

24

World news & views

MAR 17 1932

SPECIAL NUMBER

English Edition

Unpublished Manuscripts - Please reprint



INTERNATIONAL

PRESS

Vol. 12 No. 12

10th March 1932

CORRESPONDENCE

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

Economics and Economic Policy in the Fourth Quarter of 1931.

(Concluded down to January 25, 1932.)

By E. VARGA.

I. Retrospect and Survey of the Economic Crisis.

The economic crisis of the world is now entering upon its fourth year¹⁾. An analysis of facts shows that its end is still far distant. This is borne out by the unexceptionally pessimistic tone of the Christmas and New Year reflections of the capitalist press. It is therefore essential that around the turn of the year we should glance back at the course hitherto pursued by the crisis and at those characteristics which distinguish it from preceding crises.

All these peculiarities may be attributed to the fact that this crisis coincides with a period of the general crisis of capitalism²⁾. It is this fact which makes bourgeois economic research, with its mechanical methods of analogy, so completely helpless in face of the present crisis. Institutions (such as Harvard) which for decades enjoyed the very greatest reputation, are wholly discredited, and in their annoyance leading bourgeois circles are already greatly restricting their wonted financial contributions to institutions of business research.

The most significant special factors which stand out in the present economic crisis on the basis of the general crisis of capitalism, appear to us to be as follows:

General Character of the Crisis.

Though not preceded by any general period of prosperity, either geographically or according to branches of production,

¹⁾ We are accustomed, somewhat arbitrarily and mechanically, to date the open outbreak of the crisis from the stock-exchange collapse in the United States; a more detailed investigation, however, of the course of production in the United States will show that the height of the prosperity phase was already over in July 1929. In some countries, again, the open crisis already set in in the first half of 1929.

²⁾ In our survey of the first quarter of 1931 (Inprekorr No. 27), we summed up Marx's theory of crisis and the influence of the general crisis of capitalism. We do not intend to repeat anything on this head.

the crisis is all-comprehensive and universal. It comprises all capitalist countries of the world and all branches without exception. In the period of the general crisis of capitalism, crises are possible without any previous general phase of prosperity, since all contradictions, the forcible solution of which is the function of every crisis, and in particular the contradiction between the striving of capitalism for an unlimited expansion of output on the one hand and the narrow limits of the consumptive capacity of capitalist society on the other, show a tendency to become chronically acute. They are aggravated not only by reason of the phase of prosperity, finding a temporary violent solution in the crisis and then remaining more or less latent in the next period of revival and prosperity, but are more or less acutely present throughout the whole course of the economic cycle.

The historical peculiarity of the present crisis lies in the fact that the entire capitalist economy of the world has been simultaneously and uniformly affected by the crisis, a development not formerly experienced since the war, since certain countries, like Germany, evinced a rapid alternation of phases, while others, such as Great Britain, were in a state of chronic depression. That this uniformity should have ensued during the crisis and not in another phase of the industrial cycle, is the best proof of the influence of the general crisis of capitalism on the formation of the economic cycle. For this reason, too, the Social-Fascist theory that the crisis will "restore the normal course of the capitalist method of production" and that the all-round crisis must be automatically followed by an all-round, general revival and prosperity, is proved to be completely wrong and counter-revolutionary, tending as it does to keep the workers from fighting against the capitalist system by extending to them the hope of a general improvement after the crisis on the basis of capitalism.

The present crisis at the same time puts an end to the hopes set by the capitalists and Social-Fascists on rationalisation as a panacea against crisis. Incapable of comprehending the internal laws governing the movements of the capitalist methods of production, they believed that the extension of output necessarily occasioned by rationalisation, in so far and so long as it maintains the form of a re-formation and expansion of fixed capital, would be of unlimited duration. They

failed to see that the total economic result of rationalisation can be nothing else than a permanent tendency towards aggravating the contradiction between the productive and the consumptive capacity of capitalist society.

The present crisis is thus a crisis of rationalisation and of the unreasonable hopes entertained in its regard. This does naturally not mean that there will be no more rationalisation in future. Rationalisation as a method of decreasing the labour-time expended per unit of the product in general and the paid labour-time contained therein in particular, will never disappear; but the rate of such rationalisation will be moderated and those methods of rationalisation which entail a great expansion of output will be applied in a smaller degree, such methods as result in economy immediately at the expense of the workers being all the more vigorously employed.

Interdependence with the Agrarian Crisis

The economic crisis is intimately interwoven with the chronic crisis of agriculture, which forms part of the general crisis of capitalism and which, during and by reason of the economic crisis, has rapidly advanced with the decreasing consumption of raw materials and foodstuffs. In the course of the crisis, the prices of agricultural products have dropped to one half and even less³⁾. The constantly increasing differentiation among the peasantry, so characteristic of capitalism, has assumed the form of the wholesale ruin of the poor and middle farmers (in part even of the richer peasant-farmers and landowners), whereby the market for industrial products has been further narrowed during the crisis. The agrarian and the industrial crisis thus tend mutually to increase and aggravate one another.

We look upon the present agrarian crisis as part and parcel of the general crisis of capitalism and not as a phase of the industrial cycle or as a critical phase in any particular agrarian cycle. The cause of the present chronic agrarian crisis lies in the rapid advance of capital in agriculture in connection with the spread of a new technique in the oversea countries (tractors, combines, etc.), only applicable on great capitalist farms and leading to a sharp drop in prime costs, to a rapid expansion of the area under cultivation, to over-production, and to a catastrophic price-drop.

In regard to agriculture, therefore, we can witness the same chronic pronounced contradiction between the productive and the consumptive capacity which is characteristic in general of capitalism in the period of its general crisis. The peasant farms employing the old technical means (whose individual costs of production, moreover, include, in the form of lease-rent or mortgage-interest, a ground-rent established in accordance with former higher agricultural prices) are doomed to wholesale ruin.

Depth of the Crisis.

Owing to the influence of the general crisis of capitalism, the present crisis is the most profound of all capitalist crises hitherto experienced. If we take the index of industrial output as a criterion for the depth of the crisis, the situation in the most important countries will be seen to figure as follows:

Returns of German Institution for Business Research.

(On the Basis of 100 to Represent 1928.)

	World without Soviet Union	United States	Germany	United Kingdom	France	Poland
Maximum 1929	106,9a)	113,5	108,4	112	113,7	106,8
November 1931	70,8b)	64,9	63,8	79,5b)	90,6	68,9b)
Per cent.						
Recession	36,5	43	42,7	29	20,2	35,5

(a) Year's Average 1929; (b) October (Great Britain: 3rd Quarter)

3) World-Market Prices of Certain Agrarian Products.

	September		
	1931	1930	1929
Wheat (Chicago—cents per bushel)	52	83	130
Rye (Minneapolis—cents per bushel)	39	53	99
Maize (Braila—lei per 100 kilogr.)	188	316	459
Cotton (New Orleans—cents per lb)	6	10.6	18.5
Butter (Copenhagen—kroner per 100 kg)	212	246	326

(Bulletin International d'Agricole, September 1931.)

The speculative increase of prices which ensued in October has since then almost wholly disappeared again.

The recession in output is greater than in any previous crisis⁴⁾.

Acuteness of the Crisis.

The present crisis is likewise the most acute in the whole history of capitalism. This may be seen by the extraordinarily pronounced, though extremely irregular, price-drop⁵⁾ it has entailed, which is substantially greater than in any previous crisis, with the exception of that in 1920—21⁶⁾, although the monopolised industries are doing their utmost to counteract it. Therefore the price-drop is very irregular, according to the strength of the monopoly organisation in each individual branch of industry and according to the degree of the diminution of value by reason of the increased productivity and intensity of labour (rationalisation) in the separate branches of production.

Profits show a very pronounced falling-off during the crisis, even giant concerns, such as the United Steel Trust, working without profit.

The number of bankruptcies is extremely large. Even some of the giants of financial capital (Danat Bank, Dresdner Bank, Crédit National, Bank of America) have fallen victims to the crisis.

It is therefore incorrect if, as is sometimes the case in our own ranks, it is made to appear as though the profits of the ruling classes had not decreased at all in the crisis, as though the ruling classes were not affected by the crisis in the least. It is part and parcel of the crisis for a substantial part of the capital value to be lost through the price-drop, through the cessation of production, through the decay and destruction of stocks of merchandise. This diminution of the capital value in the crisis renders possible the better utilisation of the diminished capital value, and forms—as Marx repeatedly pointed out—the most effective counter-tendency to the tendential drop in the rate of profit.

On the other hand, this anarchical process of the wholesale bankruptcy⁷⁾ of the small and of many weakly founded

⁴⁾ The indices comprise only one part of the total industrial output (about 25—50 per cent.) but may be taken as typical of all industry. For preceding crises, there were no general indices of output. A certain impression may be gleaned from the development of the world's iron output. We reproduce below the highest and lowest annual figures for the international output of iron (annual averages) in the course of former crises. (Down to 1910, from Cassel's "Theoretical Social Economy"—1929, League of Nations—1931, our own estimate):

World's Output of Iron.

(Millions of Tons.)^{*}

	1873	1883	1907	1929
Maximum	15.1	21.8	61.3	98.3
	1874	1885	1908	1931
Minimum	13.9	19.8	48.8	50
Percent. Recession	8	9	20	50

⁵⁾ Wholesale prices, on the basis of 100 to represent 1913:

	United Kingdom "Economic" "nomist"	France "Statistique Générale"	Germany "Statistisches Reichsamt"	United States Bureau of Labor	Japan
Maximum 1929	134.6	639.0	139.6	140.4	171.0
Minimum 1931	85.7	408.3	106.6	98.0	111.0
Perc. Recess. (btw. August & November)	44	36	24	30	35

⁶⁾ On the entire problem of price formation in post-war times, compare "Crisis and Price-drop" in our survey of the 3rd quarter of 1930 (Inprecorr No. 56) December 6th, 1930.

⁷⁾ Number of Bankruptcies in the Most Important Countries.

(In a Period of 11 Months.)

	United States	United Kingdom	Germany	France
1929	19,704	4,140	9,852	8,712
1930 January-November	21,714	4,052	10,490	8,181
1931 January-November	23,993	4,269	12,421	9,692
Percentage Accretion				
from 1930 to 1931	+10.5	+5.3	+18.4	+18.5

These figures, however, afford no adequate impression, for besides the declared bankruptcies there are numerous composition arrangements and compulsory mergers. What is yet more significant, moreover, is that these figures furnish no idea as to the size of the bankruptcies. And it is just in this direction that the effects of the crisis are most apparent.

larger enterprises forms a source of enrichment for those giants of financial capital which succeed in weathering the crisis. The fortunes of the bankrupt enterprises are acquired for a mere song by the powerful concerns. The crisis thus constitutes a tremendous process of centralisation, from which the most important monopoly-concerns emerge with increased power.

The acuteness of the crisis, the sharp drop in profits, and the poor prospects of any approaching improvement are all reflected in the unprecedented

Decline of Stock-Exchange Quotations

	U.S.A. "New York Times" (Index of 500 Sh.)	United Kingdom	France	Germany
Peak Rate Sept. 19, 1929	311.90	Febr. 163.8	Febr. 548	Jan. 134.0
Slump Rate Dec. 9, 1931	74.91	March 92.0	Nov. 243	June 67.2
Drop	79%	44%	56%	52%

Since September, the German stock-exchanges have been closed; the actual present quotations in Germany are far lower still.

The acuteness of the crisis may be seen by the depreciation of the currencies and by the almost complete breakdown of international credit and capital exportation. At the beginning of the year, the currencies of 40 countries were either depreciated (inter alia, in the case of two great imperialist countries, Great Britain and Japan) or else the gold parity was maintained by an overt or covert moratorium towards foreign countries (standstill agreement), by compelling the public to hand over foreign bills and currency in their possession, or by other means.⁸⁾ No previous crisis of capitalism had ever such a disastrous effect. One of the presumptions for the "normal" course of the capitalist system of economy, the possibility for paper tender (banknotes or Governmental paper money) to replace gold at their nominal value as a means of circulation, is hereby destroyed. The place of calculation is necessarily taken by speculation as to the presumable future development of the currency exchange rates.

The international movement of capital in 1931 for the greater part assumed the form of an all-round withdrawal of the capital invested for short terms abroad, while capital exportation continually dwindles. During the last four months there was no capital exportation at all from Great Britain and hardly any from the United States, while the exportation from France was almost exclusively in the form of loans, mainly from the Treasury, to the vassal states. This sudden change of direction in the current of international capital from the debtor countries to the countries of capital exportation—restricted solely by the insolvency of numerous debtor states—is a peculiarity of the present economic crisis which is most characteristic of the chaotic state of international connections.

Alteration in the Dynamics of Crisis.

Under the influence of the general crisis of capitalism, the dynamics of the crisis show a marked deviation from the "normal" course. The length of the crisis already exceeds that of any previous one, and that for the following reasons:

- Accumulation of goods in the course of the crisis itself.
- Particularly marked restriction of investment activity and of the output of the means of production (Section I) in consequence of the superfluity of means of production even during the phase of prosperity, which was characteristic of the general crisis of capitalism.
- The two-years delay in the appearance of the general crisis of credit, the foundations of which were in part

⁸⁾ Foreign Exchange Rates in New York in 1931:

	Pa	Rate on Jan. 8th, 1932	Percentage Decrease
England (£)	4.87	3.36	-31.0
Spain (100 pesetas)	19.30	8.44	-56.3
Denmark (100 kroner)	26.80	18.70	-30.3
Sweden (100 kroner)	26.80	19.05	-29.0
Norway (100 kroner)	26.80	18.45	-31.2
Italy (100 lire)	5.26	5.09	-3.3
Argentina (100 pesos)	42.44	25.75	-39.4
Brazil (100 milreis)	11.96	6.39	-46.6
India (100 rupees)	36.50	25.00	-31.6
Japan (100 yen)	49.85	35.12	-29.1
Australia (£ 1)	4.87	2.50	-48.7

developed during the crisis itself and not during the preceding period of prosperity, which in most countries was but of short duration.

Let us consider these factors a little more closely:

a) The accumulation of goods in the course of the crisis. The contradiction between the over hasty expansion of productive forces on the one hand and the limited consumptive capacity of capitalist society on the other, finds expression, inter alia, in the circumstance that, in the "normal" course of the industrial cycle, in the period between the real peak of prosperity and the open outbreak of the crisis (which Marx calls the period of "super-tension" or over-speculation), there was an acute over-production, an accumulation of stocks. It is, among other things, the function of the crisis to get rid of these surplus stocks; this is done in three ways, viz.:

- by a pronounced restriction of output;
- by a vigorous price-drop reducing the price-total of the goods to what Marx calls the "socially necessary requirements", and
- by the physical destruction of part of the surplus goods.

What is new about the dynamics of crisis, is that so far there has in general been no diminution in visible stocks, the world's stocks having in general not diminished during two years' duration of the crisis, nay, some commodities even having increased in this respect. This may be seen by the following figures:⁹⁾

World's Stocks in June

(In Thousands of Tons)

	1928	1929	1930	1931
Rubber	231	254	386	526
Cotton	1 125	1 015	1 350	1 767
Silk	5,3	5,2	11	10,8
Wheat	6 654	9 558	10 312	12 062
Sugar	5 260	6 158	7 011	8 524
Coffee	1 044	847	1 608	1 490
Copper	53,4	75,4	287	375,8
Tin	16,5	24,1	43,3	52,5
Zinc	41,6	34,4	109,8	146,7
Hard Coal	5 848	2 954	13 988	19 665
Crude Oil (Thou. Brls.)	590	603	601	552
Petrol	55,4	66,8	79,8	70,4

In this connection it must be remarked that the various sources—according to what countries are comprised in the indication of "world's stocks"—supply widely different returns; the significance of these figures, therefore, lies not so much in their actual height as in the direction of their development.

These stocks, in regard to which statistical data are available for the whole world, all show an increase during the crisis. For other varieties of goods, for which no data are available for all countries of the world, such as iron, steel and steel goods, it clearly appears from individual statistics that there has been an augmentation of stocks during the crisis.¹⁰⁾

The very highly developed monopolistic character of present-day capitalism has led to a great irregularity in the price formation during the crisis. The monopolies have been endeavouring, partly with success, to keep up the price level even during the crisis. These efforts, together with the well-known fact that retail prices have diminished but very little during the crisis, is one of the reasons why stocks tend to accumulate instead of disappearing.

This is the case although the systematic destruction of part of the stocks is carried on most eagerly and on a large scale. Tremendous stocks of coffee (12 million bags) have been destined for destruction and in part actually destroyed; in Germany, the eosinisation of rye has withdrawn great amounts from

⁹⁾ "Statistisches Jahrbuch für das Deutsche Reich 1931" — International Surveys, p. 103.

¹⁰⁾ A well worked-out system of statistics in regard to stocks is available in the United States ("Survey of Current Business", October 1930 and October 1931). It shows the following development:

	August of Each Year (100 representing 1923/25)		
	1929	1930	1931
Raw Materials	123	140.7	153.6
Finished Goods	116	120.5	114.5
Total	127	132.3	137.2

human consumption; rubber-trees have been left uncut; in California, the grape crop has been destroyed. The Farm Board officially suggested that in the cotton fields every third furrow should not be plucked but ploughed up again. In Great Britain, vessels and entire textile mills have been bought up and scrapped. In Texas, martial law was declared with a view to forcibly preventing the tapping of crude oil. The fettering of productive forces and the destruction of surplus stocks—especially where this is possible without impairing the interests of monopolist capital—are being carried on wholesale. Nevertheless, there is no decrease of stocks.

b) The rôle played by fixed capital in the present crisis. Fixed capital, says Marx, is the material basis of the cyclical course of the capitalist system of production. If we consider the course of the present crisis, it must be quite apparent that it is Section I, the production of means of production (and the building of dwelling-houses) which occasions the peculiar depth of the present crisis. The crisis moreover, has not deepened uniformly. In the summer of 1931, the lighter industries undoubtedly experienced a revival. But since this revival did not spread to Section I, it very soon disappeared again.

We may here reproduce some data from the United States, the country with the relatively best production statistics.

Index of the Federal Reserve Board

(100 representing 1923/25)

	Typical Branches of					
	Section I		Section II			
	Iron & Steel	Timber	Textiles	Footwear	Foodstuffs	Tobacco
July 1929	155	95	120	125	96	139
July 1930	109	65	84	98	93	141
July 1931	64	44	102	117	91	137

It will be seen that in the summer of 1931 textiles and footwear almost regained the level of the business boom, from which foodstuffs and tobacco had in any case only dropped by a few per cent., whereas the output of iron and steel declined 60, and that of constructional timber 54, per cent.

This difference in development between Sections I and II (which was similar in other countries too) is particularly characteristic of the present crisis. By reason of the general crisis of capitalism, there was, even prior to the economic crisis, a great superfluity in the means of production. Therefore, an expansion and renewal of the productive apparatus, invariably the first factor to help capitalism out of a crisis, has not even shown the least signs of beginning. Hence the unusual length and particular depth of the crisis.

c) The altered character of the creditary crisis—with its delayed outbreak and its correspondingly greater virulence—was dealt with in detail in our last report; we do not intend to repeat anything in that connection. We should, however, wish to point out, as we shall have occasion to expound in the General Section, that the extraordinary accentuation of the imperialistic antagonisms, particularly in the matter of Reparations, inter-Allied debts, and German short-term indebtedness, is bound to lead to a renewed aggravation of the financial crisis in general and the crisis of credit in particular.

Pronounced Deterioration in the Position of the Working Class in the Crisis.

In the general crisis of capitalism, the industrial reserve of workers, which had almost entirely disappeared during the phase of prosperity, assumed the form of a chronic ("organic", "structural", "technological") unemployment, which does not disappear even at times of the most vigorous revival. It constitutes a minimum of unemployment, over and above which there are cyclical and seasonal changes in the number of unemployed. Chronic unemployment and the chronic inactivity of great portions of the productive apparatus are two aspects of one and the same phenomenon, the incapacity of the capitalist system fully to utilise the existing productive forces.

The depth of the present economic crisis has led to a very pronounced increase in unemployment, as the following figures show.

Percentage Totals of the Fully Unemployed among Trade Union Members.

Oct.-Nov. 1930	Germany	United Kingdom ¹¹⁾	Denmark	Holland	Australia	Canada	U.S.A. ¹²⁾
	26,3	18,9	13,4	11,2	23,4	12,3	22,2
1931	39,5	21,9	22,6	18,4	28,3	18,1	34

In the other countries, unemployment is proportionally great. Added to this short-time work is very widespread. If we compute this in terms of full unemployment, we are faced with the unprecedented fact that capital is not able to employ more than half the existing labour power.

If this unparalleled degree of unemployment has in itself led to a great decrease in the income of the working-class, this diminution has been yet enhanced by the general cut in earnings and time wages of the employed workers, far exceeding the relatively small decline in the cost of living¹³⁾.

Thus not only the standard of living of the working-class as a whole, but also that of the workers in employment, has greatly declined during the crisis, a development not to be observed in former crises, since the fall in the cost of living generally exceeded that of wages. Added to this, we have the curtailment of unemployment relief (where such relief exists), the raising of taxes or the introduction of new taxes, and so on. In no former crisis was there anything to compare with this tremendous decrease in the income of the working-class.

For this reason, the class struggle is naturally also assuming sharper forms, while the maturing of a revolutionary situation is proceeding at an accelerated pace, albeit very unequally in individual countries.

Intensification of Imperialist Antagonisms and the Danger of War.

The inter-imperialist antagonisms, which have shown a tendency to increase throughout the period of the general crisis of capitalism, have become exceedingly acute during the present economic crisis. This is to be seen in all spheres of international politics.

Above all, there has been an aggravation in the struggle for the world market. The bourgeoisie of each country endeavours to reserve the internal market for itself to the greatest possible degree by means of customs, import quotas, coercion to enforce the use of home products, import prohibitions, and the like, even inflation—in so far as it does not become general—working in the same direction. The result is a constant shrinkage, in the course of the crisis, of international trade, not only in regard to value but also in respect of volume.¹⁴⁾

¹¹⁾ Among insured workers.

¹²⁾ Computed from the number of employed workers under the presumption that on an average of the years 1923-25 there were 50 per cent. of unemployed, obviously too low an estimate. There are no official unemployment statistics in the United States.

¹³⁾ The position of the three millions of factory workers covered by the monthly statistics of the United States, may be seen by the following index figures (on the basis of 100 to represent 1923/25):

	Employment Total	Wage Total
October 1930	82	81
October 1931	76	59

A diminution of the employment total by 13 per cent. in the last twelvemonth is faced by a 28 per cent. drop in the wage total. The wage total is 41 per cent. lower than the average of the years 1923/25.

¹⁴⁾ Recession of Foreign Trade in the Principal Countries.

("Economist" of January 23rd, 1932)
(100 representing the index of 1924)

	1930		1931	
	Imports	Exports	Imports	Exports
United States	70	73	48	50
Germany	77	90	50	73
Great Britain	86	78	72	53
France	90	85	72	61
Italy	80	79	54	66

With the intensification of the struggle for world markets foreign trade becomes more and more a weapon of imperialist coercive policy. Alongside the private interests of individual capitalists, the element of political power, i. e. the interest of financial capital as a whole (or that of the most powerful monopolies) comes, in conjunction with the state apparatus, ever more to the fore (preferential treaties between France and Yugoslavia, Hungary and Rumania, Germany and Rumania, and of the exchange of wheat against coffee between the United States and Brazil). The most-favoured-nations clause has come to be of less and less importance: for all practical purposes, there is a general trade war. The crisis of the bourgeois commercial policy is fully apparent.

The crisis has likewise aggravated the struggle between the imperialist robbers and the colonies. The catastrophic price-drop of colonial products, such as coffee, sugar, cereals, textiles and rubber, renders the unequivocal exchange an unbearable scourge for the colonial countries. At the same time, the plantation capital seeks to balance its loss of profits by further increasing the exploitation of its slave-labour. The struggle between the predatory imperialists and the oppressed colonial peoples grows more and more acute, while the formation, consolidation, and expansion of Soviet areas in China constitutes a fresh breach in the imperialist front.

Simultaneously, the antagonism between creditor and debtor countries has been growing with extraordinary rapidity. By reason of the tremendous price-drop, the debtor countries are obliged to raise a correspondingly greater volume of real values in defraying the interest on the same nominal amount of indebtedness. (Under the Young Plan, the real burden of Reparation payments, in spite of their diminution in comparison with the Dawes Plan, is greater than it was before.) This state of affairs has proved unbearable for most of the debtor countries; therefore they have either declared a moratorium (as in the case of Brazil, Chile, Germany, and Austria), or else there has been a depreciation of currency (as in Australia and Argentina), or combination of the two.

This insolvency on the part of the debtor countries affords the imperialist robbers and their organisation, the League of Nations, but in particular France and the United States, the possibility of a far-reaching intervention in all the affairs of such countries, amounting in many cases to a complete control of their economic life, and serves as a means towards their further subjugation, as in the case of Germany by France. On the other hand, the insolvency of the debtor countries was one of the starting-points of the general financial crisis in the autumn of 1931, leading to an aggravation of the crisis in general.

The bankruptcy of the debtor countries and the creditary crisis in the capital exporting countries have reduced such capital exportation to a minimum. What capital is still exported (at usurious rates) is mainly a direct means of imperialist struggle (e. g. French loans to Poland, Yugoslavia, etc.).

The tendency towards a reduction of economic connections among the individual bourgeois states, the increasingly apparent trend towards an autarchy on all lines, is thus connected with a most pronounced aggravation of imperialist differences. The danger of war becomes ever more threatening.

Intensification of the Antagonisms between the Capitalist World and the Soviet Union and the Danger of Intervention.

On the basis of the general crisis of capitalism, a new fundamental contradiction of international historic importance has appeared: the contradiction between the capitalist world and the Soviet Union. The struggle between these systems is bound to become a decisive factor in the world's history.

The overthrow of the Russian bourgeoisie and the successful building up of Socialism demonstrate to the workers of all world:

1. that the task of overthrowing the hegemony of the ruling class can be accomplished with the forces of the proletariat and poor peasants, that it is a task of our generation (and not, as the Social Facists try to make out, of a distant future), and that it is only to be accomplished by an armed revolutionary fight (and not, as the Social Facists were wont to affirm; by means of ballots and of a gradual peaceful transition);

2. that the proletariat, without the aid of the bourgeoisie, is able not only to control and master the means of production created by capitalism, but also to develop them at a tremendous pace, to overcome the general backwardness of the country, and to catch up and outstrip the most advanced lands economically and culturally; finally, that even now planned production and distribution make it possible rapidly to raise the standard of living of the broad masses.

During the crisis we see in the capitalist world a tremendous decline in output, means of production utilised only 50 per cent., some dozens of millions of unemployed who can buy nothing because on all sides there are huge stocks of unsalable goods, the main endeavour of the owners of means of production, the capitalist class and the governments, being in the direction of a further restriction of output (by the wholesale destruction of goods), so as to make supply correspond with demand, and at the same time of a further reduction of the share of the working class in the product-value, so as to ensure the profitable utilisation of capital, which forms the aim and purpose of the capitalist system of production.

In the Soviet Union at the same time there is a tremendous growth of output, the utmost exploitation of the means of production, no unemployment whatever, no overproduction of goods (indeed, a shortage of commodities), seeing that the income of the working class and the peasantry rises parallel with the expansion of output. The main purpose of the owner of the means of production, the Soviet state, is towards raising the productivity of labour to the utmost, so as to facilitate the rapid building up of Socialism, at the same time satisfying the growing material and cultural requirements of the working population with the employment of the smallest possible labour time. By this development in two opposite directions, the problem of "catching up and outstripping" is promoted from both ends.

The contrarious development is also strikingly shown clearly in the position of the working class. Whereas in the capitalist world the standard of living of the working class has greatly deteriorated during the crisis, in the Soviet Union it has very rapidly improved within the same period. While under capitalism millions of peasants are ruined, the standard of living of the peasants united in the collective farms of the Soviet Union makes rapid progress, and agriculture, which under capitalism is in a more and more pronounced state of degradation, flourishes increasingly under Soviet administration.

This contrary development enhances the revolutionary influence of the Soviet Union on the working masses in the capitalist countries, and quite particularly in the colonies, in such a degree as to render its very existence more and more insupportable for capitalist society. The immediate economic driving forces of intervention, moreover, are likewise augmented by the crisis. The dream of regaining, as a colony, the territory of the Soviet Union, comprising one sixth of the earth's surface, and subjecting it once more to the yoke of capitalism, is irresistibly tempting to the financial oligarchy of imperialist countries, offering, as it does, a way out of the present crisis.

Naturally there are counter-tendencies in this regard. While the progressive Socialist development and the improved condition of the working class, with the simultaneous liquidation of the kulaks, the last remnant of the capitalist class in the Soviet Union, serve as an incentive for accelerated intervention, the very same factors tend to strengthen the resistance of the proletariat and poor peasantry in the capitalist countries. There is an ever-increasing risk of a war of intervention becoming the starting-point of a victorious proletarian revolution. Meanwhile, the importance of the Soviet Union as a market for industrial products grows ever greater during the crisis (by reason of the shrinkage of the capitalist markets), as does naturally also the rivalry among the capitalist states in their desire to gain such a valuable outlet.

These counter-tendencies, however, do not in any way alter the fact that the bourgeoisie more and more systematically seeks to prepare the way for intervention, the danger of which is thus constantly on the increase.

Undoubtedly, the last few months have called forth a new and palpable intensification of the danger of intervention. The most significant factors in this direction are the Conservative victory in Great Britain, the relative strengthening of the power of France, which, on the basis of an unequal

development of the crisis, aspires to a hegemony in the future war of intervention, the growth of Fascism in Germany, the anti-Soviet attitude of which tendency is more and more apparent, the propagation of war as a way out of the crisis (ever more openly carried on by the capitalist Press), and, last but by no means least, the Japanese attack on China, combined with a pronounced, deliberate provocation of the Soviet Union.

The First War for a Redistribution of the World.

The first power to have recourse to war, with a view to a redistribution of the world, as a way out of the present crisis, is Japan.

The question naturally arises, why just Japan among all the imperialist powers should be the first to choose this expedient. The reasons seem to us to be the following:

1. By reason of the weakness of its economic basis at home (lack of raw materials and narrowness of the home market), of its greater dependence on the world market, and of several years of continual crisis, imperialist Japan, more than any other imperialist power, is inclined to expand its colonial territory even at the risk of initiating a new predatory war.¹⁵⁾

2. The Japanese imperialists reckon on this aggressive policy of theirs being winked at by the other imperialist powers upon the grounds that they are acting the part of a champion against the spread of revolution in Asia, or in other words because they are trying to provoke the Soviet Union into declaring war.

The attempts of the Kuomintang generals, the tools of the imperialists, to suppress the Chinese Red Army and destroy the Soviet power in China, have completely failed. The Soviet power in China and the Chinese Red Army have issued from the struggle stronger than ever. The objective social and economic prerequisites for a further rapid spread of the Soviet power in China are undoubtedly given. As Lenin foresaw, the gigantic masses of people in Asia have been set in motion. It is therefore in the interest of all imperialists that at any rate there should be established, between the two great breaches in the imperialist system—the Soviet Union on the one hand and the Chinese Soviet region on the other—a solid military barrier, at the same time destined to serve as one of the military bases in a future war of intervention against the Soviet Union.

Prospects of the Further Development.

The question here arises as to whether the crisis has already reached its lowest point. Are we perhaps already in a phase of depression, and is there any prospect, in a relatively short time, of an incipient revival, as the bourgeois economic research institutes are inclined to make out.

All indications point to the fact that the crisis has not yet reached its lowest point, that just now at the commencement of 1932 it is likely to experience a further aggravation, and that at any rate the year 1932 will still be a critical year for capitalist world economy as a whole.

In the autumn there were certain transient moments which seemed to indicate a mitigation of the crisis; thus there was for a time a certain relaxation of the financial crisis, a certain improvement in some branches of Section II, especially in the textile industry of certain countries, an improvement in the economic situation of Great Britain by reason of inflation, and in particular a vigorous upward movement in the prices of agrarian products and raw materials in October.

But all these sporadic phenomena of improvement speedily passed by and a renewed aggravation of the crisis followed. In particular, the following observations are to be made:

¹⁵⁾ We believe it is not true—as is sometimes affirmed—that no change has been brought about by the military occupation of Manchuria. The appropriation of the Chinese railways, the occupation of territories to the north of the East Chinese Railway and south of Manchuria proper, and the installation of absolutely dependent though nominally autonomous governments, constitute a substantial change in favour of Japan.

1. The financial crisis has experienced a fresh aggravation in the pronounced drop in the rates of sterling, the Swedish krona, and the Japanese yen, and in important bank failures in Germany, France, and the United States.

2. Production in Section I and in the most important branches of Section II has again substantially declined. In particular, there has been an extremely marked relapse in the iron, steel, and automobile output in the United States and the index of production has reached the lowest level up to now in the course of the crisis¹⁶⁾. In Germany, output shows a constant decline¹⁷⁾. In France, the crisis is unmistakably on the increase. Unemployment is greater than ever before, and is still growing.

3. The increase in prices, hailed by the capitalist press of the entire world with wild enthusiasm as being a sure indication of a change for the better, after a short duration gave place to a renewed wave of falling prices, which has now almost entirely negatived the temporary improvement recorded. Obviously, the price-rise was of a pronouncedly speculative character, certain capitalists speculating with the speedy outbreak of a war of intervention in view of the occurrences in Manchuria.

If we consider such returns as afford an opportunity for making inferences as to the possible course of economy in the near future, the development of stocks, the volume of unfilled orders, the receipt of fresh orders, and the preparations for the building season in the spring, there is nothing to indicate an imminent change.

Though we are of opinion that the crisis has not yet reached its fullest development, that the indications available point to no near termination of the crisis, and that the chronic agrarian crisis and in particular the symptomatic superfluity of fixed capital in the previous phase of prosperity (in so far as there was any) are bound to render it very difficult for capitalism to find any way out of the crisis, we most decidedly refrain from affirming that a capitalist way out is impossible.

The theory advanced by "Left" Social-Democrats, by Otto Bauer, and in our own ranks by Preobrazhenski and by certain German comrades (Lenz, Eck), that the crisis is not to be overcome within the limits of capitalism, is in contradiction to the views of Marx and Lenin, is theoretically incorrect, and politically harmful to an extreme degree.

In judging this question, a sharp distinction must be made between the general crisis of capitalism and the present critical phase of the industrial cycle. The general crisis of capitalism is indeed not to be overcome. It is a special stage of imperialism, naturally resulting on the basis of the internal laws of motion of capitalism; it is the period of social revolution, the period of a capitalism which is not merely expiring but which has already expired on one sixth of the earth's surface.

The present world economic crisis, on the other hand, is a definite and transitory phase of the industrial cycle, peculiarly acute, far-reaching, and lengthy under the influence of the general crisis of capitalism, particularly dangerous to the rule of the bourgeoisie in various countries, but yet no more than a phase of the cycle, bound—always supposing the rule of the bourgeoisie is not overthrown in a revolutionary struggle in a number of other countries—to find a solution within the limits of capitalism, and that in the first place at the expense of the proletariat and of the workers in general. Marx's words, in regard to a permanent crisis being impossible, and those of Lenin, to the effect that there is no situation without a possible bourgeois way out, are also applicable to the present phase of crisis.

¹⁶⁾ Productional Index of the "Annalist".

July	August	September	October	November	December
78.2	73.5	70.5	66.1	65.0	65.8

¹⁷⁾ The constant growth of the crisis in Germany may be seen by the following figures for the year 1931:

Number of Workers Employed in 100 Industrial Jobs.

June	July	August	September	October
53.8	53.1	51.4	50.1	49.0

Number of Hours Worked in Percentage Proportion to Capacity.

43.8	46.7	44.0	43.4	42.5
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(Weekly Report of the Institute for Business Research on Nov. 23rd 1931.)

The fatalistic doctrine that there is no capitalist way out of the present crisis, is politically harmful, since it is apt to weaken the struggle of the workers for a revolutionary way out by causing them to believe that there is no capitalist way out. On the contrary, just because a capitalist way out is conceivable, all efforts must be made to ensure the revolutionary way out. The "Left" phrase of the impossibility of a capitalist way out, merely cloaks a dangerous opportunism. This most clearly appears from the attitude of the "Left" Social-Democrats, who combine their theory of the impossibility of a capitalist way out with their opposition to the Communist Parties, the champions of the revolutionary way out.

Though we most decidedly reject the theory that there is no possible capitalist way out of the crisis, we must on the other hand most emphatically affirm the possibility of a revolutionary way out of it. The present international economic crisis has shaken the capitalist order of society to its foundations, albeit not to a uniform degree owing to the very varied strength of the individual links in the capitalist chain. The special features of the general crisis of capitalism which characterise the third period, are most pronounced in the present crisis. In the place of a rotten, shaky partial stabilisation, we have a far-reaching, although unequal shaking of the capitalist system, on the basis of which the prerequisites of a revolutionary crisis mature.

The crisis has undermined the traditional relations of all classes intensified the class struggle in all countries of the capitalist world, and given increased strength to the revolutionary upsurge of the masses. The crisis, moreover, weakens the position of the Social-Democracy, the most important buttress of the bourgeoisie, by undermining its basis, the labour aristocracy, and also by reason of the fact that under the stress of the crisis the broad masses of workers lose their belief in an improvement of their position within the limits of capitalism and in view of the growth of Fascism, in the possibility of a peaceful, steady transition from capitalism to Socialism. The weakening of the Social-Democratic position and the growing discontent of the petty bourgeoisie, the peasantry, and the new middle class, render it necessary for the capitalists to promote the Fascist movement alongside Social-Democracy and with the aid of the Social-Fascist bureaucracy.

At the same time, however, we see in the crisis a growing resistance on the part of the masses to the endeavours of the bourgeoisie—aided and abetted by the Fascists and Social-Fascists—to shift the burden of the crisis as far as possible onto the working classes and thus to find a way out of the crisis at the expense of the workers.

II. General Section.

Introduction.

Around the turn of the year, the crisis in the capitalist world has gone from bad to worse. At the same time the irregularity of its development has increased. Each country isolates itself more and more from its neighbours, and in this connection the special characteristics of the crisis in each individual country come more markedly to the fore. Moreover, the war actually raging in Asia and the feverish preparations on all hands for a world war, do much to influence the economic life of the various capitalist states.

This is, of course, most pronouncedly the case in regard to China and Japan. The Japanese yen is rapidly falling, the exportation of gold continues, for purposes of war Japan makes extensive purchases—even in the United States—in the way of cotton, copper, and automobiles. It purchases war material in France and Czechoslovakia, and for this purpose appears to have been accorded a loan by France. These big purchases are faced with a decreased exportation. The Chinese market is at present completely closed to Japanese goods. Sales to the United States (silk) are greatly limited by reason of the economic crisis. The Japanese commercial balance must certainly already show a considerable deficit, Japanese economy assuming more and more the characteristic features of the economy of a country at war.

It is one of the particular "blessings" of the capitalist order of society, that the murder of millions is the source of tremendous profits to the big bourgeoisie. If there is so much as the hope of a really big war (that between China and Japan, heavily as it already weighs on the working elements

in the two countries, is still in its initial stage), the prices of all commodities needed by the belligerents begin to rise, the shares of enterprises producing arms and ammunition improve in value, and the general tone of business life grows "brighter". The crisis so seriously threatens the whole structure of the capitalist order of society, that war appears more and more in the light of the only possible way out.

The financial crisis continues unabated. In spite of the most heavy burdens placed on the working population, no state has yet succeeded in balancing its budget. The creditary crisis is in no degree alleviated. If we disregard loans for pronouncedly political purposes (such as the armament of the vassal states of France), the international creditary system may be said to have completely broken down. The international movement of capital is restricted almost entirely to a withdrawal of capital, in so far as this is possible at all. In a number of countries, the national creditary system is either completely undermined (as in Germany, Austria, Hungary, and Poland) or else deformed by the depreciation of the currency and by government interference.

The open outbreak of the creditary crisis has lent weight to those bourgeois theories which seek the reasons of the crisis in disturbances of the monetary system. The unequal distribution of gold and the "policy of deflation" are designated as the chief reasons of the crisis. Old theories, long thought dead, are disinterred; we read of bimetallism, revalorisation of silver, and Wagemann's plan of a partition of the German monetary circulation into big notes covered by gold and uncovered small notes (up to a value of 50 marks). Hoover's attempts to revive business by the creation of fresh sources of credit, also come under this head. All the projects and measures, which claim to be able to lead capitalist economy out of its present crisis, serve the interests of financial capital or of individual departments thereof.

They are, however, not in a position to put an end to the crisis, so long as the presumptions for such a termination are not given by the internal laws regulating the movements of capitalist economy, always supposing a radical change is not brought about by a war.

The accentuation and aggravation of the crisis entails a constant accentuation of inter-imperialist antagonisms. It is a highly characteristic fact in this connection that the Lausanne Conference could not be held because the preliminary negotiations had clearly shown that an agreement among the interested powers was not to be looked for at the moment in question.

The Social-Fascist Legend of State Capitalism as a First Step to Socialism.

The so-called state-capitalistic measures of bourgeois States are emergency measures adopted under the stress of the crisis. They serve the purpose of preparing the way for a capitalist way out of the crisis, of monopolising the home markets for the native bourgeoisie to the greatest possible degree, of strengthening the latter in their fight for the world markets, of redistributing income within the country in favour of the ruling classes at the cost of the workers, petty bourgeoisie, and poor or middling peasantry, and of bolstering up bankrupt enterprises of the financial capitalists by means of state funds.

The Social-Fascists of all shades support the endeavours of the bourgeoisie and of the governments to find a capitalist way out of the crisis, by making out that the government intervention in capitalist economy is the transition to state capitalism, a new period in the development of capitalism, the last stage, to be followed—automatically and without any revolution—by Socialism itself.

The political motive of this manoeuvre is plainly apparent. Its object is that of restraining the proletariat from revolutionary measures by making out that evolution will automatically lead, by way of state capitalism, to Socialism and that a proletarian revolution would therefore be superfluous and harmful.

This Social-Fascist theory, according to which, prior to the overthrow of the bourgeoisie, capitalism is still destined to pass through a period of "state capitalism", must be all the more actively opposed, seeing that it has in some instances also penetrated into our own ranks. This conception is apparently

backed up by certain utterances of Lenin's, misunderstood and torn from their context.

As a matter of fact, Lenin did repeatedly mention the fact that "state capitalism" was the immediate preliminary stage to Socialism.

"A monopolised state capitalism", he says in "The Threatening Catastrophe" (and repeats it emphatically in his pamphlet "On Taxation in Kind"), "is the complete material preparation for Socialism, it is the preliminary stage to Socialism, it is that step in the historic ladder after which there will be no intermediate step prior to the step we call Socialism."

But it is either an absolute misunderstanding or else an unscrupulous misrepresentation, if these theses of Lenin's are made out to be identical with the Social-Fascist conception of state capitalism.

The misrepresentation lies in the fact that no mention is made of the decisive presumption on which, according to Lenin, state capitalism forms the preliminary stage to Socialism, namely the previous overthrow of the rule of the bourgeoisie.

Lenin speaks of state capitalism as a transition stage to Socialism, after bourgeois rule has been overturned and the bourgeois state supplanted by a "revolutionary-democratic state" (v. "The Threatening Catastrophe") or by the dictatorship of the proletariat, i. e. by the Soviet state.

On this presumption, indeed, Lenin advocated the development of State capitalism at the time of the introduction of the New Economic Policy.

In the spirit of Lenin, therefore, we must most emphatically raise the question of power in any treatment of the subject of "state capitalism".

"State capitalism" under the dictatorship of the bourgeoisie is the direct opposite of "state capitalism" under the dictatorship of the proletariat.

"State capitalism" under the dictatorship of the bourgeoisie means a consolidation of bourgeois rule and a means towards prolonging the capitalist order of society.

"State capitalism" under the dictatorship of the proletariat means, in a definite historic situation, a consolidation of proletarian power, a transitional means for the purpose of accelerating the construction of Socialism.

"Planned Economy under Capitalism".

The great success of the Five-Year Plan of the Soviet Union, which cannot even be denied any longer by the Social-Fascists, has led to various governments (France, Rumania, etc.) working out "five-years plans" or "ten-year plans". These are, however, naturally not "plans" in our sense of the word, but merely governmental (or communal) building programmes.

If the Social-Fascists call for planned economy on the basis of capitalism, their counter-revolutionary object is plainly apparent. They wish to make out to the masses that the tremendous achievements of the Soviet Union in the economic sphere are to be attributed not to the overthrow of bourgeois rule but to planned economy!

By propagating planned economy within the limits of capitalism (state capitalism) and advancing arguments to prove its feasibility, they desire to keep the workers from concentrating their efforts on the overthrow of the bourgeoisie and to prevent them from effecting such an overthrow as the indispensable prerequisite for planned economy.

It is unnecessary to prove that capitalism and planned economy are incompatible. Suffice it to make two observations in this regard:

1. Those measures of "state capitalism" which the bourgeoisie of all countries are at present adopting and which have culminated in Germany in the Fourth Emergency Decree, are by no means measures of "planned economy". On the contrary, they show a hopeless bewilderment and are obviously momentary expedients. Far from leading to planned economy, they have caused yet greater chaos.

2. The Social-Fascists make out that the situation of the working class would be better under planned state economy than in the present state of anarchical capitalism.

In the presence of the fundamental contradiction of the capitalist order of society, the contradiction between social production and private acquisition, all planned economy is not only impossible, but would also prove a scourge for the working class, whose position would be even worse than under the anarchy of present-day capitalist economy.

III. Special Section.

Germany.

The economic position in Germany has continued to deteriorate rapidly throughout the last few months.

The following table shows that in 1931, the average of all economic activity in Germany has already fallen below that of 1924.

Figures Illustrating the Economic Position in Germany.

Time	National Income (Thousands of Million Marks)	Industrial Output (100 to repr. 1928)	Building Activity (Thousands of Million Marks)	Unemployment per 100 Pers. (Monthly Average)	Nat. Economic Turnover (Thousands of Million Marks)	Foreign Trade			No. of Bankruptcies
						Imports	Exports	Balance	
						(Th. of Mill. Marks)			
1924	—	69	—	927	76.0	9.6	7.8	-1.8	—
1925	59.9	81	5.82	682	105.6	11.7	9.4	-2.3	14 805
1926	62.6	78	5.79	2025	109.6	9.7	10.6	+0.9	15 829
1927	70.7	98	7.81	1312	125.0	13.8	11.0	-2.8	7 870
1928	75.4	100	8.91	1391	134.3	13.6	12.4	-1.2	10 595
1929	76.1*	100	8.90	1916	134.1	13.4	13.5	+0.1	13 180
1930	68-70**)	86	7.10	3140	119.2	10.4	12.0	+1.6	15 486
1931***)	50-60	70	4.50	4600	105.0	6.7	9.6	+2.9	17 000

*) Provisionally. **) Rough Estimate. ***) Estimate.

(From "Vierteljahrshefte zur Konjunkturforschung", Pt. A, No. 3, p. 32.)

The last few months of the year 1931 show a further deterioration of this state of affairs, which cannot, however, as yet be recorded in figures.

Production Index (100 representing 1928) 1931.

April	May	June	July	Aug.	Sept.	Octob.	Nov.
76.3	73.9	74.4	71.7	66.6	66.9	65.3	63*

*) Estimate.

The crisis in Germany is particularly acute in regard to the production of the means of production, this being a natural consequence of the over hasty expansion of the production apparatus in connection with rationalisation during the period of progress. The following figures show the relative importance of the industries producing means of production and means of consumption, respectively, during the last few years:

Share of Important Industries in Annual Production.

(In Percentage Proportion to the Gross Output.)

Prices of the Year 1928

	1913	1925	1926	1927	1928	1929	1930	1931
Productional Goods	55.3	54.5	55.5	53.9	55.0	58.5	52.6	45.2
Consumptional Goods	44.7	45.5	44.5	46.1	45.0	41.5	47.4	54.8

(No. 3, Pt. A, p. 36.)

In the production of means of production, the process of decline has continued in the course of the last few months.

Index Figures of the Output of Important Industries

(Quantities, on the Basis of 100 for 1928)

Time	Total	Productional Goods	Consumptional Goods
1929 Monthly Average	101.4	105.9	93.5
1930 Monthly Average	83.6	81.9	86.4
1931 July	71.7	66.3	81.1
1931 August	66.6	61.7	75.1
1931 September	66.9	59.0	80.7
1931 October*)	65.3	56.2	81.2

*) Provisional.

(No. 3, Pt. A, P. 36.)

As early as October, the output of means of production fell to less than half that of the year 1929. This process of a constant decrease in the output of means of production might have assumed yet greater dimensions, had not a very large portion of the output found a market abroad, in part at very low dumping prices. How tremendously the absorbing capacity of the German home market for productional goods has shrunk, may be seen by the returns of the sales of iron and steel according to trade federation reports. The figures in question¹⁸⁾ reveal the following facts:

¹⁸⁾ Compare the "Frankfurter Zeitung" of December 22nd, 1931.

1. In the year 1931, the total sales of iron dropped to roughly one quarter of that of the year 1929.

2. In 1931, the home sales of iron dropped to one sixth of the sales in 1927, i. e. from 11,840 000 to 1,960,000 tons.

3. The German home market absorbs no more than one tenth of the total volume the German iron industry is capable of producing.

Obviously, under such circumstances, there can be no question of a profit, which, in the monopolised system of capitalism, is acquired primarily on the customs-protected home market, while exportation is carried on at dumping prices. The small utilisation of the productive capacity renders production more expensive and leads to an extraordinary extension of the turnover-period of capital, causing the annual rate of profit to drop yet far more than the total of the surplus value. For this reason almost all the heavy industrial enterprises are working at a loss, their adverse position being reflected in the exceedingly low quotations of their shares and debentures.

Nor is there any prospect of an extension of the production apparatus for some time to come, and that for the following reasons:

1. The precondition for an expansion of the production apparatus is the prospect of a profitable utilisation of the new production plant, of which there can be no question for the time being.

2. An accessory precondition for any such expansion is as a rule the possibility of obtaining long-termed credits at low rates. Only in very rare cases—as in those of particularly powerful monopoly concerns—are the firm's own capital resources sufficient for new investments. Long-termed credits, however, are at present not to be had either at home or abroad. In the first half of 1931, the capital importation from abroad amounted to no more than 191 million marks, while in the second half year, after the moratorium, there was no capital importation at all. The sale of debentures and the emission of shares (putting aside the case of the salvaging of the Dresdner Bank) have shrunk to a minimum.

Thus there can be no question of an increased investitory activity or, therefore, of an improvement in the business position for a considerable time to come; on the contrary, the crisis will undoubtedly gain in depth and severity in the course of 1932.

As a matter of fact, the majority of German enterprises are at the present time already bankrupt. "Material values" are available, but they have lost their character as "capital" since their value does not increase, or, in other words, because they yield no profit.

Position of the Working Class after the Emergency Decree.

Brüning's Emergency Decree served the purpose of upholding the rule of the big bourgeoisie in disregard of Parliament and, in particular, of reducing the wages of the workers in accordance with the desires of the big bourgeoisie. While apparently placing burdens on all classes alike through a 10 per cent. cut of prices and wages, it really represents a one-sided burdening of the workers, employees, officials, and poor peasants in favour of monopoly capital. We propose to demonstrate this on the strength of tangible material:

The most important provision of the Decree, apparently affecting monopoly capital in particular, is the reduction of "bound" prices by 10 per cent. below the status of July 1931.

This measure, while seemingly placing a heavy load on monopoly capital, is in fact of very little real importance for the latter, and that for the following reasons:

1. By reason of the growing crisis, most monopoly prices were, as it is, reduced in the second half of 1931 by a corresponding amount.

2. The price cut finds no application to those goods the prices of which are established by international agreements. This means that many cartels have still the possibility of maintaining their prices at the old level if it is in their interest to do so.

3. Infringements of this enactment are punished by a fine "to an unlimited amount", the extent of this penalty to be determined by the chairman of the cartel tribunal or by his deputy. It is obvious that the big cartels have a thousand possibilities of bringing influence to bear on such a judge and of thus limiting the fines to an extent far below that of the profit reaped by the infringement, should this appear to be to their economic advantage.

On the other hand, the burdens imposed on the workers are real and tangible enough. On January 1st, 1932, the tariff-wages were to have been reduced to the rates of the tariff in force on January 10th, 1927; that is to say, from 10 to 15 per cent. below the level of July 1st, 1931. As a matter of fact, the tariff wages were in many cases reduced even below this level, e. g. in the case of the miners.

The bourgeois press tries to make it out that, in spite of the reduction of wages to the level of January 1927, real wages still remain higher, seeing that the cost of living has likewise been reduced. The official cost-of-living figures (on the basis of 100 to represent 1913) were as follows:

Beginning of 1927 145
Beginning of 1932 130

There is thus apparently a decrease of roughly 10 per cent. The official cost-of-living index, however, is altogether wrong in relation to present-day conditions, being based on a consumption which is out of date in view of the present unemployment and short-time work and of the greatly diminished income of the working class. It is just the cheapest foodstuffs, on which the great bulk of the proletariat nowadays depends, that have been slowest to register a price-drop.

Under these circumstances an adaptation of the tariff wages to the false index of the cost of living means that the real wages of the workers have declined at least to the level of the year 1925.

Added to this, earnings such as piece work-wages, and wages over and above the tariff rates, have dropped far more than 10 per cent. since the beginning of 1927. Even the General Federation of German Trade Unions is forced to make the following declaration:

"Apart from the diminution of earnings by reason of short time, the Emergency Decree has reduced real wages by 27—29 per cent. in comparison with the year 1930. The forcible reduction of the tariff wages to the level of January 1927 will to all intents and purposes reduce real wages to less than that standard." ("Vorwärts" of December 16th, 1931.)

Nor is there any indication that retail prices will sink rapidly in the near future.

For while on the one hand, the Emergency Decree ordains a reduction of prices, other of its enactments have an absolutely opposite effect. The turnover tax has been raised from 1 to 2 per cent. (in the case of firms with a turnover of more than one million marks a year, to 2½ per cent.). Since the turnover tax is collected on the purchase of the raw material and on that of the semi-finished product, on the sale of the finished product to the wholesale dealer, on the transaction between the wholesale and the retail dealer, and also on the sale to the final consumer, i. e. from three to six times on the selfsame commodity, this increase means a raising of the final price by from 3 to 5 per cent. for the ultimate consumer, the worker.

The rents of dwellings constructed prior to 1918, have been decreased by 10 per cent. of the pre-war rent, but this does not apply to sub-tenants. The great mass of workers renting furnished rooms or merely sleeping accommodation, are excluded from this rent reduction.

A further pronounced worsening of the workers' lot lies in the further restriction of social services.

Official Unemployment Returns

(in Thousands)

Time	Recipients of Main (Unemployment Insurance) Relief	Recipients of Emergency Benefit	Recipients of Poor Law Relief	Receiving no Relief	Unemployed in Search of Work
June 1930	1469	365	—	—	2636
Dec. 1930	2165	667	877	674	4383
June 1931	1412	941	1098	503	3954
Sept. 1931	1344	1140	1299	572	4355
Oct. 1931	1185	1350	1408	412	4623
Nov. 1931	1366	1406	1528	787	5059
			appr.		
Dec. 31 1931	1642	1506	1650	—	5666
Jan. 15 1932	1778	1547	—	—	5966

In view of the long duration of unemployment, unemployment and emergency relief automatically come to apply to a relatively smaller percentage of the workers; more and more workers forfeit the poor law relief, which with the progressive bankruptcy of the municipalities has come to exist only on paper.

By the end of December, 43 per cent. of all workers in Germany were unemployed and only 35 per cent. fully employed. At present, in January 1932, probably more than 45 per cent. are wholly unemployed. Never before in the history of capitalism has there been unemployment to anything like such an extent. The bourgeois system has become an intolerable scourge of the working class.

The Agrarian Crisis and the Revolt of the Peasantry.

The agrarian crisis has further increased in intensity in Germany and has led, in the last few months, to a revolt of the broad masses of the peasantry, taking the form of an organised refusal to pay rent or taxes which has forced the Government to sanction this forcibly created situation both in the Emergency Decree and, before it, in the Eastern Relief Measure. The big bourgeoisie, already waging a fierce fight against the proletariat, could not at the same time risk entering into a struggle against the broad masses of the peasantry.

The aggravation of the agrarian crisis took place in spite of continual tariff increases; indeed, for the small and middle peasants it may be said to have come about as a result of the increased duties on grain and fodder. Agrarian customs protection has raised the prices of agricultural products in Germany far above the world-market price-level. The duties amount to as much as 200 per cent. of the world-market prices.

In the current economic year, the situation has further deteriorated. The sale of meat, vegetables, milk, and eggs has rapidly declined owing to the impoverishment of the working class, the clerks, and the urban petty bourgeoisie, and in spite of customs protection, prices are continuing to fall. This hits the small and middle peasant particularly hard, while at the same time the price of rye, a typical product of the big landowners, and that of fodder are still maintained or, in some cases even augmented by means of Government subsidies.

The revolt of the broad peasant masses has, under such circumstances, assumed dimensions which render it a menace to the bourgeoisie, although the leadership is still largely in the hands of the Hitler party.

The main slogans of the peasant meetings are "Safeguard the Harvest or Raise new Credits", "Harvest Work to be Financed solely by the Yield of this Year's Harvest", and "Payments to be Made only in so far as there is a Working Surplus, and that in the following order: a) Wages, b) Bills of Tradesmen and Artisans, c) Fertilisers, Seedcorn, and other necessary Working Expenses, d) Taxes and Interest".

Brüning's Emergency Decree sanctions this resolution in enacting that no manner of forced sales may take place for a period of six months (till the middle of 1932), the debtor being appointed, under supervision of the creditor, official receiver of his own property. This expedient, first applied under the Eastern Relief Measure, has, however, led to a complete destruction of agricultural credit.

Far from solving the agrarian crisis, the Emergency Decree has merely created yet greater confusion. The position of the small and middle peasant still remains hopeless; they are doomed to wholesale ruin.

The objective presumptions are rapidly maturing of gaining over broad masses of the small and middle peasantry as allies of the revolutionary proletariat in a social revolution.

The Financial Crisis and Foreign Trade.

The main factors of the financial crisis in Germany continue to be the following:

An inflation has not arrived up to the present. The Reichsbank's stocks of gold and foreign bills decline steadily from week to week; ¹⁹⁾ the monetary circulation increases (especially through an increase in the circulation of small coin). ²⁰⁾ The gold and foreign-bill cover fluctuates around

¹⁹⁾ Gold- & Foreign-Bill Holdings of the Reichsbank:

	Millions of Marks
End of September 1931	1,440
End of December 1931	1,156

Of this total, 600 million marks have been borrowed from foreign banks of issue.

²⁰⁾ Total Circulation of Legal Tender

	Millions of marks
January 7th, 1931	6,123
January 7th, 1932	6,416

20 per cent. The rate of circulation, meanwhile, has become very slow; much money is hoarded by reason of the collapse of the credit system; prices drop, but there is no sign of an increased anxiety to acquire material values.

In relation to foreign countries, the stability of the mark rests on the moratorium for short-term debts and for Reparations. After several weeks' negotiating, the standstill agreement was prolonged for another twelvemonth.

The report of the Young Plan Committee of Experts²¹⁾ furnishes a complete survey of Germany's liabilities for 1932 in the way of foreign debts. We may here reproduce the most important figures in this regard:

	Liabilities in Millions of Marks
Long-term Publicly Invested Debts: Interest & Amortisation	670-820
Mortgages on Real Estate (Capital 715 Million Marks)	43
Advances & Claims (1,798 Million Marks)	113
Native Debentures in Foreign Hands (400 Million Marks)	24
Real Estate in Foreign Hands (2,000 Million Marks)	50
Shares in Foreign Hands (2,500-3,500 Million Marks)	100
Short-term Debts (Total not Indicated)	600-700
Together	1,600-1,850
Estimated Revenue from German Capital Investments Abroad	300-400
	1,300-1,450

Since these figures have also been signed by the German experts, we may consider them as approximately representing the true state of affairs. If we add to them the Young payments of roughly 2,000 millions, there results an annual encumbrance (apart from any repayment of short-term debts) of something between 3,300 and 3,500 million marks.

Over against this, there is a balance on Germany's foreign trade to an amount of 2,874 million marks for the year 1931, 1912 million thereof falling to the share of the second half-year. It would thus seem as though Germany were in a position to pay at least part of the Reparations.

For the future, however, a favourable balance of foreign trade to anything like this amount appears highly improbable. The export surplus above mentioned resulted through the forcible restriction of raw-material and foodstuff imports, in regard to volume and not only in consequence of the price-drop. Foodstuff imports declined from 2,969 million marks in 1930 to 1,970 millions in 1931, raw-material imports from 5,505 million marks to 3,475 million marks. This pronounced recession is a symptom of the crisis and is to a great extent at the expense of a depletion of the stocks of foreign raw materials, which cannot be continued indefinitely. On the other hand, the exportation of finished industrial products is meeting with increasing obstacles in the way of protective duties, foreign exchange regulations, and the like. We may therefore safely assume that in the year 1932 the export surplus will be substantially smaller (according to our own estimate, approximately the half). A margin for Reparation payments will thus hardly be available. Therefore, the Reparation creditors will, willy-nilly, be obliged to consent to a prolongation of the moratorium.

* * *

Summing up, we may say that the favourable commercial balance is merely an outcome of the crisis. It was attained by a forcible restriction of imports and promotion of exports at low prices, rendered possible by an intensified exploitation of the German working class. As long as the moratorium is in force for Reparations and short-term debts, the favourable trade balance has rendered possible a maintenance of currency stability in Germany. But the greater the spread of currency depreciation in the world, the more difficult it will prove for German capital to retain its competitive ability on the world market on the basis of mark-parity and the greater will be the outside pressure making for an inflation, the internal presumptions of which—increased monetary circulation and great extension of the Reichsbank's credit in relation to the

²¹⁾ Complete text published as a supplement to the "Economist" of January 2nd, 1932.

decreased goods turnover and greatly diminished prices—have already long obtained.

Each fresh enhancement of the revolutionary wave or any outside influence can thus lead to a collapse of the German currency, a collapse which would be bound to assume incomparably greater dimensions than has been the case in Great Britain.

France.

During the last few months there has been a further aggravation of the economic crisis in France. The hopes of the French bourgeoisie that the crisis would pass over France have proved fallacious.

Measured by industrial production, the extent of the crisis is smaller in France than in the other greater countries.

Production Index in October 1931.

(On the Basis of 100 to Represent 1928.)

Germany	France	Great Britain	Poland	Canada	United States
66.3	92.9	79.5	70.6	68.5	68.5

There is, however, no reason to assume that the crisis will not acquire the same dimensions in France as in other countries. On the contrary.

The following table may serve as a starting point for such an analysis:

Index of Industrial Output in France.

(On the Basis of 100 to Represent 1913.)

	Total	Machinery	Building	Foundries	Textiles
Peak, May 1930	144	161	143	132	86
May 1931	129	142	126	111	78
October 1931	117	129	121	96	63

In analysing these figures, the following significant facts may be established:

1. Contrary to the case in other countries, the peak of industrial output was attained not in 1929 but as late as May 1930. In France, the crisis set in a twelvemonth later than in other countries.

2. During the last few months, there has been an accelerated decline in output. Between May 1930 and May 1931, the decline of all industrial production amounted to 10.4 per cent., and in the subsequent five months, from May to October 1931, to 9.3 per cent.

3. In examining the decline of output under Section I (foundries, engineering, building) and under Section II (textiles), we can observe that the decline from the business peak in Section II is substantially greater than that in Section I. The decline in engineering figures at 20 per cent., in the foundry industry at 27 per cent., and in building at 16 per cent., while in the textile industry it is 26 per cent.

In every crisis, however, the production of means of production generally declines far more markedly than that of the means of consumption. This is particularly the case in the present period of a general crisis of capitalism, which is characterised by a constant superabundance of unutilised means of production and unexploited fixed capital. These facts, the delay by a twelvemonth in the commencement of the crisis, the accelerated decline during the last few months, and the (hitherto) relatively smaller decline—in comparison with other countries—of industrial output in general and of the output of means of production in particular, afford a guarantee that the full development of the economic crisis in the realm of production is still to come in France. There is no reason to assume that in France the crisis will be of lesser dimensions than on an average in other countries.

The Legend of the Exceptional Position of France.

The assertion that France is less involved in international economy than the other great Powers, is absolutely untrue. A book under the title of "The Economic Forces of the World", published by the Dresdner Bank, Berlin, contains (on P. 174) the following data:

Foreign Trade in Percentage Proportion to Home Production (including Services)

	Exports	Imports
United States	7	6
Japan	21	22
Italy	21	23
Germany	23	25
France	24	24
Great Britain	25	32

The great dependence of French industry on the world market may be seen by the following figures, culled from the same source as the above (P. 150):

Percentage Share in the Total International Exports of Finished Goods.

	1913	1925	1928
France	11	12.2	10
Germany	21.3	13.9	16.4
Great Britain	28	25.7	23.3
United States	11	15.7	18

Another main argument advanced in favour of the exceptional position of French economy, is the assertion that France possesses a particularly strong agricultural basis in the country itself. The following comparative figures will show that this is not the case:

Percentage of Earners in Agriculture & Forestry²².

	(1926)	(1925)	(1923)	(1921)	(1921)	(1920)
France	38.3					
Germany	30.5					
Austria	39.9					
Czechoslovakia	40.3					
Italy	55.7					
United States	26.3					

There can be no doubt that not only is the relative importance of agriculture in France constantly on the decline by reason of the rapid development of industry, but that there is an absolute decline in agricultural production, as will be seen by the following figures:

Area under Cultivation

(Thousands of Hectares)

(Computed from the Returns of the "Annuaire International Statistique Agricole 1930/31")

	Wheat	Rye	Barley	Oats	Potatoes	Vineyards
1909/14	6787	1253	804	3978	1646	1686
1927/30	5317	762	727	3468	1448	1582
1931	5057	718	793	3496	—	—
Decrease						
from 1927/30	1470	491	67	510	198	104
Percent. Decr.	22	38	8	13	12	6

The delayed outbreak of the crisis in France is thus not the consequence of a—non-existent—exceptional position of French economy among the great Powers. In every crisis there are inequalities of development of this kind, to be explained on the basis of concrete historical conditions. In this case it is obvious that the special boom in the sphere of the means of production, which was brought about by the reconstruction of the devastated territory with the aid of German Reparation payments, and the fact that currency stabilisation took place later in France than it did in other countries, are two main reasons for the tardy commencement of the crisis in France.

A really exceptional position in relation to other states, France occupies at present in regard to currency. The enormous accumulation of gold and the possession of gigantic sums in foreign exchange, give the French currency a privileged position in comparison with the currencies of other states, even such among them as have so far not suffered a visible depreciation. This privileged position (as we had occasion to point out in our last report) enables French finance capital to exercise a strong political pressure on the other countries, Austria, Germany, Great Britain, and even the United States in the interest of France's political authority in general and of the Reparations question in particular. At the same time, this exceptional position of France is connected with great drawbacks in regard to foreign trade. The more the general depreciation of currencies spreads, the more difficult it must become for France to maintain its exports and to keep the importation of foreign goods within the desired bounds.

Formation of Foreign Trade.

Under such circumstances, the development of foreign trade acquires quite particular significance²³.

²² "Statistisches Jahrbuch des Deutschen Reiches", international survey, P. 25.

²³ The "Economist" of January 23rd, 1932, publishes the following index of French foreign trade (on the basis of 100 to represent 1929):

	Imports	Exports
1930	96	85
1931	72	61

France's foreign trade is characterised by the rapid decline of exports.

Foreign Trade in the 3rd Quarter in Millions of Francs

1929	1930	1931	Decline from 1929
12,288	9,997	7,171	40 per cent.
13,254	12,393	10,171	24 per cent.

The change in the dynamics of French foreign trade— increase of imports and decrease of exports—is still more marked in the following table, in which foreign trade is computed on the price-basis of 1913²⁴).

French Foreign Trade in the First Nine Months (100 for 1913).

	1928	1929	1930	1931
Imports	116	133	143	141
Exports	148	147	131	112

In October and November, the development continued along the same lines:

Foreign Trade in Millions of Francs.

	Imports			Exports		
	1929	1930	1931	1929	1930	1931
September	4302	4225	3346	4206	3361	2435
October	4510	4518	3123	4387	3493	2535
November	4757	4265	2891	4268	3431	2385

The French bourgeoisie tries by all possible means to promote exports. The home prices of monopoly goods are far higher than the export prices. Dumping is being carried on all along the line. This is supported by the freight-tariff policy of the French railways, which are greatly under the influence of the state.

Besides currency depreciation, it is Great Britain's abandonment of the gold standard which has hit French exports especially hard. Not only are special products of French agriculture, vegetables, fruit, flowers, etc., seriously affected, but also those branches of the finishing industry which have been particularly adapted to exportation to Great Britain.

The French Government has had recourse to a number of reprisals against British imports into France such as a 15-per cent. "currency surtax" on all duties on British goods and a more drastic quota system for the import of British coal. As a matter of fact, a tariff war if being waged, more or less openly, between Great Britain and France.

In other respects, too, the main endeavour of the French Government is being directed towards placing as many obstacles as possible in the way of foreign imports. To mention briefly the most important measures of the last few months, the Government has introduced obligatory milling, to 95 per cent., of native wheat, import restrictions on coal and sugar, an import prohibition on nitrogen, restrictions on the import of cattle, the obligatory use of native coal for governmental and communal enterprises, and an 18-per cent. customs surtax for goods from countries with a depreciated currency (in some instances also applied to goods from Germany).

During the last few months, for which no comprehensive statistical data are as yet available, the crisis has greatly increased, as may be seen by all newspaper reports.

"The situation of the French coal-mines," writes the "Frankfurter Zeitung" of December 12th, "has continued to deteriorate. The decline in the French consumption of coal is estimated at something between 850,000 and 1,000,000 tons of coal per month, i. e. from 10 to 12 per cent. The North-French pits work no more than five days a week, and in some districts idle shifts are still more frequent. The pithead stocks amount to about 5,000,000 tons, or as much as a month's output, which is very much considering the poor quality of French coal."

The position of the iron industry is likewise rapidly declining. As early as November, "l'Usine" estimated the degree of occupation of the iron industry at no more than 50 per cent. of the capacity of the works.

A certain relief, meanwhile, is provided for the French iron industry in the way of public orders.

A further source of orders to the heavy industry is the military armaments, on the part both of France itself and of

its vassals and Japan, which countries are to a great part supplied by France.

The French automobile industry suffers acutely under the crisis, as does also the textile industry, a fact clearly shown by the production indices published at the commencement of this chapter.

The superabundance of loan capital, moreover, synchronises with an extraordinarily restricted emissary activity. Monetary capital is available in plenty, but the growing crisis hampers the new investment of capital very considerably. This is best to be seen by the number of share emissions in the last few months:

Emission of Shares in Millions of Francs²⁵).

	Increases of Share Capital		New Foundations	
	1930	1931	1930	1931
July	319	132	36	17
August	136	35	17	13
September	185	153	48	20
October	387	79	121	9
November	138	80	43	45

The rapid deterioration of the business position may also be seen by the development of share quotations. On the basis of 100 to represent 1913, the share index shows the following development:

Average	1931			
	1929	1930	July	November
506	437	365	249	243

Great as this decline is, it yet falls far short of that in the United States and in Germany; however, a further acute decline seems to be inevitable.

The bankruptcies, open and concealed, of leading enterprises continue undiminished. Much the same as in Germany or if anything in a still greater degree, it is the State Treasury that comes to the aid of the bankrupt enterprises in various ways. Indeed, the tremendous subsidies made to French firms threatened with bankruptcy and to the vassal states of France, are rapidly consuming the surplus of the French Treasury and threatening the equilibrium of the State budget. With the growth of the crisis, the revenue from taxation decreases. An augmentation of taxes is an absolute necessity, but in view of the Parliamentary elections in the spring the Government and all Parties fight shy of putting through an increase of taxation at the present juncture.

In our last survey we pointed out that in spite of the tremendous stock of gold in France, the situation evinces elements of an inflation. This is to be seen not only in the anxiety of the population to exchange banknotes into gold and to hoard the latter, but also in the extraordinarily increased fiduciary circulation despite this process of hoarding. Since 1928, the note circulation has increased by 22,000 millions, or 33 per cent., although wholesale prices have dropped 20 per cent. and production has receded 20 or 25 per cent. In comparison with the sum total of goods in circulation, therefore, the note circulation is about double what it was in 1928, a fact which provides a potential basis for inflation.

Furthermore it is apparent that France's balance of payments is becoming less and less favourable. If we consider the French balance of payments for 1929, as computed by Mevnard, we can observe that the surplus of 13,800 million francs is based on the chief sources of revenue, viz.:

Tourist Traffic	8 500 Millions
Reparations	6 700 Millions
Yield of Foreign Investments	5 800 Millions

Of these, Reparations have for the time being been suspended, while tourist traffic has greatly shrunk by reason of the international economic crisis and will probably shrink still more in consequence of currency depreciation, which makes France a very expensive country for foreigners in general and British people in particular. The yield of investments abroad, meanwhile, has been greatly restricted by the heavy removals of French capital loaned for short terms in foreign countries.

The Effects of the Crisis on the Working Class.

The effects of the crisis in France weigh more and more heavily on the French working class. Unemployment and short-time work are rapidly spreading. On December 11th, Minister of Trade Landry estimated the total of fully unemployed at 300,000 and that of short-time workers at

²⁴) "Statist" of November 19th, 1931.

²⁵) "Le Temps" of December 21st, 1931.

2,800,000. The alleged total of fully unemployed in no way corresponds to the actual figure. Even the "Times" correspondent in Paris found himself induced, on December 11th, to state that "The real total of fully unemployed is probably one million at least".

Of this million, only 104,000 were, early in December, in receipt of welfare relief through the municipal authorities. The position of the workers actually employed, is considerably aggravated by the fact that the cost of living has remained practically unchanged in the face of falling wages and an extraordinarily widespread system of short-time work. According to official statistics in October 1931, the cost of living in Paris was rather higher than the average of the year 1929²⁰.

That the cost of living remains unchanged is to a great part due to the high agrarian duties, which lead—much as they do in Germany—to an accentuation of internal differences. French industry, in order to be able to compete on the world markets, is endeavouring to reduce wages as far as possible, but meets with the opposition of the workers, who point to the unchanged level of the cost of living. Hence the demand of French industry in general, and of the heavy industry in particular, for a reduction of protective agrarian duties, so that a fall in the cost of living may facilitate a cut in wages.

Upon the initiative of M. Blum and with the support of the Social-Fascists, the French Government is attempting to shift the burden of unemployment in France as far as possible onto the foreign workers. On December 22nd, a Bill was passed in the Chamber, restricting the number of foreign workers in all public works to 5—10 per cent. and making the percentage of foreign workers permissible in industry and commerce subject to a decree yet to be promulgated. Agricultural enterprises are exempted in this regard. Foreign workers entering the country as agricultural labourers and subsequently passing over into industry, are to be expelled. The immigration of foreign labour is to be greatly restricted.

The number of foreign workers in France is extremely great. According to the census taken in March last, there were within the frontiers of France no fewer than 2,890,923 foreigners, the bulk of this total obviously representing workers.

* * *

In summing up, we may point to the following conclusion:

There is no reason to assume that France occupies an exceptional position as against other countries. The belated appearance of the crisis in France therefore by no means implies that in that country the crisis will continue throughout to maintain a milder form than elsewhere. French economy, and the French working class in particular, have still to face the worst of the economic crisis.

Great Britain.

For Great Britain, the last few months have been a period particularly rich in events.

Economically, this period saw the end of the gold standard, the drop of the pound sterling to 68 per cent. of its par value, and the adoption of tariff protection.

In the sphere of home politics, it saw the formation of a "national" government, the open going over of a section of the Labour Party with MacDonald at their head from the Labour camp into that of the bourgeoisie, an annihilating defeat of the Labour Party (despite the 6½ millions of votes they recorded at the elections, out of their previous 265 seats they held only 52) by the putting-up of joint candidates of the "national" parties in all endangered constituencies, the reduction of Lloyd George's Oppositional Liberal Party to a little group of four members, and an intensified attack on the working class, indirectly through currency depreciation and protective duties and directly through cuts in wages and unemployment relief.

²⁰ Comparative Development of the Cost of Living in the most important Countries.

(On the Basis of 100 to Represent 1913-14.)

	Germany	France	United Kingdom	Italy	United States
1928	151.7	105.4	166	132.2	161.9
1929	153.8	112.8	154	136.7	161.4
1930	147.3	118.3	158	133.7	154.3
1931 January	140.4	119.7	153	125.7	145.2
1931 September to October	133.1	114.8	145	119.4	136.7

In foreign politics, it saw a policy of extreme caution, a strengthening of hostile attitude towards the Soviet Union, support of the Japanese predatory expedition against China, and in the Reparation question, in spite of various diplomatic subterfuges, ultimate subordination to the policy of France.

In brief, the British bourgeoisie seeks to escape from the crisis by adapting its economic and political system to the systems of the other imperialist Powers and by liquidating such peculiarly British characteristics (i. e., above all, Free Trade) as have resulted from the former monopoly of British industry on the world market.

Obviously, the change to protection cannot constitute a way out of the crisis, seeing that it is just the countries which have developed their protective-tariff system to the utmost, viz. the United States and Germany, that are most seriously hit by the crisis. The British bourgeoisie, however, still hopes by this change to be able to combat the chronic crisis of British economy which has practically existed ever since the end of the war.

Elaboration of the Protective-Tariff System.

The construction of the new system of protective tariffs is being effected step by step. The new Cabinet has been empowered by Parliament (through the abnormal Importations Bill) to impose duties up to 100 per cent. on any classes of goods it might specify. Since the impending adoption of a protective tariff was a matter of general knowledge, British importers speeded up their imports immediately upon the formation of a "national" Government, while foreign manufacturers made big deliveries to stock. In this way it was easy enough to point to "abnormal" importation.

In November the first Board of Trade Order was issued, which put a 50-per cent. ad-valorem duty on a great number of industrial products, the most important of these being earthenware, tools, cutlery, wireless articles, typewriters, woollen goods, stationery, perfumery, and toilet articles.

Shortly afterwards, a second series of goods came under the same 50-per cent. ad-valorem duty, chief among them glassware, woollen yarns, carpets, linen goods, and pocket knives.

The situation is now such that of the goods designated by British foreign-trade nomenclature as "manufactured or mainly manufactured", the import value of which figured in 1930 at 307 million pounds, goods to a total value of 110 million pounds are dutiable, thereof 70 million pounds' worth on the strength of earlier legislation and 37 million pounds' worth by virtue of the two decrees mentioned above. (Data supplied in Parliament on December 4th by the Parliamentary Secretary of the Board of Trade.)

The new duties affect in the first place the great European industrial lands, i. e. France and Germany and in part also Sweden. They have already called forth reprisals on the part of France in the way of a 15-per cent. restriction of the import contingent for coal and a surtax against British goods on the ground of the depreciation of the pound. Hard words were uttered in Parliament in both countries, yet harder words appeared in the Press, but they did not lead to any consequence.

The third general customs decree, intended to impose a 10 to 15 per cent. ad-valorem duty on all finished goods hitherto free of duty, is at present in preparation. Bit by bit, and not without resistance, but nevertheless inexorably, the British bourgeoisie progresses towards full blown protection, just as we have for years past foretold would be the case.

The knottiest point is undoubtedly that of agrarian duties. In Great Britain, farming is not a matter of prime importance; in 1921 only 8 per cent. of all earners made a living thereby—more recent returns are not available. But the big landowners have plenty of political "pull" in the Conservative Party and will not miss the opportunity of raising the ground-rents. The plan now envisaged is that of a combined system of tariffs and quotas. The mills are to be obliged to mill 15 per cent. of homegrown, 55 per cent. of Dominion-grown, and only 30 per cent. of foreign-grown wheat. There is to be a preferential duty for Dominion wheat. This matter is not to be decided until the summer, on the occasion of the Empire Conference at Ottawa. The difficulty lies not only in the traditional antipathy of the British consumer to food taxes, but also in the opposition of Argentina, in which country Great Britain has invested tremendous sums and which is one of the biggest markets for British industry.

Development of Sterling.

The movement of the sterling rate has thus far borne out the prognosis made by us three months ago. The rate fell to 3.21 dollars to the pound and then rose, with fluctuations, to 3.45 in the middle of January. The depreciation is thus about 30 per cent. This development appears to have ensued quite freely, without intervention on the part of the Bank of England. In view of the very small gold holdings of the Bank of England, such intervention would, indeed, be a difficult matter. (Within the period in question, the Bank of England has lost roughly 15 million pounds worth of gold, or about 10 per cent. of its holdings at the time of the abandonment of the gold standard.)

The depreciation of the pound sterling has entailed a rise in prices which is noticeable mainly in the case of foreign goods, while native goods and retail prices seem slow to follow the currency depreciation.

The "Economist" index—on the basis of 100 to represent the level of September 19th, 1931, the day on which the gold standard was abandoned—showed a level of 109.6 on January 13th, 1932, while the same index in gold showed 94.5. The difference is roughly 16 per cent. or about half the deviation of the sterling rate from parity. The adaptation may thus be said to have ensued rather rapidly. On the other hand, the rise of retail prices is far slower—as is always the case at a time of incipient inflation.

Development of the Economic Position.

The time that has elapsed since the commencement of inflation and since the introduction of the first protective duties is not yet sufficiently long to permit of any definite conclusion as to its consequences.

The development of the individual lines of production has varied. The greatest profit has been reaped by the textile industry, the American section of which worked in December to 77 per cent. of capacity, computed per shift, as against 55 per cent. prior to sterling depreciation²⁷). In other lines, e.g. footwear, leather, woollen goods, there was an improvement immediately after the sterling collapse, which however ended as soon as the goods on hand had been disposed of. Improved business conditions still continue in those textile works which produce goods of finer quality for the home market.

In coal-mining the improvement was but short-lived, while in engineering and shipbuilding there has been no improvement at all.

The index of the "Economist" for November and December, it must be admitted, shows an upward trend in regard to the main lines of industry.

Index of the "Economist". (100 representing 1924.)

	July 1931	Aug. 1931	Sept. 1931	Octob. 1931	Nov. 1931	Dec. 1931	Dec. 1930
Imports:							
Raw Materials . . .	91	83	78	75	81	95	106
Non-Ferr. Metals . .	118	111	103	95	99	94	110
Exports:							
Finished Goods . . .	66	64	66	64	64	64	79
Consumption:							
Iron & Steel	88	83	77	79	91	98	91
Coal	93	90	90	93	100	107	111
Cotton	74	72	75	70	86	96	81
Rubber	354	410	365	365	243	266	381
Electric Power . . .	97	96	98	105	118	128	120

The consumption of coal, iron and steel, cotton, and electric energy shows a considerable increase in comparison with September; it seems, however, that this is a transient phenomenon. The exportation of finished goods so far shows no improvement at all.

There is absolutely no sign of an inflation boom in the form of an increased investment activity.

Emission of New Capital. (Millions of Sterling.)

	1st	2nd	3rd	4th	Together
	Quarter				
1930	87.7	81.9	22.9	75.3	267.8
1931	45.2	44.5	9.0	3.9	102.1

Great Britain's balance of payments has developed worse than was generally expected, especially by reason of the great

deficit of the balance of trade. The most important data regarding the latter are as follows:

Foreign Trade in Millions of Pounds.

	1924	1929	1930	1931
Imports	1277.4	1220.8	1044	862.2
Total Exports	941	839.1	657.6	433.2
Net Exp. of Fin. Gds.	618.9	—	440	290.6
Deficit	336.4	381.7	386.4	409.
Deficit Percentage of Imports	26	31	37	48

Thus we see a rapidly increasing percentage (in 1931 almost one half) has had to be covered out of "invisible exports", i. e. out of revenue from capital investments abroad, from shipping, from commission business, etc. The estimates of these invisible exports are not at all reliable. The "Economist" of December 12th, 1931, gives the following figures (representing millions of pounds).

1929	1930	1931
474 to 499	401 to 431	301 to 356

Even if the higher figure is accepted as correct, there results for 1931 a deficit on the balance of payments of 53 million pounds; if the lower figure is accepted, there is a deficit of 108 millions.

Unemployment and the Position of the Working Class.

The reduction in the number of unemployed is vaunted as the greatest achievement of the new policy. The last weekly report of the year 1931, gives the following figures for the position on December 21st:

Unemployed	Dec. 21st 1931	Dec. 22nd 1930	Increase	Decrease
Men	2,005,077	1,733,050	272,027	—
Youths	58,369	60,461	—	2,092
Women	402,846	565,375	—	162,529
Girls	40,427	49,485	—	9,058
	2,506,719	2,408,371		

Total Increase: 98,348.

For the proper understanding of these figures it should be pointed out that they are the totals, not of the unemployed but of such of the unemployed as are in receipt of benefit.

The National Government has employed drastic measures for the purpose of diminishing the number of unemployed in receipt of benefit, especially as regards married women formerly in receipt of benefit. In this connection, a "means test" has now to be undergone. Hence the above change, the number of unemployed men increasing within a twelvemonth by 272,000, while that of unemployed women apparently decreased by 162,500. Numerous men and youths, however, have likewise been struck off benefit.

According to the "Ministry of Labour Gazette" (January 1932), the number of insured workers actually employed figured as follows on a yearly average (here expressed in thousands):

1924	9,514	1929	10,207
1925	9,599	1930	9,785
1926	9,050	1931	9,409
1927	10,003	Dec. 1930	9,475
1928	10,007	Dec. 1931	9,593

These figures show 1. that in 1931 the average number of employed workers had dropped below the level of 1924, and 2. that, between December 1930 and December 1931, the number of employed workers increased by 118,000, a number which does not suffice to compensate for the increase in the total of those seeking employment (natural accretion and increased supply by reason of accelerated differentiation in the crisis).

If, finally, we consider the percentage of unemployed insured workers, in receipt of benefit, the position appears as under:

Percentage of Relieved Unemployed				
1930	1931	1931	1931	1931
December	September	October	November	December
20.2	22.6	21.9	21.4	20.9

These are the figures so repeatedly cited in public when any reference is made to the success of the National Government, but these figures represent unemployed in receipt of benefit and not the actual number of unemployed.

²⁷) December report of the Midland Bank.

In order fully to understand the unemployment question in Great Britain it must also be borne in mind that many nominally fully employed workers are in fact not really fully employed and do not draw full wages.

Though the number of employed workers has somewhat increased in the last few months, the actual real wages of fully employed workers have declined owing to the price-increases and to wage-cuts (sailors, railwaymen, dockers, etc.). The worst is, however, still to come. Currency depreciation and new tariffs have so far only taken effect in a limited degree, at any rate to judge by the official cost-of-living figures (100 representing 1930):

September	October	November	December
145	146	148	147

Probably the actual price appreciation is already greater.

A word, finally, on the paupers, i.e. indigent people in receipt of regular relief. On November 1st, 1931, their total was no less than 1,061,044, or roughly 2.65 per cent. of the total population (as against 1.7 per cent. before the war). Approximately one per cent. more of the population have become paupers, including some tens of thousands formerly insured against unemployment²⁸⁾.

United States.

In the United States, too, the crisis has spread and intensified during the last few months. Measured by the volume of industrial production, the extent of the crisis will be seen to have assumed alarming dimensions.

Index of the Federal Reserve Board

(100 Representing the Output of 1923—1925).

June 1929, Maximum: 129. October 1931: 71.
Decline: 45 per cent.

Index of the "Annalist".

May 1929, Maximum: 110.1. November 1931: 65.
Decline: 41 per cent.

The particular depth of the crisis is caused by the unprecedented decline in the output of means of production.

The closing months of 1931 brought a renewed decline in industrial output, as the "Annalist" index shows:

"Annalist" Index of Business.

	Dec. 1931	Nov. 1931	Oct. 1931	Sept. 1931	Dec. 1930
Output of Pig Iron . . .	31.9	36.3	37.4	39.4	53.1
Output of Crude Steel . .	32.7	40.7	35.5	37.3	49.2
Laden Freight-Cars . . .	65.6	65.8	67.9	67.3	80.0
Electricity Production . .	75.9	75.9	77.5	81.7	85.9
Output of Hard Coal . . .	64.6	66.6	68.3	69.4	85.5
Output of Automobiles . .	66.0	33.4	26.2	40.4	91.3
Consumption of Cotton . .	72.1	72.8	74.1	83.9	71.4
Consumption of Wool . . .	—	75.4	82.1	101.3	65.0
Output of Footwear . . .	79.2	71.7	74.3	94.5	71.2
Output of Zinc	43.0	41.9	44.1	45.3	63.8
Total Index	65.8	65.0	66.1	70.8	76.1

The exploitation of the productive capacity of the automobile factories in the United States has sunk to a minimum. The peak production was 622,000 cars in April 1929, corresponding to a yearly output of 7½ millions. Even then, capacity was not wholly exploited, estimates of the total capacity of the works varying between 8 and 12 million cars a year. If we assume 10 millions, the capacity of the works will appear in 1931 to have been exploited to about 23 per cent., and in the month of November in particular (output 69,000) to roughly 8 per cent.

Not much better than this is the state of the steel industry, in regard to which exploitation dropped at the end of December to 20 per cent. of capacity.

In this connection mention should also be made of the extremely severe restriction of the building industry, not only in 1931 but apparently already in 1932. The Federal Reserve Board publishes the following

Index of Building Activity:

(100 to represent 1923—25)

1931	1st Quarter	2nd	3rd	4th Quarter
	79	65	59	49

The sum total of building contracts concluded in the last few months of 1931 and determining the constructional activ-

²⁸⁾ "Times" of December 31st, 1931.

ity during the early months of 1932, is still substantially lower, so that a change for the better in building in the course of the current year seems out of the question.

If, moreover, we take into consideration the catastrophic situation of the railroads²⁹⁾, whose orders of rails and rolling-stock are bound to be insignificantly small³⁰⁾ during the current year, it will be generally recognised that there can be no question of the crisis in the United States coming to an end in the course of 1932. The superfluity of fixed capital characteristic of the general crisis of capitalism is particularly pronounced in the United States. True, it does not—as many "Left" comrades would have us believe—obviate the possibility of a capitalist way out of the crisis (always supposing the rule of the bourgeoisie not to be overthrown), but it renders it far more difficult, makes for a longer duration of the crisis, and is bound also to lengthen the subsequent period of depression.

It is obvious that the very small exploitation of the productive apparatus must lead to a great diminution of profits. This was already the case in 1930. The recently published official returns in regard to income tax present the matter as follows³¹⁾:

	No. of Joint-Stock Companies with a Net Profit		Gross Takings (Millions of Dollars)	
	1929	1930	1929	1930
	263,768	214,412	112,800	79,100
			10,260	5,630
Number of Joint-Stock Companies without a Net Profit				
	1929		181,641	
	1930		231,287	
Number of Joint-Stock Companies without any Income whatever				
	1930		52,411	

The big individual incomes also show a decrease:

	Number of Persons with an Income of				
	more than 1,000,000 Dollars	500,000 to 1,000,000 Dollars	300,000 to 500,000 Dollars	100,000 to 300,000 Dollars	Total over 100,000 Dollars
1929	504	967	1,622	11,608	14,701
1930	149	311	551	5,141	6,152

This decrease synchronises with a powerful tendency towards centralisation. There are masses of open bankruptcies of small enterprises and numerous veiled failures of big enterprises, the latter mainly hidden by means of mergers.

The Financial Crisis.

The financial crisis continues unabated in the United States. True, there has so far been no depreciation of the currency, but the elements of inflation undoubtedly exist, and Hoover's policy of an artificial mobilisation of frozen credits, is calculated to accelerate inflation.

The most important factors of the financial crisis are as follows:

- The deficit of the government budget in 1932 will figure not at 2,100, but at the very least at 2,500, million dollars.
- Bank failures continue to occur. In the course of 1931, 8,000 banks went bankrupt, no more than 37 of them having a share capital of more than 1,000,000 dollars, and 4,800 a share capital of less than 25,000.
- There is a continual withdrawal of deposits from the banks. In October and November, 1,500 million dollars' worth of deposits were withdrawn from the banks.
- The great increase in the monetary circulation in September and October—in spite of the great shrinkage of turnovers and of the lower price level—has not been liquidat-

²⁹⁾ The number of laden freight-cars—deducting freights for the railroads' own use—figured as follows:

	1929	1930	1931
Millions	52.83	45.88	37.27

("Financial Chronicle" of January 9th, 1932, p. 189.)

³⁰⁾ The railroads seek to improve their position by means of a 10-per cent. cut in wages and salaries of railwaymen, which they may succeed in doing with the aid of the reformist American Federation of Labour.

³¹⁾ "New York Times" of December 6th, 1931.

ed. It is estimated that roughly 2,000 million dollars' worth of banknotes have been hoarded in consequence of the credit crisis and of the lack of confidence in the monetary institutions.

e) The exportation of gold — partly in preparation, on the part of France, for the "Disarmament" Conference — set in again on a large scale early in 1932.

f) The effects of the international financial crisis continue to be felt very noticeably. Added to the impossibility of withdrawing the capital invested in Germany, there is now the insolvency of South America. Debenture payments to a total of 815 million dollars were suspended in the course of 1931.

The measures taken by the Hoover Government are directed towards mobilising the frozen credits by opening up fresh sources of credit. The first great attempt in this direction, the foundation of the "National Credit Corporation", the bankers' bank, with a nominal share capital of 500 million dollars, to be paid in by the banks, proved a failure. The banks are not inclined to employ their capital for the purpose of saving their competitors.

At the suggestion of Hoover, another institution was therefore founded by means of government funds in the shape of the "Reconstruction Finance Corporation".

The new institution is to have a capital of 500 million dollars, wholly provided by the Government. The corporation is entitled to issue notes, bonds, and the like, to a total of 1,500 millions. These bonds will be free of all Federal, State, or communal taxation. Should the corporation not be in a position to redeem its obligations at maturity or to pay the interest due, it will be advanced the necessary funds by the Treasury. The bonds and other securities issued by the corporation are to be accepted by the Federal Reserve banks as security for the grant of credits. They will likewise be accepted as investment securities for public trust purposes and the like.

Here, as in Austria and Germany, though in a rather more covert form, it is a question of Government funds being used for the purpose of salvaging bankrupt banking enterprises. The alleged object of the new corporation, that of "mobilising" frozen credits with a view to restarting business, is no more than a blind. The preconditions of a revival are not given. The attempt at prematurely forcing a revival by an artificial expansion of credit, may lead to inflation, but it cannot possibly help to bring the crisis to an end.

The Agrarian Crisis.

The rise of prices in October evoked exaggerated assertions that the crisis had now come to an end⁸²⁾.

These hopes have proved fallacious, the wave of increased prices very soon subsiding.

Agricultural Produce Prices⁸³⁾

	1931			1930	1929
	October	November	December	December	December
Wheat (Chicago "hardwinter")					
Cents p. Bushel	53	62	56	79	122
Maize (Chicago No. 2) Cents					
per Bushel	39	43	39	70	90
Cotton (New York "middling")					
Cents per lb.	6,28	6,41	—	9,96	17,29

The figures show that the price appreciation has already disappeared and, what is more important, that the prices of the three chief products of agriculture in the United States were in December 1931, less than half what they were two years earlier.

It is obvious that such prices mean a loss even to the

⁸²⁾ v. the press review "Literary Digest" of November 21st, 1931.

⁸³⁾ Bulletin of the Roman Agrarian Institute, December 1931.

majority of the big capitalist producers. Moreover, the case of cattle products is similar to that of wheat, maize, and cotton⁸⁴⁾.

The chronic agrarian crisis and its particular aggravation in the autumn of 1931, are among the main factors rendering difficult a termination of the industrial crisis. The agrarian crisis occasions the wholesale breakdown of the small provincial banks, leads to a collapse of agricultural credit, threatens the big mortgage banks, and forms one of the fundamental elements of the credit crisis⁸⁵⁾.

Position of the Working Class.

The situation of the working class in the United States has steadily gone from bad to worse during the last few months. The fresh wave of wage-reductions, which set in on October 1st, has affected all branches of American economy.

Wherever the Communists have succeeded in getting the lead into their own hands, the resistance of the workers has led to great and embittered strike struggles.

Alongside the drastic reduction of wages, unemployment continues to spread inexorably. There are not yet any official statistics, but merely the returns of the Bureau of Labor, which provide the index number of employed workers in several thousands of big industrial enterprises (comprising, it is true, three million workers).

Degree of Occupation in the Works⁸⁶⁾.

(On the Basis of 100 for 1923—25)

Maximum 1929	1930	1931			
		Aug.	Sept.	Oct.	Nov. Dec.
September 105	December 79	74	75	71	69 68

From the maximum, the decline amounts to 35 per cent., within the last twelvemonth 15 per cent., and between September and December 9 per cent.

Seeing, moreover, that even in September 1929 there was a large number of unemployed, their percentage at present figures at something between 35 and 40 per cent. and their total number at at least 10 or 12 millions.

The effects of the recent wage-cutting campaign may be seen approximately by the following table:

Index of Wage Totals.

(100 representing 1923—25)

Maximum 1929	1930	1931			
		Aug.	Sept.	Oct.	Nov. Dec.
September 112	December 74	64	62	59	56 56

The recession from the peak amounts to no less than 50 per cent., the decline in a twelvemonth to 24 per cent., and the decline since September to 9 per cent.

As hitherto, the unemployed receive nothing but charity, that is to say, no manner of government relief. United States democracy permits thousands of millions of Federal money to be distributed to bankrupt capitalist enterprises, but it thinks it incompatible with the dignity of an American worker to draw unemployment relief. He may die of starvation on the streets, but not draw a cent of government money. Such is the principle of Hoover and Green, the champions of true United States democracy.

⁸⁴⁾ "Annalist" Index of Farming Products.

(100 representing 1913)

August	September	October	November 10th	December 29th
87.7	83.6	83.7	89.8	82.2
Maximum				

⁸⁵⁾ The yearly report of Hyde, Secretary of State for Agriculture ("New York Times" of December 9th, 1931), puts the possible proceeds of agriculture in the United States as follows:

1929	11,900 Million Dollars
1930	9,350 Million Dollars
1931	7,000 Million Dollars

⁸⁶⁾ "Federal Reserve Bulletin" of December 1931, p. 666.