York stock exchange, it will appear probable that this year there was no visible capital exportation from the United States to Europe.

In what way, then, does Europe pay its war debts and the interest on its other indebtedness to the United States?

Obviously by the sale of shares and other securities in Europe. To cite a few instances: United States capitalists have acquired the majority of the British General Electric Company and all the ordinary shares of the Greater London and Counties Trust, which in its turn controls many electricity works. They have bought up the tremendous electricity works of Shanghai and half the shares of the Tatan Hydroelectric of India, 30 million marks' worth of share in the Allgemeine Elektrizitäts Gesellschaft have been purchased by the General Electric. In regard to automobiles, we have the purchase of the

<sup>43)</sup> This item has a sinking tendency, since the number of emigrants who do not finally settle in America decreases from year to year.

<sup>44)</sup> "Financial Chronicle" of September 14th, p. 1653. (These returns differ considerably from those of the "Journal of Commerce".)

<sup>45)</sup> Computed by us on the basis of returns published by the "Commercial Chronicle".

Opel Works and the erection of new works of Ford and the General Motors in many countries. In the most progressive lines of business, therefore, the capital of the United States is taking the lead into its own hands. In the place of gold Europe is paying its debts to America by the alienation of its great enterprises.

### The Fight for Higher Customs Duties.

In matters of economic policy, interest still centres on the fight for and against higher duties. In this connection the most important events of late have been as follows:

At the beginning of July the leaders of the Democratic Party passed a resolution against the raising of the tariff which would represent "an exploitation of the masses by the big capitalists". The President is to be deprived of the power to increase the tariffs at his own discretion by 50 per cent. Their opposition to an exorbitant tariff increase, the Democrats are seconded by the "Progressive" Republicans led by Borah.

To this the high protective-tariff majority of the Finance Committee of the Senate responded by adopting more of a "free-trade" attitude.

"There is, however", writes the Washington correspondent of the "Times" (of August 5th), "hardly any Democrat or Progressive but is personally interested in high tariffs for one article or other, and if the reductions are maliciously made these very commodities there are bound to be protested against. Demands of a restoration of the higher duties. It is only cynics who rejoice at present."

It is impossible to describe all the manoeuvres played in the various Congress and Senate commissions by the pullers of the great monopolies, for which every cent. less on the duties means hundreds of thousands yearly. It seems, however, that the Bill will after all not become law. Early in September more senators of the Progressive wing solved to oppose the measure, so that, together with the Democrats, there is a numeric majority against it. The leader of this group, allegedly formed for the express purpose of opposing further tariff increases, is Senator Borah, who attacks the measure from the standpoint of the farmers.

The steel industry — he says — has succeeded in raising its profits by 80 per cent. in half a year. Nevertheless, it is for and is accorded yet further customs protection. The farmers must alone raise the big profits of industry for agricultural machinery. The import of finished goods is no more than 10 per cent. of the native production. There is therefore already a surplus and purposes an embargo on the importation of foreign goods, which embargo it is now intended to enhance further.

Senators Reed and Smoot, the open representatives of the big capitalists, advocate the customs amendment, once more citing the demand formulated by the trade unions of the United States that the high standard of living of American workers be guaranteed by high duties on industrial products<sup>46)</sup>.

On October 2nd the Senate passed a resolution by 47 against 42, depriving the President of the authority to change customs rates at his own discretion. This is Hoover's defeat in the Senate, but it by no means implies that the high customs tariffs will also be turned down.

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Little is heard of the Farmers' Relief Act and the Farm Board, though they certainly exercise some influence on the formation of grain prices in an appreciative sense. At the same time, the agrarian crisis continues in a latent form which will become acute again as soon as the great exporting countries once more have normal harvests.

<sup>46)</sup> In many cases, it is true, customs exemption serves the interests of the capitalist magnates. Thus the Treasury permits Ford to import free of duty the Fordson tractors constructed in Ireland. ("Frankfurter Zeitung" of June 12th, 1929.) This means that Ford is enabled to sell at high prices in America the tractors produced in Ireland at a minimum wage level. This is a drastic example of the elimination of the American worker. In the same way, the freedom of duty in favour of many goods exclusively benefits the big steel producers.