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PREFACE.

The International Transportworkers' Federation, immediately upon its reconstitution in the last days of April 1919, broke with the view generally held before the war that the trade-union movement should confine itself to protecting and improving the conditions of its members within the framework of the capitalist society, and should not, therefore, concern itself with questions of a general political character. This new point of view, the result of the experience of the war, was explicitly laid down in the Constitution at the first post-war congress of 1920.

To the activities carried on, during the more than 12 years since elapsed, in connection with matters lying outside the sphere of trade-union affairs in the narrower sense, the I.T.F. owes not in the last instance the position it occupies in the international labour movement. Its propaganda and efforts against militarism and war-mongering, against fascism and reaction of all kinds, have given the I.T.F. a reputation far beyond the ranks of the organized transport workers.

The question of the consequences of the reparations and war debts is also one for which the I.T.F. has had the closest interest from the outset. As early as at the Congress of 1921 in Geneva, and more particularly at that in Vienna in 1922, careful attention was given to the harmful effects resulting for the working class of both the so-called victorious and vanquished countries from these tributes levied by capitalism. At those and subsequent congresses, however, the harmful consequences could not yet be demonstrated in a theoretical analysis of accomplished facts.

At the last Congress of the I.T.F., held in Prague from 7 to 13 August this year, the question of reparations and war debts was again down for discussion. The German Railwaymen's Union had tabled a proposal on the question, and the study contained in the present booklet, with the contents of which the General Council of the I.T.F. had declared itself in agreement, was put forward as a basis for the discussions at the Congress in Prague. The Congress, taking contents and implications for its account, decided that the study should be published without modification.

The study is the first, as far as we know, in which a trade-

union body attempts an analysis of the economic consequences of the reparation and war debt obligations on the basis of Marxian theory. It was completed in May last, and sent out in English, French, German, Swedish and Spanish, in July. In the meantime the Lausanne Conference has taken place, meaning one stage in the cancellation of the reparation and war debt payments. The matter contained in this study is not affected in any way, however, by this or any future conferences.

The booklet remains an exposure of the outrageous and systematic exploitation of the working classes by which capitalism set the crown on the large-scale direct butchery to which it subjected them in the form of the world war.

May this study contribute to the enlightenment of the workers in all countries.

EDO FIMMEN.

Amsterdam, September 1932.

I.

INTRODUCTION.

It is no mere coincidence that the problem of reparations and war debts is to be discussed once more in its full extent at the Biennial Congress of the I.T.F. to be held in Prague from 7 to 13 August 1932. Nor is it a coincidence that it should be the Amalgamated Railwaymen's Union of Germany which, by submitting a draft resolution on the question, is causing it to be so discussed. Since the coming into operation of the Dawes Plan in 1924 the German State railway undertaking has been one of the sources of the reparation payments. Under that Plan no less than one quarter, and under the Young Plan established in 1930 about one third, of the reparation payments were to be derived from the State railway undertaking. How closely the interests of the employees are thereby affected need hardly be emphasized. After all that has been published by the German Railwaymen's Union on the subject¹, we will confine ourselves to a survey of a few striking developments of more recent date.

The Basle Report of 23 December 1931 of the Young Plan Advisory Committee stated the deficit of the German State Railway Company, after payment of the annual 660,000,000 marks for reparations, to be 180,000,000 marks for 1930 and 482,000,000 marks for 1931. (When the accounts for the latter year were closed the actual deficit was found to be 403,000,000 marks.) The financial policy adopted under the pressure of these burdens—with consequences very detrimental to the staff—resulted in a restriction of expenditure which in 1931 exceeded the decrease in income by no less than 18 per cent. That year 259,000,000 marks was saved at the expense of the staff, and under the Emergency Decree issued in December the income of the railwaymen was in January 1932 reduced by a further 200,000,000 marks a year. 30,000 employees were dismissed. The personnel, according to the Basle Report, is 6 per cent smaller than in pre-war days and 42 per cent smaller than in 1919. All the same there remain 650,000 employees whose lot is affected by the

¹ Das Gutachten des Komitees Dawes vom Standpunkt der deutschen Eisenbahner aus beurteilt. 1924. Vom Dawesplan zum Youngplan; das deutsche Reichsbahnpersonal unter dem Reparationsgesetz. 1930.

reparations burden, which, as experience proves, the German State Railway Company is unable to carry.¹ So much for the German Railwaymen's Union, which is directly concerned by the reparations question.

For a good understanding of what occasions the I.T.F. to raise the reparations and war debts issue at its Congress it should be recalled that it has repeatedly occupied itself with the consequences of the reparations obligations for the employees. It has on many occasions expressed views of its own, of which it can now be said that they have been fully confirmed by the course of events. We confine ourselves to giving one striking piece of evidence of this.

On the occasion of the first meeting of the Committee of Experts under the chairmanship of O. Young in February 1929 the I.T.F. issued an appeal to the railwaymen of all countries, which said, among other things: "It is not only the interests of Germany as a nation which are at stake. We venture to say that the vital interests of the working classes throughout the world are closely affected by the discussions in Paris." The appeal went on to point out that under the present order of things the *burdens imposed upon Germany are saddled on to its working classes, resulting in a lowering of their standard of life and a threat to the conditions of the workers in other countries.*

The I.T.F., then, by reason of its organizational task, was involved in the question of reparations as a result of the part played therein by the biggest railway undertaking in the world. It predicted, with what experience has shown to be a high degree of accuracy, what would be the consequences for the working classes. Now that the world is realizing, by the light of the bitter experience of the universal crisis, the *economic* impossibility of one-sided obligations, it is natural that the I.T.F. should feel occasioned to make a reasoned plea in favour of the cancellation of all reparations and war debts.

We may mention here that in this paper it is not proposed to discuss the *political* impossibility—to use the language

¹ Owing to the falling receipts the reparations burden becomes increasingly heavier. In per cent of receipts the burden in 1929 was 12.3 %, in 1930 14.4 % and in 1931 16.5%. This year the position will become still worse.

² See I.T.F. monthly journal for 15 February 1929.

of those bourgeois circles who believe in morality in international politics and a spirit of unanimity in a people to shoulder collectively a burden imposed upon them—of laying a people under tribute for several generations. The I.T.F. considers it its task to make it clear to the international working classes in the light of what has taken place that notwithstanding all the contrasts which may exist between the national groups of capitalists there is one point on which they are in complete agreement, that is, *the joint exploitation of the proletariat with the aid of the reparations and war debts regulated by their governments.*¹

Included as they are in the machinery of capitalist economy, the reparation and war debt obligations—like the world war of which they were born— have made the proletariat of the world bleed. The social wealth of which those obligations are the expression in terms of money is extracted from the proletariat not once but over and over again. It is first produced by the German proletariat by dint of surplus labour performed for the benefit of the exploiters at home. Then the State raises the money needed for the reparation payments by means of taxation, which for the workers means a further restriction of their share in the social product in

¹ An article published in the I.T.F. journal as long ago as January 1924 under the title "United States of Europa, or Europe, Limited?" expressed views which correspond entirely with those expressed here. The article mentioned said: "One solution has been sought in the peace treaties; the diabolically simple one of exalting the military victors to the position of creditors, and debasing the vanquished to that of debtors. It is, however, becoming more and more apparent that the recovery of the costs of the war, on the lines laid down in the peace treaties, is no longer possible. Although the creditor states are still exerting every effort, by means of territorial occupations, to secure guarantees, events will soon show that while this course of action may serve the ends of powerful industrial groups, it will not hasten the recovery of reparations. The time is coming when the bourgeoisie of the victor countries will have to drop their illusory assumption—which was probably never sincere, but only calculated to impress public opinion—that the "enemy" would pay the bill on presentation; and will have instead to try to seek cover for the war liabilities within their own frontiers. All the scattered or reserve energies of the international bourgeoisie will then be collected for a mighty attack on the international working class. Faced by the threat of a proletarian revolution, all conflicts between states—at least in so far as the continent of Europe is concerned—will disappear as if by magic, and their place will be taken by an international understanding under the control of capital embodied in cartels, trusts and other international groups.

the shape of diminished purchasing power (increase in direct and indirect taxation, passing on of taxation to others, etc.). After the State has through monetary technical channels transferred its power over this wealth to the recipients of reparations, the latter allow it, in consideration of exorbitant interest charges, to remain in the country in the form of foreign loans to serve for further exploitation. As a result of the exorbitant interest charges on the one hand and the unemployment caused by the displacement of labour from the production apparatus perfected with the aid of the foreign loans on the other, the working classes have to produce and surrender wealth once again. If we mention briefly such concomitant phenomena as wage cutting and the rise in the cost of living consequent upon tariff measures, then the significance of the reparation obligations for the German people from the social economic point of view has been sketched in rough outline.

For the purpose of analysing the consequences of the reparations and war debts for workers outside Germany it is desirable to distinguish between countries with claims to reparations and owing war debts, the United States which only has war debts outstanding, and other countries. Here the connection between the phenomena are not so clear-cut nor the consequences so acute as in Germany, where the full burden of the reparations presses upon a limited region. Outside Germany the effects of the reparations are naturally less marked. As regards the raising of the money for paying the war debts, that is a fiscal problem which, whatever solution is applied, always amounts to an additional exploitation of the workers for the benefit of either the creditors at home or the creditors abroad. It is true that in the countries receiving reparations there is a certain reduction of the burden of taxation, but the benefit of this is for the most part confined to the larger incomes. The reparations fall into the hands of capitalists in the form of either deliveries in kind or title to wealth in Germany. The workers suffer the consequences of this in the form of unemployment and diminution of real wages (protection, higher prices, etc.). Added the effects of the money depreciation first here and later there—effects which are almost entirely borne by the small incomes—then it may be said at this stage of our exposition that the consequences of the reparations and war

debts have been anything but advantageous to the workers in countries outside Germany.

If the statements made above, which summarize the economic working of the reparations and war debts in their effects for the working classes, can be substantiated in the light of the facts, it follows that it is incumbent upon the labour movement to put forth every effort to bring about the cancellation of those obligations. The proletariat may be considered sufficiently aware of the political impossibility of the reparations and war debts. On this point the labour movement, both national and international, has repeatedly stated its views. It is also here true that the political aspect is subordinate to the economic. Once it is demonstrated on an economic basis that the reparations and war debts bar the way to the salvation of the working classes and the community as a whole, it follows that the utmost efforts must be put forth to demand and enforce their cancellation.

We consider that at the present moment it devolves upon the I.T.F. to demonstrate once more, this time more on the basis of economic argument, the necessity of cancelling the reparations and war debts; more particularly in view of the fact that the terrible depression which the whole world is experiencing has temporarily put a stop to the reparation and war debt payments and provoked a crisis in the international credit system with which the the wielders of economic power are at a loss to deal. In such circumstances the international capitalist class may in desperation resort to the step of cancelling the reparations and war debts, while proclaiming it an act of world salvation of which economic wonders would be predicted. If, under the pressure of the labour movement, cancellation takes place, the present exposition will also serve a useful purpose in so far as it contains warnings against exaggerated expectations regarding the improvement which would result. Capitalism—whose very nature makes for wars between the peoples, which after a war saddles the workers with the economic consequences, contrives to perpetuate and intensify them, and only puts a formal end to them when compelled by necessity—will still be anything but a paradise on earth. The world will still for a long time to come feel the after-effects of the settlement of the war "according to right and justice", and as long as they are economically the weaker the workers will bear the brunt.

II.

THE WORLD CRISIS AND THE REPARATIONS AND WAR DEBTS.

In the Basle Report of 23 December 1931, Chapter IV, Conclusions, attention is drawn to "the unprecedented gravity of the crisis, the magnitude of which undoubtedly exceeds the 'relatively short depression' envisaged in the Young Plan—to meet which the 'measures of safeguard' therein contained were designed." With astonishing frankness, which amounts to a confession of complete ignorance of the laws governing the economic cycle under capitalism, the Report goes on to say: "*The Young Plan, with its rising series of annuities, contemplated a steady expansion in world trade, not merely in volume but in value, in which the annuities payable by Germany would become a factor of diminishing importance. In fact, the opposite has been the case.*" (Italics ours.)

That economic events have taken a course entirely unanticipated by the experts and governments may be supposed from the fact that the Young Plan was not definitely established until as late as May 1930, with retrospective effect to 1 September 1929. In the crisis which had meanwhile broken out in New York in October 1929 and had rapidly developed into a world crisis of unmistakable severity, the authors of the Young Plan, who had more regard for the economic factors than was the case at the time of the establishment of the Dawes Plan, could have found abundant evidence to disprove the view that the Young Plan was "a complete and final settlement of the reparations question". One year sufficed to see practically the suspension of what according to the receivers of reparations were the irreducible sums payable by Germany during at least two generations.

In May 1931, exactly one year after the official endorsement of the Young Plan, a succession of financial crises began to pour out over Austria and later Germany, and resulted in the Hoover proposal of 20 June 1931 providing for the postponement during one year of all payments on inter-governmental debts, reparations, etc. as from 1 July. The Central European débâcle, which the Hoover Moratorium could not arrest, was commercially termed a breakdown of

confidence. About 23 May there began a large-scale withdrawing of foreign credits. An emergency decree released in Germany on 5 June made a general attack on wages for the purpose, it was said, of gaining a competitive advantage over other countries. The financial crisis spread: the financial centre of world trade, London, was struck to the heart; the symbol of the stability of values, the British pound, fell from its base, so that eventually something like 40 countries paid their contribution to the crisis in the form of currency depreciation, with all the unfavourable consequences for the non-possessing classes.

A crisis in international indebtedness had set in. It did not precede or coincide with the outbreak of the world economic crisis, but only followed it on the threshold of its third year. It is important to note this, for this detail is often overlooked when the statement is made that the reparations and war debts were such an important, if not the most important, factor in the outbreak of the world crisis. Great though the influence of the reparations and war debts upon world economic life may be, there can be no question but that the magnitude and intensity of the present crisis is in no way connected with international political indebtedness as a factor disturbing economic life. That reparations and war debts are a factor aggravating the present world wide crisis is as much as can be said with justification.

This can be demonstrated by comparing the consequences of the world crisis for Germany with the burden of reparations, and seeing whether any connection between the two can be found. The output of German industry in 1928 averaged a value of something like 7,000,000,000 marks a *month*; at the end of 1931 the figure had fallen to barely 3,500,000,000 marks.¹ If we compare this with the 1,700,000,000 marks a *year* payable under the Young Plan, it is immediately obvious that the decline in industrial activity, the *monthly* value of which, averaged over a period of two years, is twice the amount of money payable per year in reparations, cannot be due to a comparatively so unimportant cause. Even if on account of the fall of prices the figures of values are to be regarded with the necessary reserve, the drop in the volume

¹ "Zur Wirtschaftslage", economic reports of the German Banking and Discount Company, 30 January 1932.

of German production is such that there is no room for another view; in per cent of the figure for 1928, the index number of production had by December 1931 declined to 58.6.

That the reparation obligations cannot have been responsible for the present crisis can also be proved by another line of economic reasoning, namely that used by Professor E. Lederer in a pamphlet "Wege aus der Krise", on page 14 of which the following passage occurs:

"Let us assume that the 1.7 milliard marks payable annually under the Young Plan during the initial years could be raised and invested as capital in Germany itself, and let us assume further that on the average a million of capital is sufficient for establishing an undertaking employing 100 workers, then it would be theoretically possible to use that capital for creating annually employment for 170,000 workers."

With unemployment exceeding $6\frac{1}{2}$ million at the beginning of 1932 such a figure does not affect the situation to any appreciable extent.

Likewise if we examine another important aspect of the crisis, the decline in world trade, it appears that reparations cannot possibly be responsible. One of the phenomena peculiar to the crisis is the rapid shrinking of activity on the world market. This is clearly revealed in the export figures of the different countries. Between 1929 and the end of 1931 the value of external trade fell by almost one half, though it must be noted that another phenomenon, the rapid fall of prices, was to a much greater extent responsible for this than the shrinkage of the volume of trade. While the exports of Great Britain and the United States have declined by one half, those of Germany have only declined about one third. The sums of money involved by this diminution, for Germany alone nearly 4 milliard marks, are out of all proportion with the 1.7 milliards payable in reparations. The decrease in exports and imports combined was in Germany even more marked, namely no less than $10\frac{1}{2}$ milliard marks since 1929.

The present crisis shows how infinitely stronger is the effect of the general economic situation upon the economic consequences of the reparations, than vice versa reparations can offer a means of coping with a slump of such dimensions as the present. During the comparatively favourable period which preceded the crisis of 1929 there was witnessed a strong flow of capital into Germany, resulting in an excess

of imports. When the economic tide turned the flow of foreign credit not only stopped but foreign loans began to be withdrawn on a large scale. The German balance of trade in consequence assumed an entirely different aspect. While in 1928 it showed an unfavourable balance and in 1929 exports about balanced imports, in 1930 it showed a favourable balance bigger than the unfavourable balance for 1928, and this continued in 1931 so that the favourable balance for that year exceeded the unfavourable balance for 1927. Huge sums were remitted abroad: between the autumn of 1930 and the end of 1931 the figure is stated to be no less than 5 milliard marks, that is, about one tenth of the country's national income.

The bourgeois economists prefer to confine themselves to giving a purely technical account of these events: increased rate of discount — deflation — forced exports — restriction of imports. What chiefly interests them is how the transfer of payments is effected, a process which theoretically is confined within very narrow limits but in practice again and again takes place with an astonishing degree of freedom. The truth, however, is that the possessing classes have no objection to being rid of foreign debts which during times of prosperity are welcome enough as affording additional opportunity for exploitation but during times of depression are irksome owing to the high interest charges. The repercussions on the national economic system of this private economic policy could be no other than those illustrated by the above figures of Germany's trade balance.

As regards exports during the crisis, German employers endeavour to make the best of things, to which end wage reductions are enforced on a large scale with the aid of emergency decrees. As far as imports are concerned, these are restricted, by means of tariff measures in particular, to an extent which theoretically was thought impossible. The restriction of imports is favoured by the shrinkage of purchasing power resulting from the reduction of wages to an extent greater than the fall of internal prices and the widespread privation suffered by the masses of unemployed. Or in the words of the Basle Report, "imports have been reduced, because unemployment, lower wages and high taxation have reduced the consuming power of the country, and, therefore, the demand for imports of consumable com-

modities". The decline in German imports was accordingly most marked in 1931, namely 35.8 per cent; the decline suffered by the 48 principal countries averaged 26½ per cent (Europe alone 22.4 per cent).

It is possible that this account of Germany's position in the crisis will occasion the remark that the exceptional trend of that country's trade balance can only be explained as a consequence of its reparation obligations. The answer is, however, that it is a general symptom of crises for indebted countries, as economically the weaker, to be compelled by international finance capital to achieve an excess of exports for the purpose of paying their debts. Thus Argentina, Australia¹ and Hungary have seen their surplus of imports of 1930 and 1931 transformed into a surplus of exports. In the case of Italy and Canada the excess of imports over exports has been strongly curtailed. An opposite tendency is observed in the case of creditor countries.

In a similar way it can be demonstrated of the various symptoms of the world crisis, by means of theoretic argument or historical analogy, that international indebtedness cannot be a cause of the crisis. We will take one more instance, the disastrous fall of prices, which is one of the most important phenomena of the crisis, and which is often declared to be not unrelated to the reparations question. On this question we quote a historical parallel drawn by such an authority as John A. Todd in his book "The Fall of Prices" released in 1931, pages 1 and 2:

"The writer is old enough to remember an earlier period of falling prices, when this theory of the relation between gold and prices first became common knowledge. From 1873 to 1896 we experienced what was then thought to be a catastrophic fall of prices; and the consequent depression of trade and industry was far worse than anything we are experiencing now... Perhaps the most striking similarity between those days and today is that they have resulted in the revival of the same cure—Protection."

¹ These two countries belong to a group chiefly exporting basic materials and agricultural produce. The world crisis commenced with a disastrous fall in the prices of those commodities. The result was so adverse to the balance of payments of these countries that they were obliged to export a large part of their gold. Brazil, Japan, Mexico, Columbia, Bolivia, and other countries saw themselves placed in the same necessity.

The relation between gold and prices here touched upon by Todd brings us to the actual crisis-aggravating factor contained in international indebtedness. The close relation between gold movements, bank rates and price level has under the influence of the reparation and war debt payments been able to operate in such a degree that an aggravation of the symptoms of the crisis necessarily resulted. To have demonstrated this is the distinction of Sir Henry Strakosch, who published a memorandum on the question under the title "The Crisis" as a supplement to "The Economist" of 9 January 1932. He observes, on the basis of the available statistical evidence, "the close correlation between reparation and war debt payments to France and the U.S., the movement of gold to those two countries, and its deflationary effect as evidenced by the headlong fall of commodity prices since the end of 1928". Sir H. Strakosch investigated the period from 1 January 1925 to 30 June 1931, which he is led to divide into two distinct sub-periods, the first from 1 January 1925 to 31 December 1928 and the other from 1 January 1929 to 30 June 1931. The first is characterized by normal development (equilibrium), the second by violent disturbance. During the first period the changes in the gold reserves of the two big creditor nations, France and United States, have no relation whatsoever with the payment of reparations and war debts. In the second period there is a very close relation, from which Sir H. Strakosch concludes that it "cannot be due to the settlement of international balances resulting from ordinary trade relations; that it therefore doubtless arises from exceptional causes, and that these causes must be looked for in the reparations and war debt payments, of which the United States and France are, on balance, practically the only recipients". The following table shows the movement of gold in relation to the reparation and war debt payments during the two periods (in millions of dollars):

	<i>Reparations and War Debts</i>	<i>Change in Gold Reserves</i>	<i>Increase of Gold Reserves less than (-) or in excess of (+) Reparations and War Debts Receipts</i>
Jan. 1, 1925 to Dec. 31, 1928			
France	557	+ 544	— 13
United States	807	— 344	— 1,151
	<hr/> 1,364	<hr/> + 200	<hr/> — 1,164
Jan. 1, 1929 to June 30, 1931			
France	343	+ 958	+ 615
United States	555	+ 847	+ 292
	<hr/> 898	<hr/> + 1,805	<hr/> + 907

The deflationary effects of the movement of gold to France and the United States were brought about artificially, the normal working of the movement of gold—growth of imports owing to the rise of internal prices—being prevented by means of tariffs and other barriers. In this way they prevented the unfavourable “reactions on their domestic industries which the receipt of goods in payment of reparations and war debts might have occasioned”. They forced the debtor countries to discharge their obligations in gold, and in doing so, “they set up a keen demand for it, which drove up its value, and so plunged themselves and the rest of the world into the far more distasteful plight of deflation”.¹

Whether this defensive policy, which may be considered of especial importance as far as the United States as the leading industrial country of the world is concerned, achieved its purpose, the course which events have meanwhile taken gives strong reasons to doubt. But even during the period covered by Sir H. Strakosch’s investigations developments are seen to be such that there cannot be question of any realization of the objects aimed at by the protectionist policy of the United States. On this point very valuable evidence is contained in the studies published in 1931 by the International Chamber of Commerce on the economic development of Europe and the United States. How little the United States succeeded by its gold policy in stimulating its

¹ With the question of the significance of the distribution of gold we deal further in Chapter V. “The Economic Working of the Debts, C. For the World Economic System”.

industrial activity in relation to Europe and Germany more particularly, is shown by the following figures taken from Book 1, page 8:

"From 1926 to 1929 industrial output increased more rapidly in many European countries than in the U.S. and vice versa it decreased from 1929 to 1930 more rapidly in the United States than in the leading countries of Europe. The rate of increase was 8 per cent in the U.S., 11 per cent in France, 12 per cent in Italy, 16 per cent in Switzerland, 28 per cent in Germany and 40 per cent in Poland. Vice versa industrial output declined from 1929 to 1930 at the rate of 18½ per cent in the U.S., 17.6 per cent in Poland, 17 per cent in Germany, 12 per cent in Italy, 9 per cent in the United Kingdom, 3 per cent in Sweden and remained practically stationary in France."¹

A similar tendency is observed in the trend of trade, as is clear from the diagram given on the next page, which is based on data taken from the Memorandum on Production and Trade during the period 1925 to 1929-30 of the League of Nations:

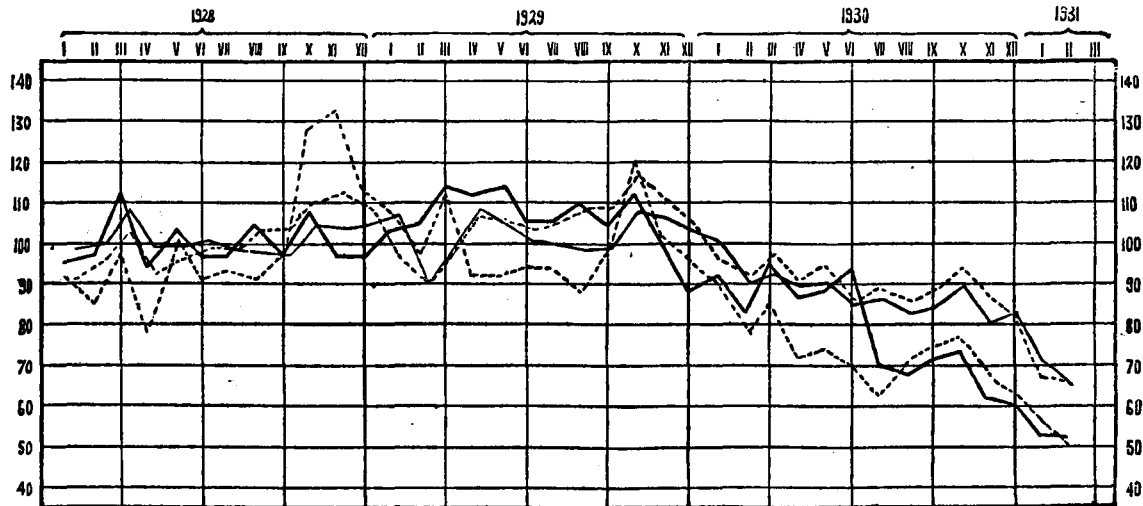
In 1931 development continued in this direction in the United States and Europe. The decrease in exports was greatest in the United States, 37.7 per cent; for the 48 leading countries it averaged 28.1 per cent (Europe 25.4 per cent).

In the light of what has been said above with regard to the relations between the symptoms of the crisis and the reparation and war debt payments, the following conclusions may be pointed:

1. The reparation and war debt payments have not been the cause of the world economic depression.
2. They have, however, accentuated the repercussions of the depression. They facilitated an economically unhealthy division of gold between the big creditor states on the one

¹ The comparative prosperity enjoyed by France was only temporary. Through causes which cannot be dealt with here this country for a time escaped the repercussions of the depression, but it could not do so in the long run. If at the beginning of 1930 its industrial output was still 30 to 40 per cent higher than in the last pre-war year, by the beginning of 1932 it had declined to that year's level. Its trade balance showed such a strong movement from favourable to unfavourable that France has become one of the leaders in tariffism: the restriction of imports which resulted was nevertheless insufficient to offset the fall of exports, so that not even a *temporary* positive result was secured.

MOVEMENT OF TRADE VALUES



Black line American imports
 Black dotted line American exports
 Red line European imports
 Red dotted line European exports

side and the other countries on the other. The accumulation of gold was encouraged by the economic policy of the creditor states, which aimed to avert the unfavourable effects of unilateral economic activities on the part of debtor countries. The result, as we have shown by references to the development which has meanwhile taken place, was that the unfavourable effects nevertheless worked themselves out in an intensified degree for the whole world through the downward trend of prices, which was aggravated by the accumulation of gold in the two principal creditor countries.

The socialist labour movement has no interest whatever in assisting the efforts on the part of bourgeois economists, financiers and industrialists, to camouflage the crisis-engendering qualities inherent in capitalism, which are also responsible for the present depression, by references to the reparations and war debts. Only an analysis penetrating to the innermost nature of the capitalist economic system, that is, marxian analysis, can preserve it from such misconceptions and from the danger of frittering away its forces on details instead of concentrating on essentials.

III.

EXTENT AND BURDEN OF THE DEBTS.

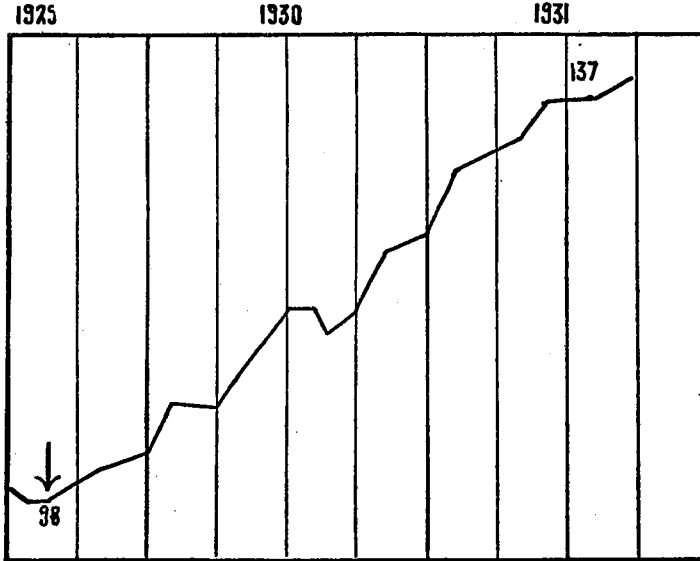
We will here not enter into the question as to how and at what sums reparations have been fixed at many conferences in the course of the years, or the political and legal principles on which they are based. For we are not concerned with the political aspect of the problem, nor propose to give an account of the historical facts and the dance of milliards connected therewith.¹ The mere statement of the sums in question and the arrangements provided in the agreements in order to guarantee payment, bring us not a step nearer to the insight we aim to give in the economic significance of the international obligations.

It is for that matter a purely capitalistic, and hence very questionable, method to measure the burden of debt in terms of gold, expressed in one currency or another. It is questionable because money as a measure of value provides no solid basis for judging the extent and importance of economic services involved. How extremely divergent this may be whilst the sums of money involved are equal is apparent from the studies of Sir H. Strakosch (previously referred to), in which the burden of debt is presented in graphic form on the basis of U.S. Bureau of Labour Indices. It is assumed that debts generally are discharged as to two thirds in wholesale and as to one third in retail commodities. For the period from the latter half of 1929 to the last quarter of 1931 the following chart is obtained:

¹ Interesting particulars of this kind can be found in Lloyd George's recent book "The Truth about Reparations and War Debts". Dealing with the British original estimates of Germany's capacity to pay reparations, he writes (p. 17): "Our own representatives on the Reparation Committee at the Conference were Mr W. M. Hughes, Lord Cunliffe, and Lord Sumner. I placed Lord Sumner on this Committee because as a judge of great distinction, capacity and experience, he could bring to bear on this difficult question a judicially moderate view. Lord Cunliffe, coming from the Bank of England with a wide experience of business and high finance, made himself responsible for the highest estimate given by anyone of Germany's capacity to pay, which he put at £24,000,000,000. If Lord Sumner disagreed I have no recollection of receiving from him any note of dissent. I am not aware that any leading British, French or American authority in financial or economic circles at that time seriously challenged the proposition that very large sums could be obtained from Germany, except Mr J. M. Keynes."

BURDEN OF DEBT

(Arrow pointing to the figure 98 indicates September 1929, the time when the Young Plan came into operation)



This sharply rising curve would be a definite indication of an increase in the burden of debt even if meanwhile the other circumstances had been constant. If, however, it is found that at the same time there has been a strong reduction in production and in consequence also in national income, then the burden must be considerably heavier. The Institute for Economic Research at Berlin estimates that the national income of Germany declined from 76 milliards of marks in 1929 to 50 to 60 milliards in 1931, and predicts a much bigger decrease for 1932. Hence calculations of the burden of the annuities and the capital value of the liabilities in relation to the national wealth or income only have a relative value. According to official calculations, the present value of the

Young payments, capitalized at a rate of interest of 5½ per cent, is roughly 35 milliard marks, or 60 to 70 per cent of the German national income of 1931.

The sums mentioned above only relate to what Germany has still to pay on account of reparations. The debt was in 1921 originally fixed at 132 milliards of gold marks (52 milliards as reparation for material damage and 80 milliards as the capital value of pension payments). Of this slightly over one half was intended for France. It is difficult to determine the economic significance of this sum. It is estimated at one half of the national wealth of Germany. Some idea of its value is given by the following comparison which we came across somewhere: the total production of gold in the entire world since the discovery of America is little more than half the sum which Germany was required to pay.

How difficult it is to estimate in terms of money even the economic services already performed by Germany on account of reparations appears from the great divergence in the sums at which the parties have arrived on different occasions. Apart from the difference in the measure applied, to which is due the divergence in the estimates, there is doubtless another factor which plays an important part, that is, the line of thought summed up, in an unguarded moment most probably, by Lloyd George in the following words on page 101 of his recent book: "Viewed commercially, had the war been a business undertaking on the part of the Allies, reparations were the sole marketable asset accruing from their operations, so that the investors in the business would have had to look to reparations as the sole source from which dividends or repayment of the capital invested would be forthcoming."

We will not here venture into this "commercial" maze, but confine ourselves to the observation that the sums in question provide no means for measuring the economic significance of the services they involve. This becomes still more apparent if it is considered that the annual payments take place in a society functioning on a private economic basis and giving an entirely free hand to the economic rulers, whose estimate of expenditure differs entirely from one conceived from a social economic point of view. *The only concrete fact ascertainable, apart from the size of the*

debt in terms of money, is that it is the working classes whose circumstances of life are reduced.

Present international indebtedness, although an important figure, is seen to be of no exceptional consequence when compared with figures estimating the excesses capitalism has in the past periodically indulged in. The well-known statistician Wladimir Woytinsky in his book "Internationale Hebung der Preise als Ausweg aus der Krise" released early this year attempts a calculation of what the world crisis has cost. He arrives at a figure putting the loss up to the end of 1931 at 150 to 160 milliard gold marks. By comparison not only the annuities payable under the Young Plan, but even their capital value, which Woytinsky estimates at 39 milliard marks, dwindles to insignificance, amounting as it does to only about one quarter of what the world has become poorer in the course of proximately two years.

Compared with other excesses—the wars—the amounts involved in international debt are mere trifles. By way of illustration we quote figures used by George P. Auld¹: "The costs of the war to the five chief belligerents of western Europe (Great Britain, France, Italy, Germany and Austria-Hungary) were equivalent to about 60 billion² pre-war dollars or twenty months' income of the 240 million people concerned.³ Most of the war costs had been met by government borrowings and the small proportion of the costs which were covered by taxation was more than offset by debts carried over from the 'armed peace'. This colossal sum of 60 billion dollars may therefore be taken as representing roughly the public debt created by the war."

An estimate by Woytinsky of the *total* costs of the war very greatly exceeds the figures just quoted. He arrives at a sum of 700 milliard marks, of which 120 milliards was paid for by war taxes, leaving 580 milliards, of which 480 milliards was internal debt and 100 milliards external debt. As a result of inflation in Germany, Austria, France and Italy, the internal debt shrank to 300 milliards and the external to 87 milliards of marks. The interest service of these sums

¹ "The Dawes Plan and the New Economics", p. 37.

² In Europe milliards (thousands of millions).

³ Estimates by Harvy E. Fisk in "The Inter-ALLY Debts."

amounts to no less than proximately 60 milliard marks. On the other hand the present value of the Allied debts to the United States, capitalized on the respective dates of the funding agreements, is only about 6 milliard dollars. The present value of *all* inter-Allied debts, after the concessions made by the principal creditors, the United States and Great Britain, capitalized at an interest rate of 5 per cent, works out at roughly 40 milliard marks.

The great economic significance of the interest service of the debt to the United States alone, in spite of the relative unimportance of the amounts when compared with the costs of the war, appears from what Professor Max Sering¹ says on the subject: "... the interest service of the European war debt to America is nothing but a demolition of the national income of the debtor states. This expenditure is even more unproductive than that for military ends. The consuming power of the states concerned is lessened by the whole of its amount. The 294 million dollars or 1,233 million marks payable as average annual interest on the European war debts to the United States is about equal to the total annual value of the United States' exports of wheat and wheaten flour or animal produce. As far as figures go, therefore, but for this debt Europe could have bought from America twice the amount of wheat or meat foods it did. The interest payable on the political debts increases by so much the taxation burden of the European countries and lessens the competitive power of their undertakings."

That the bare figures of the payments say but little with regard to their economic significance also appears from a computation of the income derived by the United States from the war debts as a fraction of the total income of the American people. According to Friedrich² it amounts to only one half of a per cent. Lloyd George in his book (p.125) shows how negligible are the amounts received by the United States from her war debtors in comparison with the shrinkage of her income as a result of the depression. He says "the total national income of the population of the United States was estimated in 1929 to be 90,000,000,000 dollars. A recent estimate puts the amount by which this national income

¹ "Deutschland unter dem Dawes-Plan", p. 233.

² Das internationale Schuldenproblem (1928), p. 89.

has declined in 1931 at 20,000,000,000 dollars. At this rate America has lost in a single year three times as much as the whole capital value of the war debts due to her, and nearly eight times as much as the total of one year's annuities." Later on he says: "The estimated yield of income tax in the U.S. for 1931-32 is 1,259,000,000 dollars below that of 1929-30. This means a loss to the Exchequer on this count alone of nearly five times the amount which the debt annuities would contribute."

In the light of what has been said above we think the conclusion may be drawn that the economic significance, that is, the burden constituted by the international debts, cannot be estimated in mere figures, as the sums of money do not show the economic services and social costs in which the countries concerned and the world economy as a whole are involved.

IV.

THE SETTLEMENT OF THE DEBTS.

The world economy is a whole composed of conflicting parts. This is clearly illustrated by the question of international debts. As Moulton and MacGuire graphically put it in their book "Germany's capacity to pay" (page 2), "the creditors insist upon having their cake and yet are unwilling to permit Germany to bake it". Nevertheless the cake is baked, and partly even with ingredients which the creditors have gladly supplied in consideration of the handsome profits which accrue, although the very work of baking which it is desired to avoid is thus made possible. The cake, however, proves to be for the greater part indigestible and to have serious effects on the digestive systems of the eaters. For the baker of the cake, on the other hand, the baking so unwelcome to the consumers is forced labour during which he suffers the necessary privation. In short, the inference to be made from the simile used by the two writers is that both the maker and the consumer of the cake find themselves worse off through the deal.

The simile is true so far as it applies to the world economy as a whole. For the world economy viewed as a society of classes it no longer holds good, however. From the latter point of view the world economy is dividable into the masses which undergo the disadvantages and a small group which reaps the benefits, or more exactly, into the nationally grouped and exploited masses—of which those in the debtor states suffer in the first place and the others through the repercussions—and the group of economic rulers, the different sections of which reap benefits in proportion to the extent of their holdings.

For the regulation of the payment of the debts the national aspect is essential, inasmuch as the debts in question are political in character, that is to say, it is the state which is regarded as being in debt and which has to find the means for paying it. A budgetary surplus must be secured, for which end taxation is the chief instrument. Here emerges the first tangible point by which the workers' conditions of life are affected. Apart from the economic effects of a foreign debt upon a national economy and its tendency to

depress the workers' standard of life—more particularly if there is an urgent internal need of capital—, the imposing of taxation for the purpose of extinguishing foreign debt means reduction of the consuming power of the masses, on to whose shoulders the burden of taxation is shifted. This is recognized, even if only casually, in the many publications dealing with international indebtedness. Among others, George P. Auld¹ writes in this connection as follows: "A large part of the burden of taxation, whether it be in France, England, Germany or our own country (U.S.), falls on the ultimate consumer, that is to say, on the poor men, and cannot be shifted."

This can also be reasoned in another way, by which the conclusion is reached that the collection of the means is a question affecting not so much production as distribution; *the result is a curtailment not of production but of consumption.* The capitalist state is in the domain of distribution given the function of reducing the income of the non-possessing class; in the domain of production the possessing classes, whose hand is strengthened by the "forced labour" required by reparations, attends to the extraction of surplus labour from the working classes. *The result of this division of functions between the state and the ruling classes is underfeeding and overworking of the working classes.*

It therefore affects one as a mockery of the distress of the German workers to read in the Dawes Plan that the reparation payments shall not result in a lowering of the German workers' standard of life below those obtaining in other countries. In this respect the Young Plan is franker, in that it drops this requirement, which can only be realized by cancelling reparations.

Under capitalism there is no possibility of alleviating the pressure of reparations upon the standards of life of the working classes to any considerable extent. It is the many small sums contributed by the masses, in direct and indirect taxes, which constitute the greater part of the state's income from taxation. Such is also the case with the means needed for the public debt in general and the political debt in particular, as Adolf Weber,² for instance, bluntly puts it in the

¹ "The Dawes Plan and the New Economics", p. 53.

² "Allgemeine Volkswirtschaftslehre", p. 392.

following words: *"It must be well borne in mind, however, that — apart from the absolutely necessary, though quantitatively usually overestimated, savings of the public authorities and the in the aggregate comparatively inconsiderable restriction of consumption of the "rich" — the means required for reparations have in the last analysis to be raised by cutting the real income of the masses."*

In conjunction with the raising of the funds, the state has also to arrange for their transfer, by which the debt to the creditor is liquidated. Money extracted from, and designed for return to, the home circulation process cannot be used for a direct payment abroad. Such payment can only be effected via the exchange or by sending gold. In other words, to effect the transfer the state must avail itself of the international economic relationships of the national economy functioning upon a private economic basis. These relationships are the sole means through which the state can meet its external obligations. The position occupied by a country in the world economic system determines the way in which the transfer is in practice effected. That the economic position is in turn affected by political indebtedness need not be emphasized. The opposite is in fact also true, namely, that the world economy, based as it is upon the interdependent national economies, is influenced by political indebtedness. This influencing of the economic position is perhaps due less to the automatic effects of the political indebtedness than the various commercial and exchange measures resorted to by some countries in order to protect their traditional position against the adverse effects of the automatic working of the indebtedness.

Owing to the interweaving of the separate national economies it is not practicable to formulate economic rules as to the way in which the political debts should be settled. It has been stated that the settlement of those debts amounts to a one-sided performance of economic service. Although the possibility of continuing the process indefinitely is usually denied on good grounds, yet the view is constantly being put forward that the reparation charges can only be met by means of excess exports. The Dawes Plan still said so deliberately, but the Young Plan wisely dropped the statement. It is true that the political indebtedness creates a tendency to increase exports and reduce imports. It has never been shown,

however, that the value of the excess of exports can be raised to a level sufficient to meet the reparation claims. About the desirability of such a solution there can from a general economic point of view be no question; it would mean for the debtor countries a strong position in the world economy. That, however, was precisely what the victors of the world war aimed to prevent with the reparation charges. For those who can see the real intentions of the economic rulers behind the economic terminology this finds particularly plain expression in the difference mentioned above between the Dawes Plan and the Young Plan. *While according to the Dawes Plan foreign trade was still to be the criterion for the transfer operations, according to the Young Plan the criterion was to be international credit, whereby finance capital officially took into hands the hold which it already had in fact over the economic lot of the world, international debt obligations included.* Herein lies the quintessence of the matter, and not in the technical economic question as to how the transfer is to be effected, which in practice always finds a different solution than theoretically contemplated.

What an impossible economic proposition it is to pay the reparation charges with surplus exports becomes clear upon a closer examination of Germany's exports. In 1930 they represented a value of 12 milliard marks, but even if the figure were much higher it would be impossible eventually to maintain a surplus of 3½ milliards, the sum required for annuities and interest payments.¹ Even with the working classes impoverished as they are today and imports as reduced as they are in consequence (in 1931 imports were less than one half of what they were in 1928) such a surplus cannot be realized. And if it is approached the receivers of the reparations and war debts assume the defensive by resorting to commercial and exchange measures.² In this

¹ The Basle Report stated that in 1932 foreign claims on Germany exceeded German claims on other countries by proximately 1½ milliard marks. With the 2 milliards payable under the Young Plan this makes a total of 3½ milliard marks.

² How these measures, coupled with the further working of the world depression, effect the real development of Germany is shown, for instance, by the following notice to be found in the "Economist" of 20 February 1932: "The sharp contraction in exports since November 1931 has been caused by the growth of import restrictions, and by the general reduction in the world's purchasing power, coupled with an intensification

way, what Gustav Cassel calls "the wonderful contradiction: desire to have and reluctance to get", is reconciled by a process detrimental to world economy in general and the international working classes in particular.¹

As already said in passing, there is a tendency for exports to expand and imports to contract. It is the result as far as exports are concerned of the downward movement of prices consequent upon the reduction of purchasing power through the extra taxation imposed on account of reparations. The lower prices stimulate exports; the reduced purchasing power resulting from the factors already mentioned checks imports. Now it is represented as if Germany should apply itself to exports in order to meet its obligations. Such a view is due to what Mahlberg² calls "a confusion of the private economic form with the national economic content." Business men, taking advantage of favourable conditions existing for the moment on the domestic supply market and the foreign demand market, cause an expansion of exports which is not based on a natural economic advantage of the German economic system over the importing countries.

Only if this expansion of exports were due to natural causes, i.e. the result of the powerful position of Germany in the world economic system and not of artificial measures, could the effects of the surplus exports be anything else than

of competition from countries which have abandoned the gold standard. The balance in favour of Germany declined from Rm. 396,000,000 in October last to Rm. 102,000,000 in January. Had it not been for a further shrinkage in imports during that month, the excess of exports over imports would have been almost insignificant. Unless the trend of Germany's foreign trade undergoes a change, the question is whether her credit balance on merchandise account will be sufficient for the service of her commercial debt, let alone reparations."

¹ How, for a time at least, by means of commercial and exchange measures, the export trade of the home country can be stimulated and made to compare favourably with that of other countries, is evidenced, for instance, by the maintenance of British exports. British exports had by January 1932 fallen by 4 per cent since October 1931, while those of the United States, France and Germany fell by 26.7, 30.6 and 30.8 per cent respectively. The first quarter of this year, however, already showed a decline in exports of 11 per cent, against which there is also a strong decline in imports. The restriction of the excess of imports, aimed at in the interests of balance of payments which had become dangerously unfavourable, is in any case dearly paid for.

² "Reparations-Sabotage durch die Weltwirtschaft".

detrimental to either the home country or the others. This finds its clearest expression in the deliveries in kind on reparation account, of which Gregor Bienstock¹ in this connection writes: "The German economy has not supplied to France and other countries in the form of reparation deliveries in kind those commodities the export of which would be in conformity with Germany's economic structure and the position it occupies in the world economy, but commodities the supply of which was one-sidedly determined by the needs of foreign economies, the reconstruction of France more particularly." It is similar with exports, which are not controlled as regards class and volume, that is to say, are freely taken from the country by importers abroad. The position of the export trade is made exceedingly precarious, moreover, by the constant possibility of the importing countries resorting to commercial or exchange measures. There is thus seen to be no direct relation between the exports achieved and real economic capacity on the one hand and reparation liabilities on the other. *There is only the over-working and under-feeding of the German workers to show that, even if from a private economic point of view things are going on according to scheme, from a social economic point of view reparations constitute a crime against the German economy and a serious impairment of the whole world economy.*

Under cover of the economic slogan: "expansion of exports—payment of obligations with surplus exports", a reparation swindle is practised at the expense of the proletariat. The German employing class scents profits in the fulfilment of the reparation obligations and mounting profits in proportion as it succeeds, by raising capital of its own, in pocketing the interests which the workers at present produce for the foreign lenders. It therefore seeks ways and means of ensuring the desired object—unrestricted exploitation. The following is one of the plans conceived, which it has meanwhile not been omitted to carry into effect.

Karl Lange, Director of the German Association of Machine-building Works,² in a competition answered the question "How

¹ "Deutschland und die Weltwirtschaft", p. 39.

² The machine-building industry is one of the most highly developed of Germany. In recent years it has become the chief exports industry, having outstripped the British industry, and in 1931 even that of the U.S.A. The ratio of the machinery exports of the three countries was in 1928 30:27:43, by 1931 43:20:37.

can the trade balance be made active?" as follows: "We must concentrate our political economic activities on favouring the raising of capital in Germany in order to become increasingly independent of the supply of capital from abroad. Apart from the strictest economy in consumption, this raising of capital must be primarily realized through rationalization of our economy and a profitable exchange of commodities with foreign countries; it is, therefore, conditional upon an active encouragement of export, side by side with a taxation policy favourable to capital formation in private enterprise, through which alone commodities can be produced and exported, and a corresponding wages policy."

A propos of this programme and its practical execution, we should like to observe briefly that the socialist labour movement has been able to exercise very little influence indeed over these economic realities by means of its position in parliament. Post-war developments—which have been in the direction of a vast growth of capitalism at the expense of the working classes—have become so independent of the division of power in parliament, that parliamentary power has become ineffective as a means of influencing their trend. In practice that power has been confined to a mitigating of the working class' burdens as much as possible by participation in the functions assigned to the state in the sphere of distribution. The causes of the impoverishment of the working classes, aggravated with the aid of international indebtedness, lie less in the sphere of distribution than in that of production. In the latter sphere, as long as socialization has not be realized, parliamentary influence is for the present of no avail. The very subordinate part played by the parliaments in the settlement of the question of reparations and war debts is for the rest a measure for the influence which the socialist labour movement has exercised politically over this important question for the workers. Outside parliament the labour movement, the trade-union movement more particularly, has undoubtedly used its influence with much more effect, as is sufficiently evidenced by the activities of the I.T.F.

In giving a recapitulative answer to the question as to how the reparation obligations are fulfilled, it should in the first place be observed that what is under consideration is not an effort required of a national economy as an organic part of

the world economy on the basis of theoretically sound and practically demonstrated criteria; the requirements of the Dawes Plan, which took the size of the exports surplus as the criterion for the transfer possibilities, were by no means based on theoretically sound grounds, and in practice proved to be unrealizable. The Young Plan therefore introduced a new principle, that of borrowing, to enable the transfer of the stipulated sums. For safety's sake it was provided that for each year separately exemptions might be granted, but as a principle the prescribed sums were to be attained. As borrowing and lending operations take place chiefly through private channels and are determined by factors unconnected with the size of the political debt, it is in our opinion difficult to speak of a causal relation between the two.

If we look at what is going on in the national economic life of Germany underneath the private economic surface, a comparatively lively economic activity is observed, which is due to the added competitiveness derived from a strong depression of the workers' standards of life. The impoverishment of the workers results in a falling of imports, and the increased competitiveness in a growth of exports. As a result Germany's participation in world trade grows, as is shown by the following figures:

	Exports in Per Cent of the National Income ¹		
	1913	1928	1929 ²
Germany	20	16	18
France	19	21	—
Great Britain	23	18	—
United States	7	6	6

	Percentage of Total Finished Goods Exports of the World ³		
	1913	1925	1928
Germany	21.3	13.9	16.4
France	11.0	12.2	10.0
Great Britain	28.0	25.7	22.3
United States	11.0	15.7	18.0

¹ Weekly Report of the German Institute for Economic Research, No. 1, 1931.

² Calculated by author.

³ "Die wirtschaftlichen Kräfte der Welt", p. 150.

The following figures show percentages of total world exports in more recent years:

	1929	1930
Germany	9.89	11.06
Great Britain	10.92	10.68
United States	15.89	14.58

Speaking from a national economic point of view, this position has been very dearly bought by Germany and is anything but stable. An impoverished and overpopulated country, which is in need of high imports but under the pressure of foreign obligations renounces them to a considerable extent and swells its exports by overworking and underfeeding the workers, in the long run cannot in addition find the force to resist the blows received through the measures for economic protection taken by other countries. From the national economic point of view it has been a fruitless expenditure of effort, which must wreak itself upon the world economy. Robert Liefmann, the *enfant terrible* of the bourgeois economists, hits the nail on the head when he says: "World economic relations do not in the long run permit of a great and leading industrial state, especially one situated in the centre of Europe, being kept in poverty while all other countries are much better off. If such a state of affairs is enforced, then to the accompaniment of profound economic disturbances and shiftings a levelling of the standards of prosperity or poverty, whichever one prefers to call it, must gradually take place". And again: "In the last analysis the exports of an impoverished, tribute-burdened country, forced by means of a low standard of living, amount to a tendency towards a levelling down of the standards of prosperity of the countries; also in the other countries the standards of living will eventually be forced down."¹

The economic significance of the international debts therefore lies not in the collection of the means to pay them. Any economic reasoning which, on the basis of the figures of the debts, seeks the "economically possible" in either surplus exports or international borrowing, and which is then completed with references to the process of collecting and transferring the means of payment, avoids the hard facts. Hence the bourgeois economists' preference for this method of approach. *In reality the debts are the comparati-*

¹ Vom Reichthum der Nationen. p. 76.

vely small weights suspended by the capitalists from the lever with which huge quantities of surplus labour are squeezed out of the world proletariat. What, under the capitalistic organization of society, the economic consequences are for the indebted countries and the others, and for world economic life as a whole, we will consider in the next chapter.

V.

THE ECONOMIC WORKING OF THE DEBTS.

A. *For Germany.*

That the German productive system was profoundly affected by the war years, the adjustment of industry to war conditions, the losses of population, territory and other wealth under the Treaty of Versailles, the adjustment back to peace conditions, and the years of inflation and predatory exploitation of labour and capital which followed, is common knowledge. Nor need we consider here the reparation policy of the period characterized by naked force and sabotage. Under the pressure of the obligations imposed by the Dawes Plan a start was made with the work of economic reconstruction. Short and long term credits began to become available, and the German employing class saw its chance. The latest discoveries of science were applied, widespread renewal of plant and equipment was found to be necessary, so that fresh borrowing abroad had to be resorted to. Foreign capital was given the best assurances by its advisers, and once confident that returns were high and the risks small, proceeded to show itself from its most generous side. It was distinctly reassuring that a man so excellently qualified to look after capitalist interests as Mr Basil Miles, permanent representative of the American section of the International Chamber of Commerce in Paris, should after a study journey to Germany say: "Nowhere is the reorganization of industry on the lines of rationalization and scientific management so advanced; nowhere is all that is modern in art and science more highly developed; and nowhere is a new form of life in the present world of material progress and changing social conditions more in evidence; in no country is there a more clearly manifested determination to cut the suit according to the cloth; the fundamental force and the generally recognized intelligence and industriousness of the people ensure success."¹

For the German employers the trend of affairs was also not unsatisfactory. The national economic turnover rose, in

¹ Quoted by Professor Max Sering in "Deutschland unter dem Dawes-Plan", p. 145.

value, from 76 milliard marks in 1924 to no less than 105.6 milliards in 1925, the volume of external trade from 17.4 to 21.1 milliards, industrial output by over 17 per cent. This trend is reflected in the official literature by a certain optimism regarding the future. No other than C. Bergmann, formerly Secretary of State at the German Ministry of Finance and an expert member of various committees on reparations, in his standard work "Der Weg der Reparationen" (p. 363) writes as follows: "The question is whether Germany will be able year after year to make the payments required. After the results of the first reparation year it must be said that prospects there are, *provided the general situation in Germany and the rest of the world develops undisturbed.*" We italicize the reservation, which in the light of subsequent economic development sounds somewhat naive.

If any doubt is felt about the industrial activity of that time not being intended to improve the lot of the suffering people, there is evidence from an unsuspectable source to settle it. Professor Sering on page 117 of his book already mentioned says: "The spinning and weaving mills had since the Dawes Plan experienced a period of good business in so far as the German people was obliged to replace the clothing and other things to wear which had been worn out during the years of the war and those immediately following it. This only took place to a limited extent, however. In spite of the abnormal needs, the quantitative consumption of cotton, imported wool and silk, per head and in the aggregate, remained far short of the 1913 level, which was not attained until 1927."

The perfecting of the German productive apparatus was accompanied by a good deal of jars and jerks. In the second half of 1925 an industrial crisis broke out as a result of the abundance of credit, which had permitted an expansion of production, left the high level of prices intact, and enabled many economically obsolete undertakings to carry on business again. This crisis became the—for national economic life costly—process of sanifying German industry, which from then on was rationalized at a feverish speed. This rationalization was carried out under the pressure of the inflowing foreign loans, which for the most part went to large-scale industry, partly directly and partly indirectly as payment from public funds for deliveries in kind.

Foreign lending solved (in a from the capitalistic point of view satisfactory way) the paradox "desire to have and reluctance to get" by reversing the normal economic process. Instead of goods streaming from Germany to its creditors, they are left where they are in the form of loans and furthermore a stream in the opposite direction is created through additional loans. This lending is confined to large-scale industry: the two typical phenomena of modern capitalist development, concentration and rationalization, are observed to go hand in hand.

The relation just sketched between reparations and rationalization of German industry and its capital producing effect are clearly set out by Mahlberg¹ in the following question and answer: "Since other countries will not accept our goods, what form must be given to the labour performable on account of reparations? The additional labour can only take the form of an expansion of Germany's economic apparatus. Can a relation be more obvious?"

The accumulation of capital, encouraged by the pressure of reparations and foreign loans and the consequent concentration of enterprises, is illustrated by the following table compiled by Ad. Scheffbuch², which unfortunately only begins with 1926:

Number and Working Capital of Large-scale German Undertakings (Capital exceeding 5 million marks), 1926 to 1929

Size of working capital (Millions of marks)	1926		1929		Percentage Growth between 1926 and 1929	
	Number of Undertakings	Total Working Capital (Milliards of marks)	Number of Undertakings	Total Working Capital (Milliards of marks)	Number	Working Capital
Over 100	16	3.0	22	4.8	38	60
50 to 100	32	2.2	43	2.9	34	32
5 to 50	842	10.0	1,004	12.2	19	22
	890	15.2	1,069	19.9	20	31

¹ "Reparations-Sabotage durch die Weltwirtschaft", p. 42, foot-note.
² "Der Einfluss der Rationalisierung auf den Arbeitslohn", p. 147.

The same author gives some interesting figures of the results of rationalization in a big metal works (in per cent of 1925 figures):

Year	Output	Prices	Yield of		Average Wages		Cost of Living
			Sales	Personnel	Nominal	Real	
1925	100	100	100	100	100	100	100
1927*	166.66	60	100	79.2	129.5	116.4	111.2
1930	246.8	45	111	61.5	130	120	108.3

* Wages according to position in May 1928, as other figures are not available.

The above figures of feverish development are also an indication of the urgent need of capital which was felt in Germany and which foreign borrowing has not been able to satisfy sufficiently. According to official computations, German issues of capital between 1924 and 1930 totalled in round figures 30 milliard marks, of which upwards of one quarter was for foreign account. According to another computation,¹ investments during the years 1924 to 1928 totalled roughly 40 milliards of marks, of which nearly one third for foreign account. It is thus seen that although the inflow of capital from abroad was considerable, German capital was able to keep the production of capital chiefly in its own hands; considering the degree of exploitation this is no matter for very great surprise. At the same time capital is so international in character that it is difficult to draw a sharp line between domestic capital and foreign capital. We therefore have no grounds for disbelieving Bienstock when he says²: "It is for the rest very doubtful what is the nature of the capital which has flowed into Germany in recent years, whether it is not, in part at least, returning German capital, which thus disguised feels more at home in the beloved fatherland. Much of what we know about the Dutch and Swiss investment companies encourages such a surmise."

The clamour raised in capitalist quarters for more capital springs from the existing accumulation of capital, which has whetted the appetite. Demand for capital is evidence of a

¹ German Institute for Economic Research: "Kapitalbildung und Investierung".

² "Deutschland und die Weltwirtschaft", p. 130.

period of upswing; but the many bankruptcies (since 1927, when there were something like 8,000, the number of failures has been increasing at the rate of about 3,000 a year!) suggest that the capital is not being directed into channels so badly in need of it as we are given to understand. Sometimes the statement is made that the domestic production of capital is hampered by reparations. In fact reparations mean neither a diminution of economic activity nor smaller prospects of profits, but an intensive draining of the working classes in the spheres both of production and of distribution, the effect of which is precisely to encourage the accumulation of capital.

The exact position occupied by German capital in the world economy is very difficult to ascertain. The ramifications of capital cannot be followed to their ends, so that the estimates which have been made of the position of German capital are based on an insufficient knowledge of the facts. Opposed to a flow of capital into Germany there is always, although in recent years it is weakening, a movement of capital from Germany to other countries. The latter consists partly of "fugitive" capital, which is chiefly invested on short term. It is interesting in this connection to note how German investment abroad is shifting from long to short term operations. While in 1926 the latter was 80 per cent of the former, by 1930 the proportion had steadily risen to 120 per cent.

Germany from a creditor state before the war has become a debtor state. That reparations have been one of the factors contributing to this change is self-evident, but it not true, as is often suggested, that is was the sole factor. Foreign loans are out of all proportion with the reparation charges, as appears from the estimate of Germany's balance of payments contained in annex I of the Basle Report of 18 August 1931. From the commencement of the Dawes régime up to the end of 1930 Germany paid 10.3 milliard marks on reparation account. The loans contracted by Germany abroad during that period are on the basis of the balances of payments estimated at 18.2 milliard marks (9.1 milliards on long term, 6.2 milliards on short term, 2.9 milliards otherwise).

Even without reparations Germany would have become a debtor state, owing to the loss of the wealth it had pos-

sessed outside. If Germany had not lost the war it might also have been relegated to the position of debtor as a result of the changed capitalist constellation, as a result of which, to mention the most striking instances, Great Britain has seen its position as creditor nation greatly weakened, while the United States has risen at a prodigious speed to financial supremacy. In section C of this chapter we deal further with these shiftings in the world economic system.

Owing to the big foreign commercial debt, which, as has been seen, greatly exceeds the political debt, the German economic system is saddled with an interest burden as heavy as that of reparations. According to official computations of the German Bureau of Statistics, the average effective interest paid to foreign creditors in the years 1924 to 1929 was 7.08 per cent. This high interest charge throws on the German workers a burden certainly no smaller than the annuities fixed by the Young Plan. Even on the basis of an underestimate of German borrowing abroad, Gilbert Walker¹, for instance, is led to write: "The average reparation annuity under the Young Plan is £100,000,000. Germany had already borrowed abroad approximately £1,000,000,000. The high interest rates prevailing at the time this was borrowed may make the annual charges upon this debt as much as £100,000,000 annually."

Only one objection can be made to this kind of calculations, namely, that as a rule they assess the real burden, i.e. the surplus labour to be performed, much too low. Also here the private economic form is confounded with the social economic content. From a social economic point of view it makes a big difference, for instance, whether foreign loans have been used for productive undertakings or have been wasted. According as foreign capital is invested in less productive undertakings foreign capitalists receive a bigger share of the social product inasmuch as the foreign capital added to the national resources fails to make a commensurate contribution towards increasing the social wealth, out of which the interest charges must be met. That the working classes again suffer the consequences need not be specially emphasized.

¹ "The Payment of Reparations" in "Economica" of May 1931. At this time Great Britain was still on the gold standard.

In various connections we have already explained that reparations of necessity lead to an impoverishment of the proletariat. It now remains to be seen whether the facts fit in with the in our opinion exceedingly unfavourable picture which has so far been theoretically deduced of the conditions of existence offered by capitalism to the workers of Germany under the pressure of reparations.

The following table, taken from data published by the Kuczynskis¹, shows the trend of the real wages of German industrial workers, expressed in percentages of 1927 wages:

Year	Indices of Real Wages in the Years 1913-14 and 1924-30		
	Nominal Wages	Cost of Living	Real Wages
1913-1914	69.3	67.8	102.3
1924	65.4	86.5	75.6
1925	87.7	94.7	92.6
1926	83.6	95.7	87.4
1927	100.0	100.0	100.0
1928	105.2	102.8	102.4
1929	104.0	104.2	99.8
1930	91.1	99.8	91.3

It appears, as the authors themselves point out, that "even according to the useless cost of living index figures of the Bureau of Statistics... with the exception of 1928 wages were throughout the post-inflation period below prewar rates."

In order to determine the relative impoverishment of the industrial workers, the Kuczynskis calculated the purchasing power of earnings in relation to total production. The table given hereunder² clearly shows how the social position of the German industrial workers has sunk, and causes the authors to remark: "Perhaps never before has the German industrial worker experienced such a rapid fall in his material standards, relative and absolute, as between 1913-14 and 1930."

¹ J. and M. Kuczynski: "Die Lage des deutschen Industriearbeiters", p. 19.

² Ibid, p. 24.

Year	Indices of Relative Wages	
	1927 = 100	1913-14 = 100
1913-14	117	100
1924	84	72
1925	97	83
1926	102	88
1927	100	86
1928	95	81
1929	94	80
1930	96	82

In the meantime the situation has anything but improved. The German Institute for Economic Research has calculated that the wages of industrial workers had in the fourth quarter of 1931 fallen by over 25 per cent in comparison with the corresponding quarter in 1930. The total earning of all workers, employees and officials in the fourth quarter of 1931 on estimate amounted to 7.8 milliard marks, as against 9.3 milliards in the fourth quarter of 1930, being a decrease of 17 to 18 per cent. Compared with the peak year 1929, earnings for the fourth quarter had by 1931 dropped to 33 to 34 milliard marks, as against 43 milliards in 1929, a decrease of 25 per cent. Between January 1929 and December 1931 the cost of living fell from 153.1 to 130.4, or by roughly 14½ per cent, so that the diminution of purchasing power in that period was about 10 per cent. Then came the fourth Emergency Decree, which reduced wages and salaries by an average of about 12 per cent, while the cost of living only diminished by 5 per cent. Subsequently real wages were decreased by another 7 per cent. That the lowering of prices ordered by the emergency decrees fell short of the reductions in wages is (economically speaking) no matter for surprise: in the first place in modern industrial production wages are only a subordinate factor. According to estimates of the Institute for Economic Research, in the principal German branches of industry the percentage of total costs of production represented by wages ranges from 56 per cent in coal mining to 6 per cent in the blast furnace industry; in between are the leather, chemicals and coke industries with a wages factor of 10 per cent, woollen and cotton wares industry 16 to 17 per cent, boot and shoe and motor-car industries 20 per cent, machinery 25.3 per cent. The increase which has

meantime taken place in import duties on agricultural products has also lessened the drop in the general prices level, as the following table very clearly shows:

Import duties before and after the war (Marks per 100 kilogrammes)¹

	1906-14	1 September 1925 to 31 July 1926	1 July 1931	Percentage of Increase since 1925
Rye	5	3	20	665
Wheat	5.50	3.50	25	715
Oats	5	3	16	535
Beans	2	2	8	400
Peas	1.50	1.50	20	1,335
Coffee	60	130	160	20
Tea	100	220	350	58
Cows	8 to 18	13	27	200
Pigs	9 „ 18	14.50	40	280
Butter	20 „ 30	22.50	50 to 170	225 to 755
Eggs	2 „ 6	5 to 6	30	500 „ 600
Sugar for consumption	4.40	10	32	320

In calculating real wages account must further be taken of two items which have been omitted from the official computation of the cost of living, namely, the not inconsiderable increase in taxation and the increased expenditure on unemployment and other social insurances.

If the cost of living is examined according to the more reliable method of analyzing working class budgets a much worse state of affair is revealed. Let us take the case of a highly skilled class of labour, the artisans of the metal industry, and see the results arrived at by Dr Franz Fuerth on the basis of official wage statistics. He writes²:

“The Metal Workers’ Union in 1909 published the household budgets of 320 metal workers with the aid of which the decline in the standards of living since pre-war days can be approximately ascertained. The real income available for

¹ Compiled on the basis of data from “Die steuerliche Belastung des Haushaltsbedarfs durch Mehrbrauchsabgaben und Zölle”, No. 21 of statistical series published under official German auspices.

² “Veränderungen in der Lebenshaltung der Industriearbeiterschaft”, in “Die Wirtschaftskurve der Frankf. Zeitung”, Heft 3, 1931, p. 295.

consumption (after deduction of rent) of a skilled metal worker before the war was 29.19 marks a week or about 1,400 marks a year. The budgets showed that families with such an income spent about 700 marks a year on food and drink. Correlated to pre-war figures, the real income available for consumption of a member of the same category of labour living in a modern dwelling¹ in 1931 amounted to 19.47 marks a week or 934 marks a year. Assuming that the level of prices is the same as before the war—in fact there has been a relative increase in the prices of the principal foodstuffs—, there would after expenditure on food and drink be available for all other purposes only 200 marks instead of 700 marks (rent has in both cases been deducted). *The general standard, by which is meant the sum available after deduction of expenditure on rent and food, is seen to be 70 per cent lower than before the war.* In practice the position is found to be in a certain sense better in that since the end of the war there has been on the whole a not inconsiderable decrease in expenditure on food and drink. (Another way of expressing what we call underfeeding. — M.Z.) Whereas according to the investigations of the Metal Workers' Union this expenditure in 1909 accounted for 47.60 per cent of total income, according to the computations of the Official Bureau of Statistics the proportion in the year 1927-28 was 40.77 per cent. If accordingly the figure 700 marks is reduced by 6.83 per cent the sum of 652 marks is found as present-day expenditure on food. There then remains for all other purposes 282 marks a year, meaning a decrease of 57 cent in general standards compared with pre-war days."

We need only add that the above information relates to the middle of 1931, since when the position has become still considerably worse. Moreover, the reality is even worse than suggested by the budget analysis, which takes no account of the fact that a very large section of the workers are on reduced earnings owing to short time, to say nothing of those entirely unemployed. At the end of 1931, before the application of the last all-round reduction in wages, the Berlin Social-Democratic daily paper *Vorwärts* made an

¹ The author allows for the rent factor, which in the case of modern dwellings is more considerable than in older dwellings. The official cost of living statistics only take the latter type of dwelling into account.

enquiry into workers' standards. The data published were not confined to exceptionally bad cases, but dealt with cases which may be considered above the average. The following are particulars of a case selected at random:

"A highly skilled wood worker in the furniture industry, 41 years old, married, with three children of 5, 9 and 13 years of age, during the last summer earned in full employment on piecework an average of 80 marks a week gross or 70 marks net. His average earnings on piecework have since decreased from 1.75 to 1.35 marks an hour. In addition he has for nearly six months past been working only 24 hours a week. His gross earnings now amount to approximately 32 marks a week, and after deduction of all contributions for social insurances he draws on pay-day the sum of approximately 27 marks. The rent for his two-room dwelling in the northern part of the city is 43 marks a month, so that after deduction under this head and that of travelling money, trade union and party contributions and newspaper money, there is left 13 marks for feeding and clothing a family of five. Needless to say this worker has been obliged to cut all expenditure on education and recreation, subscription to the people's theatre, membership of the labour swimming club, library subscription, etc. As the hourly wage is still above that paid in January 1927 it would, if the German Employers' Association had their way, be reduced still further—in order to stimulate trade."

Analyses of household budgets made under the auspices of the labour movement are unfortunately very limited in number, and repetitions of such analyses, so as to permit of comparisons being made, have been still more rare. Credit is therefore due to the German Railwaymen's Union for having in 1929 carried through an investigation of this kind on a scientific basis¹, and repeating it in January 1932 for purposes of comparison. For the investigation members of the Union were taken in such a manner that they formed a group representative of the whole personnel of the State Railways. It transpired that earnings from the main occupation for a four-week period had averaged 181.32 marks in 1929 as against 125.87 marks in January 1932, being a

¹ "Die Lebenshaltung des Reichsbahnpersonals", Verlagsgesellschaft deutscher Eisenbahner. G.m.b.H., Berlin.

decrease of roughly 30½ per cent. The total family income decreased from 233.52 marks to 157.60 marks, or by 32½ per cent. These sums were inclusive of money borrowed, which amounted to 8.18 marks in 1932 and 4.11 marks in 1929. If these sums are left out of account it is found that in 1932 actual income was 34.9 per cent less than in 1929. Expenditure under the various heads during the four-week period was as follows:

	In Marks		In Per Cent of Total Expenditure	
	1932	1929	1932	1929
Food and drink	65.35	97.85	41.5	41.9
Rent or mortgage	20.60	21.66	13.0	9.3
Equipment and upkeep of dwelling	3.40	7.70	2.1	3.3
Heating and lighting	8.—	9.14	5.1	4.0
Clothing	11.10	29.63	7.0	12.7
Insurances	21.85	25.70	13.9	10.9
Contributions	3.95	4.75	2.6	2.0
Taxes	4.15	3.86	2.6	1.6
Miscellaneous	15.40	27.10	9.8	11.6
Total	153.80	227.39	97.6	97.3
Repayment of loans	2.25	3.42	1.4	1.5
Savings	1.55	2.71	1.0	1.2
Grand total	157.60	233.52	100.0	100.0

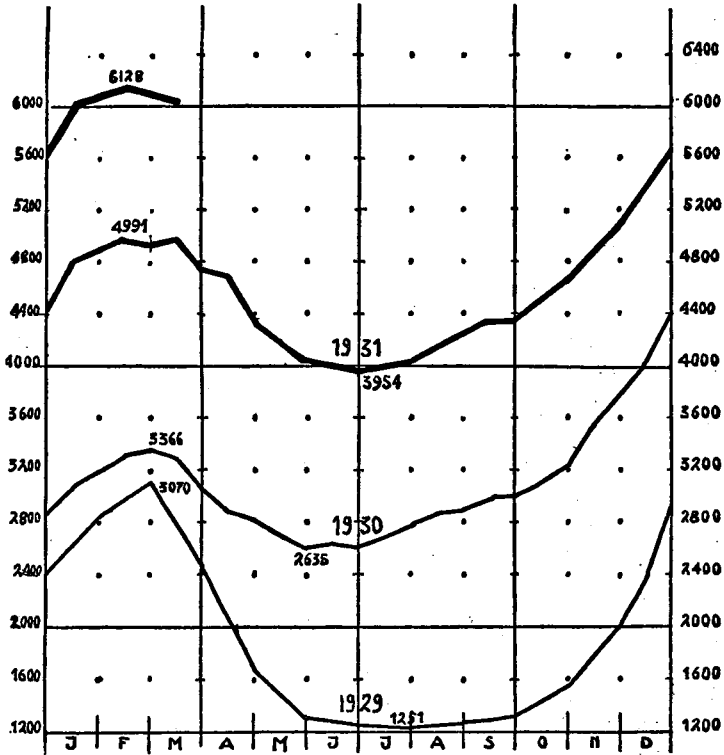
It is seen that at present 65.35 marks is expended on food and drink, as against 97.85 marks in 1929. This is a decrease of 33.2 per cent, compared with a decrease of 26.2 per cent in the cost of living index figures. In order to meet other indispensable expenditure families exist on less and poorer quality food. Hence there is underfeeding even in working class families where the breadwinner is still in full employment. For a more detailed analysis of the changes in the distribution of expenditure over the different heads in relation to 1929 we must refer to the publication of the German organization. (See also the article on the subject in "I.T.F." for May last.)

Let us finally compare these drastic reductions in wages

with the trend of productive efficiency. In the absence of statistics dealing with this aspect in a general manner, we are obliged to resort to single instances for purposes of illustration. The Report of the Rheinisch-Westfälische Montangesellschaft for the year ending 30 September 1931, that is, prior to the last general reduction in wages, states that average annual earnings had declined from 2,565 marks in 1928-29 to 2,436 marks by September 1930 and further to an average of 2,185 marks for the year ending September 1931, or by nearly 15 per cent. A comparison of this movement of wages with the trend of productive efficiency shows how depressed wages go hand in hand with increased exploitation. Since 1926 the output per man per shift in the mines of the Steel Combine has increased from 1,179 to about 1,465 kilogrammes, or by nearly 25 per cent. On the other hand the total volume of coal extracted last year is 29 per cent less compared with 1926-27. During the same period the number of mine-workers employed fell from 93,000 to about 49,000, or by something like 48 per cent. This plainly shows to what extent and at whose expense rationalization has taken place in Germany. Nowhere is the increase in productive efficiency as marked as in the Ruhr district. If 100 represents the output per man per shift in 1925, then by 1930 the figure had risen to 140 in the Ruhr district, 119 in England, 115 in France and 122 in Belgium.

The officially announced intention of the wage reductions ordered by the emergency decrees was to lessen unemployment by increasing competitiveness on the world market. It was aimed by means of state intervention to check the working of the economic laws inherent in the capitalist system. The countries prejudiced by this increased competitiveness of a foreign industry did not fail to take counter-measures, with the result that an adjustment of tariffs or an exchange device sufficed to frustrate the end it was desired to achieve by forcing down the standards of the German workers. In fact, there is no sign of an abatement of unemployment in Germany, as the following diagram clearly shows:

*Unemployed registered at the German Labour Exchanges
(in thousands)*



The figures of the number of unemployed given in the above diagram must be supplemented with the figures of those partly unemployed through short time. If one fourth of their number (which is to understate the case) is added to the totally unemployed a total figure of $7\frac{1}{2}$ million unemployed is reached, or over one third of all male and female workers (unemployed and sick workers included).

Unemployment on such a scale in a country which, encumbered with reparation debts, is fighting a hard struggle for exis-

tence and has perfected its productive apparatus to a very high pitch, must necessarily have special economic repercussions. In the first place there will as a result of the feverish rate of rationalization be a certain amount of "technological" unemployment, i.e. unemployment caused by the strictly technical effects of rationalization; but at the same time owing to the country's increased sensitiveness for economic fluctuations in such circumstances, "economic" unemployment, i.e. unemployment due to the trend of economic life, will become a factor of growing importance. Evidence of this is given in a comparison between unemployment in a group of industries immediately responding to the trend of trade (manufacturing, mining, commerce and traffic) and a group of seasonal industries (building, masonry, coarse pottery, gardening) included in a study of conditions on the labour market before and after the war, published by the German Federation of Trade Unions,¹ on page 21 of which the following passage occurs:

"In the post-war period, owing to the widespread "economic" unemployment, seasonal unemployment has lost much of its significance for the labour market. Apart from the exceptional conditions of the period of inflation, during the decade following the war the situation on the labour market was very adversely affected by periods of severe economic depression... Even during periods of upswing there remained considerable reserves of labour which could not be absorbed. By averaging unemployment over longer periods of time corresponding to certain phases of economic life (viz. the trade cycle of 1907 to 1913, the periods of inflation, stabilization, rationalization, etc) it is possible to establish the degree of unemployment for the various periods independently of seasonal fluctuations. Average unemployment per hundred trade-union members was as follows:

Period	1907-13	1919-22	1923-24	1925-27	1928-30
"Economic" industries	2.3	2.9	10.3	9.9	11.2
"Seasonal" industries	10.0	5.1	20.4	18.2	30.7

Just as the world economic depression cannot be ascribed to international indebtedness, so the enormous unemploy-

¹ "Die 40-Stundenwoche", herausgegeben vom A.D.G.B. p. 21.

ment in Germany cannot be blamed to reparations. It is true to say, however, apart from the aggravating influence of international debts in general, the unemployment situation is adversely affected in Germany by the intense rationalization of its productive apparatus, the special sensibility of the German economic system owing to its great dependence on world economic and world political factors, the impoverishment of its working classes and the consequent shrinking of the domestic market—all factors closely related to the reparation obligations.

V.
THE ECONOMIC WORKING OF THE DEBTS.

(Continued)

B. For the Creditor States.

The chief bone of contention between those who were allies in the world war is perhaps the question of the relation between reparations and inter-allied debts.¹

Although the United States still refuses to submit to the urgings of its European debtors that the payment of their debts should be contingent upon what they received in reparations from Germany, the Young Plan nevertheless for the first time established a certain relation between reparations and inter-allied debts; not in the Plan itself, it is true, but in a Special Memorandum, which provided regulations for the way in which the recipients of reparations shall meet their obligations towards the United States. Of the 59 annuities provided for the last 22 are assigned entirely to the settlement of inter-allied war debts to the United States. Something like three quarters of all that Germany pays is in the end to flow to the United States; of that which is payable during the first ten years—to remain in the less remote future—about two thirds.

The arrangements are the result of many negotiations between the former European allies on the one side and the United States on the other, and between the former European allies themselves. Under the debt funding agreements the U.S. has already renounced 51 to 52 per cent of its original claims on its late European allies. The biggest remission was

¹ As we do not want to dwell on the political aspects of this question we will refrain from dealing with the positions taken up by the various governments. For purposes of orientation the following summary published by the German paper "Das Tageblatt" may be found useful:

French view: The net claims or liabilities of the European countries shall remain intact. France will renounce its claims on Germany to the same extent as America does hers.

British view: Germany should be left with a debt to pay; the creditors to come to an agreement among themselves regarding its distribution.

Italian view: All European states should renounce their claims. In that event it would be possible to persuade America to renounce the whole of hers.

American view: Make what arrangements you like, we will not renounce our claims.

that of 80.2 per cent granted to Italy, the smallest that of 30.1 per cent granted to Great Britain.

The latter country, which is next biggest creditor after the United States, has renounced 73 to 74 per cent of its claims, Italy enjoying the highest remission (86 per cent) and Portugal the lowest (65½ per cent). It is therefore seen that Great Britain has made the biggest sacrifices, both in regard to the remission of liabilities received from its creditor the United States and the remission of claims granted to its debtors. In addition, owing to the depreciation of the pound sterling the annual liability of Great Britain to the United States has increased to that extent, whereas debts due to Great Britain from late allies are payable in sterling. Viewed commercially, to use a phrase of Lloyds George's, Great Britain has done a very bad stroke of business, especially if account is taken of the costs of its participation in the war, which according to an estimate of the Bankers' Trust Company of New York and Paris involved for Great Britain 34.39 per cent of her national wealth and for the United States an expenditure of only 8.67 per cent.

The following table shows the extent to which, on balance, the different parties are better off or not as a result of the international debt relations:¹

Interest and amortization payments on account of international political debts during the fiscal year 1930-31 (in millions)

Country	Bigger side of Budget	Income from				Expenditure on Debts	Balance	
		Reparations	War Debts	Total	Per cent of Budget Revenue		Absolute	Per cent of Budget
United States	\$ 3,317	—	\$ 223.3	\$ 223.3	5.7	—	\$ + 223.3	6.73*
Great Britain	£ 865.8	Rm. 336.8**	£ 17.7**	£ 35.6	4.1	£ 33.3**	£ + 2.3	0.3
France	fr. 50,500	" 900.7	fr. 21.9	fr. 5498.1	10.9	fr. 2939.1	fr. + 2559.0	5.1
Italy	L. 20,600	" 156	L. 25.3	L. 731.4	3.5	L. 511.9	L. + 219.5	1.1
Belgium	tr. 11,600	" 98.2	—	fr. 841.1	7.3	fr. 231.9	fr. + 609.2	5.2
Germany	Rm. 10,900	—	—	—	—	Rm. 1707.9	Rm.— 1707.9	15.7

* In previous years about 5 per cent, the percentage having increased as a result more especially of strongly diminished state revenue.

** For the year 1932-33 receipts from reparations were to amount to £ 18½ millions (gold), receipts from war debts £ 18¼ millions (sterling), debts to the United States £ 37 millions (gold).

¹ The leaders of the American labour movement cherished the illusion

If the present claims of the United States on its late allies are maintained, the situation shown by the above table will as time goes on shift more and more in favour of that country. For, the principal and accrued interest at the time the debt-funding agreements were entered into amounted to about \$ 11,500,000,000.¹ These agreements provide for payments, as known, over a period of 62 years. The initial annual payments provided for are relatively small, the payment made in 1928 amounting to about \$ 210,000,000; but they gradually increase until 1976, when they reach about \$ 415,000,000, after which they slightly decrease for about another 12 years when they come to an end. The American private investments abroad, however, are in excess of the political debt and amount to 12½ to 14½ milliard (thousand million) dollars, involving an annual interest and dividend payment of about \$817,000,000. On the other side the United States have liabilities to the extent of \$252,000,000, on account of foreign investments, leaving a margin of \$ 565,000,000 in its favour.²

About one half of American investments abroad are in Europe. It is therefore seen that America's income as a lender of capital to Europe exceeds what it has to claim under the head of political debts. If account is taken further of the advantages it reaps in its commercial dealings with Europe, then the economic meaning becomes clear of the following much-admired statement made by the Secretary to the U.S. Treasury, Mellon, when discussing the Italian settlements before the Ways and Means Committee of the House of Representatives (4 January 1926): "Only from these private loans during the past year have the countries abroad been able to pay for their wheat and cotton. It is these new

that their country had participated in the war for idealistic reasons. Thus we recall a statement made by the well-known late President of the American Federation of Labour, Samuel Gompers, on the occasion of the foundation congress of the I.F.T.U. in Amsterdam in 1929, to the effect that America had only entered the war on idealistic considerations in order to protect right and justice; America had not gone to war for its own ends, for it had not won a square foot of ground nor a single dollar cent.

¹ Annual Report of the Secretary of the Treasury of the U.S. for 1928, p. 560.

² Data taken from the Trade Information Bulletin, No. 625, published by the U.S. Department of Commerce.

loans which make our exports possible... The settlements are made in the real interests of those American producers who must have a foreign market able to pay... *The entire foreign debt is not worth as much to the American people in dollars and cents as a prosperous Europe as a customer.*"

The United States, which has only an internal war debt incurred for the purpose of making loans to the former allied powers, uses the payments received from its European debtors for paying off internal war debt, the effect of which is to lessen the burden of the tax-payers. The alleviation is, however, comparatively inconsiderable, as the inter-allied payments in recent years represented not more than 15 to 20 cent of the interest and amortization service of the American Debt—of the interest service alone about one third. It must also be borne in mind that of the principal countries the United States is the one with the smallest debt per head of the population, namely: six tenths of the French per capita internal debt and only one fifth of the British, to say nothing of those countries' external debts. Germany obviously has the highest external debt per head of the population. France and Great Britain, and Belgium more particularly, have also considerable obligations on this count, however. An investigation as to the amount payable by the different countries to meet the interest and amortization service of their debts, internal debt included, reveals that per head of the population Great Britain, France and Belgium (between whom again the differences are very considerable) are several times more heavily committed than Germany. On this point the working classes can without much difficulty make the balance of their participation in the war for the benefit of the capitalist class. Once again a reduction of earned income by means of increased taxation in the sphere of distribution and additional exploitation in the sphere of production must serve to enlarge unearned income—presumably out of gratitude to the owners of the latter for having used it to finance war. In Great Britain 40 per cent of all state expenditure is required to pay the increase in the interest and amortization service of the National Debt since 1913. The total National Debt charge for 1931-32 swallowed up two and a half times as much as the total expenditure on health, labour and insurance. The expenditure on navy, army and air amounted to one third

of the Debt charge, which may be regarded as a kind of premium (payable chiefly by the working classes) for ensuring the continuance of the source of unearned income constituted by war. In Great Britain taxation is unusually high. "The Economist" calculates that of the national income which it estimates at £3,500,000,000 for 1931 about 25 per cent will be taken for taxes in 1932. That most of it will be taken from those with small incomes goes without saying.

By way of comparison we will also give some particulars of the American Budget for 1930. The service of the public debts accounted for 30 per cent of Budget expenditure, of which 16 per cent, or \$659,000,000, was for interest alone. As has already been said above, the income from inter-allied debts amounted to about one third, or \$223,300,000, of this. Military and naval expenditure accounted for 18 per cent, exclusive of the outlays for veterans of former wars, which accounted for another 19 per cent.

The reduction of taxation possible in the creditor states as a result of reparation payments by Germany to its creditors and debt payments by the allies to the United States leads to increased purchasing power for consumers and increased possibilities for capital production for the capitalists. As the increase in purchasing power is not accompanied by an increase in the volume of commodities available the result is a rise in prices, with which the level of wages does not keep pace, so that purchasing power diminishes. In pursuing this representation of the upward phase of the economic curve an increasing activity in economic life together with a rise in the price level may therefore be assumed. The diminution of the purchasing power of the working classes due to the failure of wages to follow the rise in prices contributes to the swelling of profits. Thus a shifting of consuming power in favour of the capitalists takes place. As bigger incomes enjoy a proportionally higher exemption from taxation it follows that on balance the reduced taxation permitted by income from political debts works out unfavourably for the workers, as the comparatively small benefits they enjoy in the form of less taxes are more than offset by the shifting of purchasing power.

The reduction in taxation, however, is smaller than would be possible on the basis of the total revenue from the political debt payments. A close connection is observable between

these claims and the expenditure on armaments in the creditor countries. In the latter a steady increase in this expenditure is observed: between 1927 and 1931 it rose by 30 per cent in the United States, in France by 82 per cent, to mention only the principal creditors. A few examples will illustrate the significance of the growing expenditure on armaments in connection with the revenue from international political debts. The French Budget for 1929 showed on the income side a net revenue of 1,000,000,000 francs receivable under the Dawes Plan (after deductions for occupation army, war debts to Great Britain and the United States, and pensions for war invalids, etc.). At the same time an increase of 1,000,000,000 francs in military expenditure was provided for.

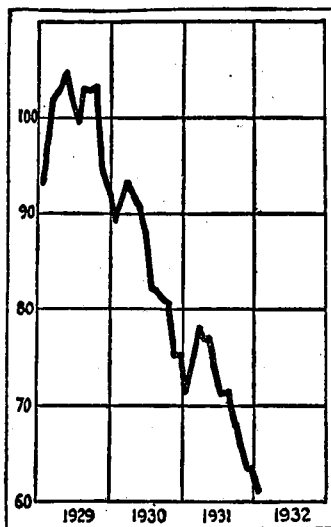
We need not here enlarge further on this interesting aspect of the consequences of the political indebtedness. It has been well covered by Benedict Kautsky in his excellent book "Reparations and Armaments". As a matter of fact it is not even necessary to consult a socialist author to get to know the position as regards armaments as a means of promoting capitalistic interests. Now that Germany is forbidden to use this method of promoting its interests, the bourgeois economists of that country are frank about the matter. Thus Mahlberg writes on page 52 of his book "Reparations-sabotage durch die Weltwirtschaft" (from which we have previously quoted): "...the bigger the capital possessed by a country abroad the greater the number of battleships it has in the past been wont to send in order to subdue by a parade of ships any threat to its investments". This explains the uneasiness expressed by the United States, which has become the principal creditor of the world, at the armament activities of its late allies. In its proposals for reducing armaments it has due consideration for the classes of armaments most effective to the above purpose, and of those classes it will not relinquish a ton under any circumstances. In this connection it is interesting to note the manner in which, under the pressure of the time, the United States Budget is curtailed: the navy supply bill represents a cut of only 9 per cent, as against a 35 per cent cut for the peaceful activities of the Interior Department.

The curtailment of the expenditure of the latter Department takes place at a time when owing to the poverty prevailing among the American working classes an extension

of the exceedingly limited social services of the country of "lasting prosperity" is urgently necessary. The unemployment situation is very serious, and the victims are dependent almost entirely upon the provision made by private charity. Until the winter of 1930-31 reliable statistics of unemployment were lacking, so that only estimates were available. According to a popular census the number of unemployed in April 1930 was nearly 2½ millions. By December the same year the figure had grown to 5 millions, and in the first month of 1931 it passed the 6 millions. Apart from these "normal" unemployed, the American statistics distinguish so-called lay-offs, meaning workers temporarily without employment and wages, of whom there were about one third of the number of unemployed. William Green, President of the American Federation of Labour, at the beginning of this year estimated the unemployment in the country at 8,300,000. Meanwhile, Green said, 40 million persons are living below minimum health standards, by reason of unemployment, part-time work and wage-cuts.

In the United States, the richest country with enormous claims on the rest of the world, the working classes are therefore no better off than in the older capitalist states. They are obliged to accept reductions in wages, which force their standards down to the level of the European working classes. To give a few figures, the cost of living between the end of 1929 and July 1931 decreased by 12 per cent. During the same period, according to labour calculations, wages decreased by 32 per cent. Dr Leo Wolman, of Columbia University, informed a Committee of the Senate that the wages and salaries of the working classes of the United States were more than 40 per cent below the standards of 1929. The American Federation of Labour, on the basis of data of the U.S. Department of Labour, the Federal Reserve Board and the Interstate Commerce Commission, prepared the following diagram showing workers' incomes in terms of goods they will buy:

Workers' Real Buying Power
(Factory and railroad pay rolls)

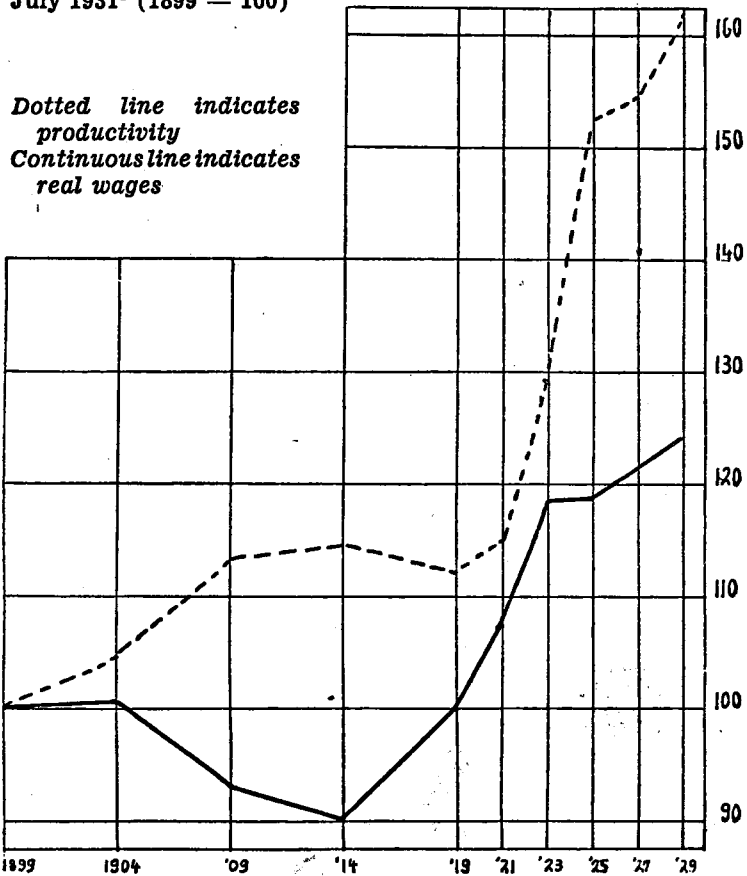


The working classes of America can in no respect whatever be regarded as participants in the vast increase in wealth which has taken place in that country during the past decade. The "American Federationist", the journal of the A.F. of L., in February 1932 contained the following reference to the decade ended just before the advent of the world depression: "In the decade between 1919 and 1929 productivity increased 54 per cent while real wages increased 26 per cent. With industries geared to mass production it is obvious that wage-earners were not able to buy their share of our increasing wealth. Further evidence of this unbalanced progress

comes from the income-tax reports. From 1919 to 1927 the average incomes of persons receiving more than \$5,000 increased by \$2,151 a year, while incomes of wage-earners increased only \$176 per year; that is, the larger income group increased 12 times as much. It is the persons with low incomes and unsatisfied wants who could help keep industries at capacity production if they had larger increases in incomes. In 1927 over 900,000 persons reported incomes over \$5,000; 27,000,000 wage-earners had incomes averaging \$1,205.¹ Between 1919 and 1927 total wages increased by \$9,885,000,000 per year, while total incomes for those whose incomes amounted to more than \$5,000 increased by \$5,354,000,000."

¹ This figure is very striking when one recalls the persistent reports heard in those years of the high level of wages in the U.S., more particularly if it is borne in mind that at that time an annual wage of \$1,100 for a married man with 2 or 3 children was considered to be on the poverty line.

For purpose of comparison we give the following diagram containing similar same information for the decade 1899 to 1909, which appeared in the "American Federationist" for July 1931¹ (1899 = 100)



The two diagrams show that in 1929 the American workers were rather worse off than better off in comparison with 1899.

¹ "The Calamity of Prosperity", p. 816.

In the above diagrams the curves of real wages have been obtained by dividing the wages index by the cost of living index. The same data are used by the Kuczynskis,¹ who mention the figures corresponding to the above curves:

Year	Index of Real Income	Year	Index of Real Income
1899	100	1922	110.5
1904	100.4	1923	118.1
1909	92.2	1924	121.6
1914	90.3	1925	118.4
1919	99.7	1926	120.2
1920	104.8	1927	121.8
1921	107.4	1928	123.6

In the same way as was done for the German metal workers the Kuczynskis calculated for the American workers the index of purchasing power in different years by dividing the modified index of real wages by the modified index of production, securing thus index numbers measuring purchasing power in relation to the level of prices and volume of output. The figures they obtained were:

Year	Index of Purchasing Power	Year	Index of Purchasing Power
1899	100	1922	73
1904	91	1923	68
1909	70	1924	76
1914	70	1925	68
1919	65	1926	68
1920	67	1927	71
1921	91	1928	70

It is seen that the American workers have no grounds for considering themselves more fortunate than their European class-fellows. They are no less the victims of exploitation than the workers of Europe; the only difference is that until the outbreak of the present crisis it was socially somewhat less obvious. From an historical point of view it may undoubtedly be regarded as a gain of the economic depression that it has put an end to the misleading

¹ Jürgen and Marguerite Kuczynski: "Der Fabrikarbeiter in der amerikanischen Wirtschaft", p. 15. Jürgen was employed as a statistician at the American Federation of Labour, Marguerite was an assistant of the Dr Leo Wolman previously mentioned.

appearance of welfare which hitherto hid the ruthless exploitation which had been going on in America the same as elsewhere, so that nothing need now stand in the way of the realization of a complete sense of solidarity between the American and European working classes, as a basis for the struggle for socialism.

Also the working classes of that other big creditor state, France, different though the original impressions may have been, are experiencing that they have no benefits to expect from the reparations. The comparatively favourable economic position occupied by France is visibly diminishing. In 1932 the French proletariat will feel the full force of the repercussions of the depression, which during 1931 gathered momentum with unmistakable speed. The increase in unemployment may be judged, for instance, from the investigations of the Labour Inspectorate in establishments employing over 100 persons. While on 1 December 1930 still 93.61 per cent of the workers in question were in full employment, by 1 March 1932 the proportion had dropped to 43.84 per cent. The rate of increase of unemployment in France has been enormous: while in Germany, for instance, unemployment in 1931 increased by 29 per cent in comparison with the preceding year, in France the increase was no less than 675 per cent. Compared with the corresponding quarter of 1931, the volume of France's external trade declined by more than one third during the first quarter of 1932. The National Budget shows a deficit, which rose from 2 milliard francs for 1930-31 to twice that figure for 1931-32. Of the expenditure provided by the Budget for 1932-33 40 per cent is for purposes of the National Debt and one third for military purposes. It need hardly be said that on the income side of this Budget, frank as it is its intention to serve capitalist interests, the full amount of the reparations claimable once more occur.

If finally we turn to Great Britain, it is seen that the workers there are in a position similar to that observed in the other countries, whether debtor or creditor. The following table is taken from a study entitled "The Two Classes" which appeared in "Labour Research" for May 1931. Expressed in percentages of 1900 figures, it shows that since the beginning of the century the British workers, like those of Germany and the United States, have experienced a substantial decline in their standards.

(1900 = 100)	1914 (July)	1920	1927	1931
Wages	109	284	174	148.5
Cost of living	110.0	296.0	186.0	168.0
Real wages	99.1	95.9	94.6	88.4
Per cent employment	97.6	92.2	90.2	78.3

Since the end of the world war, as the above figures bear out; there has constantly been a great amount of unemployment in Great Britain. According to official figures from the Registers of Employment Exchanges, the number of unemployed was 1,125,000 at the middle of 1929, a year later 2,000,000, and at the beginning of 1931 2,500,000, to which level, after having increased by another few hundred thousands, the figure returned at the end of the year as a result of the protectionist measures which were taken. As from January this year it climbed steadily again and after some fluctuation reached a record height, 2,741,306, on 23 May, when the seasonal factor was favourable.

The exploitation to which the working classes are subjected under capitalism in all countries without exception is facilitated by the international debts, as they are seized upon by international finance capital and strengthen its parasitical power. The prejudicial consequences of this in the last analysis fall upon the shoulders of the world proletariat, no part of whom can escape by means of action on a national plane. Consequently, the demand for the cancellation of all reparation and war debts must be international, in the well-conceived common interests of the working classes of all countries.

V.

THE ECONOMIC WORKING OF THE DEBTS.

(Continued)

C. *For the world economic system.*

If world hegemony was the ultimate purpose for which the world war took place, it follows that the economic meaning underlying the regulation of its result in the form of reparations and war debts must be a consolidation of the hegemony which the war established. Should the international debts prove to be an obstacle to the process of consolidation, or more exactly, should their working fail to be at least on lines parallel to that process, then they would not be maintained a day longer than necessary for the moulding of public opinion. In that event a world crisis and its alleged compelling circumstances provide a favourable opportunity for the wielders of capitalist world power to find a ground for ridding themselves of the international debts. To tell from which side must come the cancellation of debts—a step to which the countries prostrate under the burden look for salvation—it must be known where exactly the wielders of that world power are to be sought. To that end the inner structure of the world economic system must be analysed. The outward regulation of the international debts, and the immediately obvious fact that the Union States reaps the benefit, provide an insufficient basis to go upon. First of all the development of the capitalist reign of power must be traced, and in that light the question considered whether the international debts are favourable to that development, or if not whether their cancellation must necessarily bring a solution.

George P. Auld, on the American side, makes the following very plain reference to the new division of power resulting from the war¹: "The primary fact of the international situation arising from the war is the substantial displacement of European products by those of the U.S. in the markets of the world." In the Memorandum on Production and Trade of 1929 of the League of Nations the situation is summed up

¹ "The Dawes Plan and the New Economics", p. 16.

from the European point of view in the following more general terms: "On the whole there has been a shifting of the centre of economic activity from Europe and the Atlantic to America, Japan and the Pacific." This is borne out by the following general indices of production (foodstuffs and raw materials):

	1913	1927
Europe including U.S.S.R.	100	109
North America	100	128
Latin America	100	148
South America	100	141
Asia excluding Asiatic Russia	100	123
Oceania	100	121

In respect of the most capitalistic form of participation in world trade, viz. the export of means of production, the same tendency is observed:

	Exports of Producers' Goods ¹ (in milliards of Reichsmarks)		
	United States	Germany	Great Britain
1913	2.1	3.4	2.7
1925	4.8	3.4	3.9
1929	7.3	5.4	4.2
1930	5.2	5.0	3.5

In order that the full significance of the development of America's position may be understood, in appraising these figures due allowance should be made for the exceptional position of Germany, which owing to the already explained working of the reparation obligation cuts an exceedingly good figure in this respect. The exceptional economic position occupied by Germany is plainly revealed if its output and exports of machinery are compared with those of the United States. In 1929 the latter produced machinery to a total value of 1,690,000,000 marks, or 49 per cent of the value of total world production. American exports represented a value of 208,000,000 marks, or 26.2 per cent of the value of total world exports of machinery. Germany produced machinery to a value of 720,000,000 marks, or "only" 21 per cent of total

¹ Weekly Bulletin of the German Institute for Economic Research, No. 1, 1931.

world output. Yet her exports amounted to 185,000,000 marks, or 23.3 per cent of world exports. Great Britain in 1929 produced 17 cent of the world output, while it shared in world exports of machinery to the extent of 20.2 per cent. The three countries mentioned are thus seen to account for 87 per cent of the world's production of machinery and for 70 per cent of all exports. Before the war Great Britain headed the list of the machinery-exporting countries, accounting for nearly one third of exports, followed by Germany with 28 per cent and then the United States with only 20 per cent. Since 1913 the production of machinery has increased by about 77 per cent—in Germany and Great Britain by only 50 per cent, in the United States by 120 per cent. The same tendency is observed in other branches of production.

The changes in the aspect of the world are sufficiently well known: agricultural and semi-colonial countries are being industrialized and thereby are stimulating the export of means of production from the older industrial countries. A large part of the regions undergoing this process are situated within the sphere of influence of the United States. The South-American and East-Asiatic markets are for the most part dominated by the United States and partly by Japan. The European consuming industries dependent upon raw materials from agricultural and colonial countries are leading a languishing existence. Great Britain sees its share of the trade with extra-European countries upon which it so strongly depends diminishing. A tendency is observable for the trade relations of the European countries to be more and more confined to Europe, and at the same time a strong growth of the influence of the external trade of the United States and Japan with extra-European countries. This is clearly illustrated by the following table:

Exports to Extra-European Countries in Per Cent of Total Exports					
	Great Britain	France	Germany	United States	Japan
1913	65.4	32.4	24.0	39.7	76.8
1929	65.2	33.6	26.4	55.3	93.1

The shifting of the centre of gravity of the world economic system from Europe to the United States also appears from the development of the incomes of individuals in the two continents. In one of the detailed studies of the International

Chamber of Commerce, to which we have previously referred, the following reference is made to this matter:¹

"Comparing the U.S.A. with Europe the annual income in total was approximately as 18:13 in 1928. The per capita income was as 3.5:1. Growth in per capita income between 1914 and 1928 in terms of 1913 dollars was as 11:1. The wealthiest European country has an income per head of \$386; the richest American State of \$1,428. The poorest European country has an income per head of \$60, the poorest American State of \$282. It is interesting to note that these figures obtained from estimates of national income are supported, as far as the comparison between them is concerned, by the more reliable aggregate production figures. Thus the aggregate production of North America and of Europe in 1928 was as 18.5:16. The production per head was as 3.28:1. Growth in per capita production between 1913 and 1928 was as 6:1."

The same study contains comparisons of the purchasing power per capita income. The per capita income in the U.S. was estimated at \$749 in 1928—more than double that of 1913. The per capita purchasing power, in terms of 1913 dollars, was estimated to be \$452 in 1928—an increase over 1913 of 23 per cent. The per capita income of the European countries taken as a whole was estimated at \$213—an increase of approximately 1/3 over 1913-14. The per capita purchasing power in terms of 1913 dollars was estimated at \$152—an increase of only 5.5 per cent.

What is the position as regards the standard of living of the working classes? The above figures of incomes and buying power, although general averages, permit of some conclusions in this regard. The above-mentioned study on page 49-50 gives the following interesting analysis:

"In Great Britain only some 70 per cent of the *family* income equals in \$ the level which is considered necessary for bare subsistence for an *individual* in the U.S.A., a level which is estimated to cover 90 per cent of the total population: that is to say, some 14,000,000 people in Great Britain are definitely below that level, even for family income. Great Britain is one of the wealthier of the European countries." Further on it says: "As the statistics... have demonstrated

¹ "Europe-United States", Book V, "Distribution Problems", p. 34.

it is questionable whether the purchasing power per head of the European countries has increased at all relatively to the position in 1913. In any event the increase is less than $\frac{1}{2}$ of one per cent per annum... a speed of development infinitely slower than that to which the populations concerned had, in most instances, been accustomed during the previous three quarters of a century... Obviously, with a much larger proportion of the population with incomes adequate or only just adequate to provide bare subsistence, the narrowing of the market for the higher priced comfort, convenience and luxury goods occurs at an earlier level than in America." And finally in the summary: "There has occurred in Europe since the war no general rise in the standard of life, but a considerable redistribution of income as between classes..." How and to what extent this occurred has already been told in section B of this chapter in the light of figures from other sources.

The developments outlined above still fall within the period of comparative economic prosperity. For a judgement of the stability of economic situations it is important to be able to trace developments also during a period of depression. As the present crisis has not yet reached a turning point, while for the rest the statistics still necessarily lag behind, we are not yet able to make comparisons as to the situation before and after the depression. Should it transpire that during the depression and its crisis the heaviest blows have fallen in places where formerly a young and vigorous economic position had been established, then there would be reason to look for special causes. If those causes are connected with international debts, that would be an indication in the direction of an affirmative answer to our question whether in the last analysis the international debts are not a factor hampering the further development of the capitalist world supremacy of the United States.

Data concerning the development in recent years are to be found in the last Memorandum on Production and Trade, 1925 to 1929-30, of the League of Nations. In view of the operation of the Five-Year Plan in Soviet Russia it is important that that country should also be taken into account in considering the situation in Europe. The figures for 1930 are:

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General Indices of Production (foodstuffs and raw materials) weighted by 1929 Valuta					
	1926	1927	1928	1919	1930
	(Base 1925 = 100)				
Europe, excl. U.S.S.R.	94	106	110	119	109
Europe, incl. U.S.S.R.	98	107	110	117	113
North America	103	101	107	105	97
Latin America	103	108	111	108	} 110
Africa	100	103	107	114	
Asia, excl. Asiatic Russia*	101	104	106	107	
Oceania	110	106	115	108	
World	101	104	108	111	107

* Excluding production of foodstuffs in China.

Commenting on this table, it is said that "the apparently rapid progress achieved by Europe since 1925 represents partly a recovery of lost ground, while the rising figures of other continents represent more *normal* progress." We have italicized the word *normal* because, apparently written casually, it may well have a special significance. The trend since 1925 also appears from the following national indices of industrial production taken from Annex VI to the Memorandum mentioned above (Base 1925 = 100):

	1926	1927	1928	1929	1930
United States	104	102	107	114	93
Germany	95	120	120	122	101
Great Britain	77	111	105	113	101

These figures taken in conjunction with those of exports of producers' goods given on page 63 and those of industrial output and the trend of trade on pages 15—16, reveal a tendency unfavourable to the United States. It is remarkable, as is also pointed out in the Memorandum on Production and Trade, that precisely since 1925 there has been turn in the development of the relative positions of Europe and the United States. It was the year in which the economic effects of the Dawes Plan began to manifest themselves and the United States began to participate by large-scale investments in the economic reconstruction of Germany. About this time also the inter-allied debts to the United States were regulated on the basis

of the funding agreements, bringing "settled" conditions in the sphere of the international debts in relation to which economic life could take its course. That the result of this had to be increased economic activity in the debtor countries has already been explained. This increased economic activity must finally find expression in a comparatively stronger participation in world production and trade, as an indispensable basis for the settlement of the debts to America. The United States cannot escape from this consequence, however tightly it shuts its frontiers. As known, the settlement of international debts need not take place through the direct channels of trade between the debtor and creditor country. The so-called triangular and polygonal trade provides abundant room for settlement, especially through the medium of extra-European countries, which are dependent upon the inflow of capital from America, an inflow which has not been far short of that from America to Europe.

The exceptional position as a result of which the United States was even prior to the economic crisis unable to develop further at the same rate as its vanquished European competitors and suffered the hardest blows in the crisis,¹ is that of being the world's creditor. The international political debts, although important enough, are not a decisive feature of that position. The United States has climbed to the height it at present occupies at a speed unparalleled in history. Perhaps it will equally swiftly learn to realize that the role of interest-drawer is not in all circumstance an enviable one. Also in this connection economic development is seen to be a succession of conflicting processes. The capital lent by those with plenty to countries lacking capital accelerates, through the process of industrialization, the development of those countries to an extent with which the lending country cannot keep pace. The United States, formerly the debtor of Europe, now occupies the same position in relation to Europe as the latter did before the war in relation to the U.S., with all the consequences unfavourable to economic development. As Auld² by way of consolation puts it in a somewhat narrow

¹ The decline in the value of commodity exports in 1931 was in no European country, Hungary excepted, as marked as in the U.S., where it amounted to no less than 36.9 per cent, as against 20.2 per cent in Germany, for instance.

² "The Dawes Plan and the New Economics", p. 273.

manner, the impossible and therefore unpleasant position of the American investors abroad is no different from that of the European investor in 1913. It was then the European investor that was regularly cashing coupons and dividend checks on 33,000,000,000 dollars of his money loaned out to debtor countries.

The fact that it is not the American investors but the American workers who are in the unpleasant position to which Auld alludes shows the extent to which the present-day form of capital investment, which before the war found but little favour, has spread: we refer to the creation of new industries in the foreign borrowing country or taking over of existing industries by foreign capitalists. From the point of view of the country favoured with the foreign capital the latter process is termed "alienation". It is not unconnected with the great possibilities of exploitation it affords in conjunction with the economic working of the international debts, reparations more particularly. Thus a migration of capital towards a definite destination is observed, with the view of being able to cope more effectively with competition on the world market, on which the home country apparently no longer occupies a reassuring position. This is accompanied by a shifting in the distribution of work over the world, of which not the American investor but American labour suffers the consequences.

Regarding the actual extent of this kind of capital migration no reliable data are available. Estimates are made, but as a rule they will be too low. For Germany alone, which for reasons easy to understand has many attractions for foreign capital, the following estimates have been made (among others). In the first place there is that given in a well-known publication of the International Chamber of Commerce:¹

"However, it is necessary to call attention to the growing tendency of the U.S. to create factories, subsidiary companies, assembling plants, sales corporations, etc., in Europe. For instance, there exist in Germany 1,500 American commercial companies and American industrial representatives. At the beginning of 1930, American plants operating in Germany were divided as follows:

¹ "Europe-United States", Book II, "Development and Direction of Trade", p. 112-113.

Construction of agricultural machinery	3	factories
Automobile articles	7	"
Chemical plants	5	"
Electro-chemical plants	4	"
Canning factories	4	"
Metallurgical plants	8	"
Mechanical engineering	9	"
Mining undertakings	7	"
Shoe factories	3	"
Textile plants	6	"
Other factories	23	"
	Total	79 "

To these plants, most of which are transformation plants, have been added new factories like the Ford plant in Cologne. Other undertakings such as the Opel factories have come under more or less American management. In addition there are 135 subsidiary companies in Germany for the distribution and sale of American products and 1,300 United States factories have agencies on the territory of the Reich."

Bienstock¹ mentions still other figures, on which he carefully enough comments as follows: "It has been ascertained through a number of channels that foreign capital participates in some form or other in 724 German undertakings, to a total extent of roughly 1½ milliard marks. The unascertained foreign participation is much bigger, however, and is officially estimated to be at least 4 milliards marks. The total value of German land owned by foreigners is estimated at roughly 2 milliard marks."

There is also an official estimate of American origin. The Department of Commerce of the U.S. states that the direct investments abroad have been increasing at the rate of \$ 250,000,000 annually and that the total of such investments has been estimated as high as \$ 5,000,000,000. This official estimate of \$ 250,000,000 a year is more than was annually needed to make the payments as provided in the debt-funding agreements. Due account must be taken of the fact that this form of investment does not constitute a debt charge like foreign loans do, as in the commercial sense there is here no separation between the ownership and the use of

¹ "Deutschland und die Weltwirtschaft", p. 127.

the capital. A permanent transfer of wealth occurs, in which process (economically speaking) the nationality of the owner is a subordinate factor. Capital is becoming increasingly international, according as it experiences the national boundaries as an impediment to its growth. In this way preparations are made for new transformations in the world economic system, and the tendencies detrimental to capitalist development of transformations which have already taken place neutralized again.

Although they failed to foresee this way out for finance capital, *which will never be brought to heel by any other means than the building up of the socialist power of the working classes*, Moulton and Pasvolsky¹ clearly recognized the untenability of America's supremacy when they wrote: "Credit extensions for the purpose of maintaining American export trade, however, merely obscure and do not obviate the essential conflict between American commercial and American debt policy. The volume of new foreign loans extended annually can only temporarily exceed the volume of debt payments due to the U.S. Interest charges steadily increase, on account of the new loans as well as because of the increasing instalments on the war debts, and it is only for a few years at the most that these credit operations can obviate the necessity of significant *shifts in currents of trade.*"

The United States, with a view to protecting the national economic system, were the first during the depression of 1920 to resort to a protectionist policy, which went hand in hand with its development into the world's creditor. As appeared from the previously quoted statement of the American Secretary of State, Mellon, American exports were only made possible by granting loans to those who bought them, from which it follows that finance capital was well in pocket by the protection of the capital invested at home. To a certain extent the United States can permit itself the luxury of a protectionist policy, since in proportion to its total production its external trade is much smaller than that of other industrial countries. Whereas Germany, for instance, exports about 25 per cent of its total production (according to calculations of the German Institute for Economic

¹ "World War Debt Settlements", p. 142.

Research the proportion has more recently been as high as 40 per cent of the total industrial output), the United States only exports about 10 per cent. Of imports the United States, with its natural resources of the most various kinds, is of course still less in need. So far as it does trade with the outside world, however, it has a strong interest in Europe, which buys 45 per cent of its exports, whereas Europe's share in the total American imports (about four fifths of exports) is only 30 per cent. This has been one of the causes of the rapid growth of Europe's commercial indebtedness to the United States, concurrently with which a tendency is observable for Europe's trade with other continents to diminish.

This protectionist policy precludes the possibility of an adjustment of the international debts. Its object is to encourage the satisfaction of home needs by means of home production and thus to become increasingly independent of foreign imports. The result is that the debtors amongst the countries whose export trade is hit find it more difficult to settle their debt in the normal way of surplus exports. The process is accentuated in the measure that other countries, in order to protect their own industries against the country forcing an excess of exports, introduce and raise tariffs or ration and even bar imports altogether. The result is a shrinking of world trade, which means less freedom of movement for countries dependent upon high exports, so that the significance of triangular and polygonal trade for the settlement of the debts is also diminished.

The policy of forcing a surplus of exports adopted by Germany under the pressure of the reparation obligations has done much to call forth protectionist measures. The term dumping has been used to describe the importation of highly competitive German products, which reduced the consumption of the domestic products. This made itself more especially felt with highly refined finished products, upon the production of which Germany as a country poor in raw materials is primarily dependent. Now it is of the nature of protection that these are the very articles on which the first and highest tariffs are levied, so that this method of obstructing the world economic system presented itself automatically as it were as the means of defending the positions assailed by Germany.

The politico-economic slogan for giving to the protectionist measures which have been and still have to be taken the appearance of being something profounder than the make-shifts they really were, was found easily enough. Self-sufficiency is the solution, in proclaiming which it is with the usual shortsightedness completely overlooked that it is impossible nationally to escape from international finance capital. This world governing power is so little troubled with such ideals as patriotism and other virtues dear to the bourgeoisie, that it had no scruples whatsoever in helping to compete against the highly capitalistic countries of its origin by transferring its sphere of activities to other parts of the world. With due reserves as regards the accuracy of figures estimating the most powerful factor in world happenings, we give the following data taken from the chapter characteristically entitled "The Organization of World Economy" of Book VI of "Europe-United States"¹:

"As an indication of the sums involved in the international penetration of capital we may take a calculation made by the Länderbank of the *share of interest* obtained from abroad by private persons in the national income, although here only figures for balances are given.

Country	Milliards of Rm		Per Cent of National Income	
	1908-13	1929	1908-13	1929
Great Britain	+ 6.2	+ 7.2	+ 10	+ 10
France	+ 2.0	+ 1.0	+ 5	+ 2
United States	- 1.5	+ 2.4	- 1	+ 1
Germany	+ 1.4	- 0.9	+ 2	- 1

With the aid of the slogan of self-sufficiency a swindle is carried on, with a view to stirring up nationalism by means of economic measures and misrepresentations regarding their possibilities. It is the task of the socialist labour movement to expose this deception on the basis of the facts. We pause to deal with this political reflection of the economic difficulties of the national economic systems because self-sufficiency is also suggested as a means towards repudiation of the reparations obligations. Thus Ferd. Fried² in his book

¹ Economic crisis — Unemployment, pp. 24-25.

² Fried is the pseudonym assumed by the two authors, of whom one is the commerce editor of the Berlin "Morgenpost", Friedrich Zimmermann, and the other the former foreign editor of the "Vossische Zeitung", Hans Lehrer.

"Das Ende des Kapitalismus" (which, although of National Socialistic orientation, deals in a creditable way with certain questions, such as the trend of incomes) says: "As long as we cannot live without wheat from Canada, cotton from America, tea from India, coffee from Guatemala, bananas from the West Indies, so long we shall also have to pay reparations." The impossibility of putting world economic development back to the time when the world economic system falls into self-sufficient units, to say nothing of separate countries, already appears from the fact that in 1928 world trade represented a value of upwards of 270 milliard marks, compared with an estimated total income of the whole world of 900 milliards. It is thus seen that no less than nearly a third of all incomes is exchanged between countries. The idea of self-sufficiency is, moreover, in conflict with the laws of social evolution and the historical function fulfilled by capitalism. It is only a Utopia conceived by a bourgeois brain thinking in national terms in face of the present confused state of capitalist society.

The working classes suffer the consequences of the raising of the tariff walls in the shape of a higher cost of living. That this is not always apparent from the official figures of the cost of living does not lessen the self-evidence of this effect of tariff measures, though it suggests a good deal with regard to the methods of compiling cost of living index figures. How little these figures are to be trusted is shown by the following quotation from a notice which appeared in the British free-trade journal "The Economist" for 20 February 1932:

"A very important point in the debate on the second reading (15-2-32) of the Tariff Bill was raised by Major Nathan, who pointed out that many of the staple foodstuffs proposed to be taxed were not included in the official calculations of change in the cost of living. The consequence of this is that it is quite conceivable that a genuine rise in the cost of living will be brought about by the tariff without the increase being reflected in the official index number."

The greater the number and the height of the tariff walls the greater will be the difference between the level of prices on the world market and the home market. Interesting in this connection is the following table which, is taken from Book VI of "Europe-United States" (p. 34):

Development of the Prices of a Few Agricultural Commodities on the World Market and on the Home Markets of Certain Countries

WORLD MARKET						HOME MARKETS				
Commodities	Market	Dec. 1929	Dec. 1930	Change December 1930 as against December 1929		Market or Country	Dec. 1929	Dec. 1930	Change December 1930 as against December 1929	
		R.M. per 100 kg.	R.M. per 100 kg.	R.M.	%		R.M. per 100 kg.	R.M. per 100 kg.	R.M.	%
Wheat	Liverpool Hamburg cif.	20.52	10.52	-10.00	- 49	Berlin	24.13	24.76	+0.63	+ 3
		24.21	11.64	-12.57	- 52	Paris	22.91	27.44	+4.53	+ 21
						Milan	29.36	22.74	-6.62	- 23
						Czechoslovakia	21.04	17.55	-3.49	- 17
Rye	Rotterdam	15.78	7.26	- 8.52	- 54	Berlin	17.04	15.52	-1.52	- 9
						Sweden	17.44	18.73	+1.29	+ 7
						Czechoslovakia	15.00	11.64	-3.36	- 22
						Posen	12.17	8.66	-3.51	- 29
Barley	Rotterdam Hamburg cif.	13.82	7.68	- 6.14	- 44	Berlin, home, fodder	17.18	19.07	+1.89	+ 11
		13.38	7.29	- 6.09	- 46	Hamburg, foreign ¹	16.34	25.04	+8.70	+ 53
						Hamburg, foreign ²	16.34	13.62	-2.72	- 17
						Denmark	16.59	12.60	-3.99	- 24
Sugar	Hamburg fob.	18.00	11.92	- 6.08	- 34	Magdeburg	52.60	50.50	-2.10	- 4
	New York cif.	18.52	11.39	- 7.13	- 39	Czechoslovakia	15.94	9.71	-6.23	- 39
						Poland	68.75	68.75	—	—
						London, West Indies, Crystal	45.00	41.30	-3.70	- 8
						New York	34.82	30.56	-4.26	- 12
Coffee	Hamburg cif.	126.66	98.06	-28.60	- 23	Hamburg ¹	256.66	258.06	+1.40	+ 0
						Paris, Santos	102.32	97.88	-4.44	- 4

¹ Cleared from customs

² Reduced duties

The big differences in the prices of wheat, for instance, from one country to another is due to the protection of home products. The result is dearer and often poorer quality bread for the workers. This is pointed out, among others, by the Imperial Committee, which in its report¹ for the Imperial Economic Conference to be held at Ottawa in July 1932, states that "between February 1924 and February 1931 the price of wheat expressed in sterling had fallen in England by 52 per cent, risen in France by 39 per cent, risen in Italy by 2 per cent, risen in Germany by 60 per cent."

The end of this tendency on the part of countries to shut their frontiers to one another's trade is not yet in sight. The press daily contains reports in which countries resorting to measures of protection deny that they are following the example of countries who have definitely adopted protection, and declare that the measures of safeguarding have only been taken by way of self-defence. Public opinion is assured that the tariffs are only imposed with a view to making other countries adopt a more enlightened policy. The following is the introduction to a notice of this kind which appeared in the "Frankfurter Zeitung" under the title "Germany's Commercial Policy of Self-Defence":

"Berlin, 20 February 1932. As briefly announced yesterday, a set of counter-tariffs is at present being worked out, and will probably be carried into effect shortly by the Government in virtue of powers granted under the Emergency Decree of 18 January last. It would be a mistake to perceive in this *a change of principle* in German commercial policy. As a country with a large export trade and finished goods industries and as a debtor country Germany has as hitherto the greatest interest in world trade and exports. Safeguarding has during the past two months made such rapid strides in other countries, however, that Germany is obliged to take counter-action for better or for worse, if only for the reason that vigorous resistance is calculated to be the most effective way of bringing the other countries back to their senses."

The result, however, has not been a return to a more sensible policy but a fresh shower of new and increasingly higher tariffs. These measures, justified on the grounds of

¹ "The Wheat Situation, 1931".

the stupidity of others, are directed against those who in their turn claim to have only the most sensible of intentions. M. Duchemin, for instance, President of the French Federation of Industries, whose views have greatly influenced the commercial policy of France, puts his intentions in words as follows: "Let us arm economically, equip ourselves with quotas, and we shall compel the others to disarm and bring about universal economic peace." This is in economic, and certainly no less dangerous language the original military maxim *Si vis pacem para bellum* (If you want peace, prepare for war).

What once were corrective tariffs have in fact become protective tariffs by means of which it is attempted to defend challenged positions. The wide extent to which this politico-commercial measure has been resorted to cannot be wholly ascribed to the international debts. They alone could not have such general and far-reaching consequences. They may have been the principal immediate cause, but the deeper cause was the violence of the economic depression and the catastrophic fall of prices which attended it. Here again the influence of the depression upon the international debts is much stronger than inversely that of the debts upon the depression. The reparations and war debts kindled the desire for protection, the depression fanned it to unparalleled fury, thus destroying whatever possibilities there had been of those debts being paid off.

Under the present circumstances the supplying of further credits is outside the bounds of economic possibility, and in consequence the interest of American finance capital in the reparations and war debts is diminished. The economic disadvantages of acting as money-lender to the whole world like America has been doing are now becoming apparent. The economic potentates will now probably be disposed to show an understanding of the transformations which began to take place in the world economic system even before the crisis and have been strongly accentuated since. As it becomes increasingly clear that the American supremacy on the world market cannot be maintained by supplying credits to other countries, the mighty ones of America will resort to what will be represented as the act of salvation—cancellation of the war debts and reparations. These debts are only a small fraction of what the world owes American capital, but

their political, i.e. non-private character, combined with the general ignorance of economic affairs, will facilitate cancellation, but the economic aspect of the world will thereby not be substantially modified. The position of American capital will be unweakened, the American worker will see his standards more and more forced down to the level of those of his European class-fellow. Perhaps there will be this important social gain that the impetus will have been given for the rise of a vigorous socialist labour movement in the United States.

We have several times referred to commercial and exchange measures in one breath when dealing with the course followed by countries threatened by the competition of the country paying reparations. In the chapter on the world crisis and the reparations and war debts we mentioned, on the basis of investigations made by Sir Henry Strakosch, the accumulation of gold in France and the United States, the countries with the biggest claims on reparations and war debts respectively. This accumulation of gold was the necessary consequence of the so to speak uneconomic manner of adjusting the debts owing to the creditor countries. As the debtor countries were economically not equal to effecting the adjustment, partly on account of their own need of imports and capital, partly because of the protective measures taken by the ultimate recipients, movements of gold had to take place. These movements of gold, which have finally made the Federal Reserve Bank and the Banque de France the biggest depositories of gold in the world, are not a reflection of the real international movement of capital. As rightly pointed out by Todd¹, "the real equilibrium of indebtedness between nations is maintained not by the passing of gold but by the creation or extinction of debts either temporary or permanent. All the gold, for example, that has gone to America since the war has not come within probably 10 per cent of the amount of the indebtedness of Europe to the U.S., both public and private."

The shipments of gold to the United States, France and a few other countries, such as Argentina, Switzerland, Belgium and Holland, were not mistakes which have now avenged themselves in a violent crisis, as pictured by many

¹ "The Fall of the Prices", p. 54.

who like to represent history as a succession of avoidable errors but for which all would have been well. The gold shipments are the inevitable consequence of a number of factors which under the laws governing the capitalist form of the world economic system are expressed in the growth or shrinkage of the item gold in the balance of payments. Among those who attribute the disastrous trend of economic life to an erroneous gold policy is no less a person than Professor Gustav Cassel, the expert on currency questions of the League of Nations. He contends very emphatically that the present crisis is at bottom a monetary crisis consequent upon the absorption of gold by the creditors of the world, coupled with a universal shortage of gold. He goes so far as to attribute the catastrophic fall in prices exclusively to the mal-distribution of gold, and holds that without the reparation and war debt payments this distribution of gold would have been impossible.¹

With the aid of such a view, the figures compiled by Sir Henry Strakosch (cf. page 13 et seq) can be given an interpretation which is certainly not warranted. That the reparations and war debts encourage the accumulation of gold and thus tended, in conjunction with the fall of prices, to aggravate the slump, has already been explained in Chapter II. But the figures of Sir Henry Strakosch can also very well be made to fit in with a view diametrically opposed to that of Professor Cassel, namely that of Professor Ch. Rist, who says² "but instead of considering the pouring of gold into these banks (France, United States and Argentina) as the cause of the depression or crisis, I see in that depression the real cause of the mal-distribution of which you are complaining." "I consider that the movements of gold and the so-called mal-distribution of gold are not a cause but a consequence."

Even without the mal-distribution of gold a slump in prices would have occurred, which view is not contradicted by the figures of Sir Henry Strakosch. The said figures merely show that from a certain point on there was a

¹ See, among other things, article entitled "Verwirkte Forderungen", in the "Frankfurter Zeitung" for 27 January 1932.

² Lecture delivered on 11 February 1931 before the Study Group of the Royal Institute of International Affairs.

certain relation between the debt payments and the accumulation of gold, which, however, can very well be ascribed to other factors, of which one was the gradual decline in gold prices apparent since 1922. According to Sir Henry Strakosch himself, there is another very important factor, namely, tariffs and other barriers, which hampers the normal economic working of the increase in gold holdings. There is a tendency for the adjustment of international debts to be confined to the sending of gold—in amounts required for payment of the political debts—as the effect of safeguarding is to check settlement through the play of the relations existing between the countries under private enterprise.

In actual fact the monetary crisis, expressed in the dethronement of gold as the basis of the monetary systems, is nothing else than a reflection of the disturbance of world economic relationships brought about by the economic depression in general and by the one-sided transfer of values on account of international debts and the politico-commercial measures of defence it provoked in particular. If the creditor states had not resorted to this method of defence, the inflow of gold would have added to the medium of exchange and thus brought about a rise in prices, and the growth of imports resulting would have greatly influenced the balance of payments.

It is not that gold has functioned badly or proved to be unusable through causes seated in the gold itself, but the world economic system has functioned badly under the rule of finance capital, more particularly through the international debts and the safeguarding which they caused the powerful capitalist states to apply. The silting up of gold in the two principal creditor countries (which together possess about two thirds of the world's stock) rendered the metal economically sterile, inasmuch as it is used neither for domestic ends nor for economic dealings with other countries. *Viewed economically, it is the consequence, as inevitable as it is detrimental, of the one-sided requirements imposed on the debtor countries, coupled with the efforts to avert the disadvantages necessarily resulting therefrom for the creditor economies.*

The consequences of gold accumulation considered above, with more particular reference to international debts, do not preclude this general truth that changes in the distribution

of gold are very closely related to the general economic situation of the world. If, as has been the case in all depressions and the present one more particularly, the capital exporting countries withdraw credits instead of granting new ones, the consequence must be an abnormal movement of gold.

To believe that merely a more "healthy" distribution of gold is needed in order to improve the state of the world is as illusory as to believe that self-sufficiency contains the solution of the difficulties of the separate national economic systems. A redistribution of gold supplies presumes, after all, a granting of credit on a large scale by countries with plenty to countries lacking gold, at rates of interest profitable to the borrowers. To consider such a course possible at the present moment, however, one must neglect such a detail as the existence of the present world depression, which of course has also caused a slump in credit which all the granting of credit by the big creditor states was unable to stop; in other words, the redistribution of gold cannot become the cause but only the effect of the recovery of the credit system.

Currency technical measures doubtless have an influence on economic life, but by themselves they are not able to put an end to the present depression. The plan suggested, for instance, by Quesnay, the General Manager of the Bank for International Settlements, of reducing the gold values of the currencies by 20 to 25 per cent would through its devaluatory working bring a certain respite for the debtors. But would it mean that the crisis was overcome? The British devaluation experiment, although a virtue was made of necessity, hardly encourages such a view. Nor does the cancellation of the war debts and reparations contain prospects of this kind, which is proved by the simple fact that the Hoover Moratorium, which meant their suspension for a year, has failed to bring any improvement in the situation of the world.

The present crisis in war debts and reparations cannot be separated from the general world economic depression, and still less can the causes of the latter be sought in matters which are only its effects, such as the crises in the currency and credit systems. The reparations and war debts were in no way contributory to provoking the world depression;

they have, indeed, accentuated the effects, so that the crisis in credit which resulted from the general world crisis was first felt in Central Europe, where under the influence of reparations and war debts the credit systems had become very sensitive to crisis symptoms.

It is nevertheless not impossible that in some circumstances a thought-out gold or credit policy might cause economic life to show signs of improvement. Considering the extent to which economic life is in the toils of international indebtedness, it would be no matter for surprise if the credit system should be the spot where the remedy is applied. To use a phrase of Marx's, *the task will only be undertaken, however, if the general conditions for its solution are already given or are at least in process of coming into being. Among these general conditions, besides the well-known phenomena accompanying every turn in the economic tide, is at the present juncture the cancellation of the reparations and war debts.*

VI.

THE FUTURE.

The war debts and reparations are economically a practical proposition as long as economic life is in an upward phase. When the downward phase sets in the basis upon which these obligations are adjusted is undermined and the necessity arises of cancelling them in some way or other. The view that incapacity to pay is a result of the depression permits of the expectation that it will be possible to resume payments when economic life ascends again. Such a resumption would, economically speaking, indeed be within the bounds of possibility if the world economic system in general and the economic situation of the separate countries in particular emerged on the whole unchanged from the depression. In the preceding pages it has already been shown that even some years prior to the outbreak of war important shiftings in the world economic system had been taking shape. Even if the reparation and war debt obligations survive the world crisis, it is highly improbable that they will be maintained on the same basis.

At present it is clear to all that as long as the negotiations which are at present taking place are not held with the understood aim of reaching a definite solution of the reparations and war debts problem by wiping off international political indebtedness, only exceedingly provisional objects can be contemplated. The suspension of payment must be extended. On this all are at bottom agreed, for under the economic circumstances of the present and the immediate future, rendering as they do payment impossible, it is the least that can be decided. The real issue is whether the suspension of payments is to be followed by definite renouncement of the war debts and reparations. Cancellation, however, like the moratorium, will only be decided upon under the pressure of immediate necessity, which means that it is not to be expected until postponement of payment proves to be no longer sufficient to meet the situation.

Momentary incapacity to pay cannot be the compelling factor to which reference has been made, for the reason that to meet such a contingency the extension of the period of grace is for the moment sufficient. Such a compelling

factor must derive its special character from the prospects of economic recovery, which is found to be hampered by the uncertainty felt with regard to the political debts, in the first place on account of their direct tendency to raise the cost of loans,¹ and in the second place on account of unfavourable indirect effects they have on economic life in the shape of safeguarding and exchange difficulties. Once the economic outlook shows a tendency to lift, efforts will be made to put the stagnant credit system into motion again. That the stimulus must come from the countries well supplied with capital is obvious. Removal of the tariffs and redistribution of the gold supplies will be among the conditions the satisfaction of which will be considered urgently necessary in order to assist the tendency towards recovery. The revival of the credit system will have to be accompanied by a progressive pulling down of the tariff walls and an outflow of gold from the countries with the large holdings.

So far everything is "normal", that is to say, in accordance with the symptoms always observed during a transfer from a period of slump to a period of recovery. This time the symptoms are only peculiar in the respect that their occurrence is conditional upon cancellation of the war debt and reparation liabilities: international indebtedness has so contributed to the one-sided accumulation of gold and the adoption of safeguarding that it must be cleared out of the way before extrication from the difficulties is possible. The extension of the moratorium will in the meantime have served to accustom people more or less to the fact of the reparations and war debts, owing to the economic impossibility of collecting them during a period of slump, no longer being a source of income for the creditor countries. So far as the economic advantages of which prospects were formerly held out, but which prove to be largely imaginary, call for a certain amount of explaining away for the public, arguments will be brought forward to show how small the sacrifices required are in comparison with the advantages which may be expected. That the sacrifices to be made by the people of the creditor countries are indeed small

¹ This also applies to the war loans, with regard to which "The Economist" of 21 May 1932, in an article advocating their conversion, remarks "War loan, moreover, is a formidable obstacle in the way of reducing the general cost of all new borrowing in London."

and in comparison with the burdens imposed by the crisis even negligible, is irrefutable. At an earlier period, when the economic situation was still comparatively favourable, the cancellation of the reparations and war debts was advocated in American circles on the grounds of well conceived self-interest. Thus Auld¹, whilst failing to note the transformations unfavourable to America which were occurring in world economic relationships, which he could have used to strengthen his argument, as early as 1927 wrote as follows:

“What do the interally debts mean in terms of a burden on Europe, or alternatively on us (U.S.)? Calculated at 5 per cent, the charges on the whole of the original capital of the debts owing to us by Great Britain, France, Italy and Belgium amount to about \$4.10 a year per capita of our population. These same charges amount to about \$3.67 per capita of the European population concerned. It does not seem a large sum. But everything touching the debt question is relative. Our people enjoy an average per capita income of \$ 670, which is two or three times that of Europe. We may better appreciate what \$ 18 a year means to an average European family of five by considering what 2 or 3 times that, say, \$ 35 to \$ 55, would mean to an average American family. We may then consider what this burden would further mean if placed on top of the burden of taxation for international purposes now amounting to 20 to 25 per cent of average gross income, leaving little or nothing for saving for the bulk of the population. Europe is our best consumer. In 1925, it took more than 2,500,000,000 dollars' worth of the products . . . or 53 per cent of all our exports. Can the average American taxpayer, head of a family of five, afford a substantial part or all of \$ 20.50 a year in order to give our best customers some measure of relief, to obtain their good will and to contribute to their political and social stability? That question appears to state the debt problem fairly and to answer itself in the affirmative. We have already cut the burden about a third. Have we done as much as reason dictates that we ought to do? We have said that Europe is our best customer. We hear the reply that Europe is also our strongest competitor. That is true. But it may or may not be important. It probably is not. Business makes

¹ “The Dawes Plan and the New Economics”, p. 296.

business. The healthy activity even of a competitor makes for greater activity on all sides and builds wider markets for everyone. An almost unlimited field of expansion in the undeveloped markets of the world beckons both to Europe and to America, and in these markets many of our products will be non-competitive. We are still supreme in the field of standardized product, and doubtless will be so for many years. The competitor rôle which Europe fills is not nearly so important to us as its customers rôle. The one clear fact to which we may unreservedly tie, is the beneficent effect on our economic life which results from the buying power of a socially healthy and stable Europe."

The United States will doubtless revert to pronouncements such as the above, and probably emphasize that the danger which the competitor rôle of Europe constitutes to the recovery of American prosperity is rather intensified than lessened by the war debts and reparations, inasmuch as they stimulate Europe to increased economic activity. American finance and business capital will have no reason to oppose cancellation of the *political* debts, as it will not suffer direct disadvantages of any kind. The holders of the bonds which the government issued to raise the loans to its former allies will remain assured of their unearned share in the social product as long as no inflation is resorted to in the interests of big money and causes them to share the same fate as the holders of war bonds in Germany, Austria, France, Belgium, Italy and other countries where debts were partly or entirely wiped off by devaluation. A recovery of economic life also warrants expectations of increased revenue for the state, so that everything as it were would seem to cooperate in facilitating cancellation.

It can hardly be expected of the economic rulers in the United States, especially if the class character of the taxation policy of a capitalist state is borne in mind, that they will be deeply concerned about the state's forfeiting a few hundred million dollars of its revenue through the wiping off of the war debts. After all what they are chiefly concerned about is the extent of the *non-political* indebtedness, which promises tangible benefits as soon as the credit system is restored. They will not omit to draw attention to the scant benefit their country has in collecting the war debts in comparison with the receipts collectable from abroad on

account of commercial debts. This can be illustrated by reference to the figures of a pre-crisis year: the American Trade Information Bulletins showed for 1928 a total receipt from foreigners of \$ 10,000,000,000, while payment on the war debt in that year amounted to \$ 210,000,000, or approximately only 2 per cent of the total payments made to the United States by foreigners that year.

For the rest, during the years of depression the decline in public revenue has become such a familiar matter,¹ that a few hundred million dollars more or less is of no importance. Moreover, the Hoover Moratorium, which temporarily suspended the payment of war debts to America, had no effect on the balance of payments of that country owing to the fact that the tourist traffic to Europe almost entirely ceased, which more than offset the forfeiture of income on account of debts. According to the computations of Mr Herbert M. Bratter, of the Finance and Investment Division of the American Department of Commerce,² American tourists spent \$ 341,634,000 in Europe in 1927. With the aid of the particulars he gives of this expenditure, we can draw up the following interesting table showing what the different countries in 1927 paid on count of war debts and received from American tourists (in thousands of dollars):

	Gr. Britain	France	Italy	Belgium	Rest*	Total
Debt payments	161,150	30,000	5,000	1,000	13,132	210,282
American tourists receipts	48,788	190,000	31,250	10,000	12,692	292,730

* Includes Czechoslovakia, Estonia, Finland, Greece, Hungary, Latvia, Lithuania, Poland, Rumania and Yugoslavia.

As far as the United States are concerned, therefore, the general conditions for economic recovery on the one hand and the special consequences of the crisis on the other, give a strong case in favour of wiping off the war debts. Added

¹ In the Budget introduced at the end of 1931 the President estimated for the three-year period ending 30 July 1933 a total deficit of \$ 4,442,000,000, by which the net burden of debt would increase \$ 3,240,000,000. The new proposals on taxation reckon with an increase of 1,900,000 to 3,600,000 in the number of tax-payers. The deficit for the fiscal year ending 30 June 1932 was estimated at \$ 2,123,000,000, but on 9 April it had already nearly reached two milliards.

² Commerce Reports, 4 August, 1930, p. 251.

to this is the growing recognition of the danger to American supremacy constituted by the increasing indebtedness of Europe, coupled with the safeguarding policy adopted by America by way of self-defence. Owing to the general economic effects of the indebtedness of Europe to the United States and the effects of the crisis more particularly, the conflict of interests between the country with reparation debts and those with reparation claims in its turn becomes less sharp; to a certain extent there even exists a community of interests between them in relation to the United States. Thus a situation is seen to exist which can only be met by cancelling the war debt and reparation obligations. The similarity of the economic position of the victorious countries owing war debts to the United States and that of Germany as a result of the trend which economic development may be expected to take is observed in so many words in a leading article entitled "War Debts and Realities" which appeared in the British "Economist" of 19 December 1931. The article in question said: "...instead of European goods and services being transferred to the United States, American claims on them would be left in situ in the form of a growing American ownership of European real assets and instruments of production. But, apart from the political implications of this process, its result would merely be to postpone the evil day and ultimately to produce for the whole of the countries indebted to the United States the same impasse as has been created by the application of an analogous process to the particular case of Germany in the years 1924-30."

Against such a community of interests an opposition artificially created between Germany and the principal countries with reparation claims cannot in the long run prevail. We refer to the economically doubtful case which is made out against cancellation on the basis of expenditure per head of the population on the debt service in Germany and some of the countries with reparation claims, which politicians in particular are using as a cheap means of influencing public opinion. It is calculated that for 1931-32 this per capita expenditure amounted in Germany to 12 marks or 9 per cent of total expenditure, in France 75 marks or 28 per cent and in Great Britain as much as 150 marks or 30 per cent of total expenditure. This concern of the

politicians about per capita expenditure on debts does not extend to the per capita expenditure on, say, military purposes, in regard to which—under the compulsion exercised by the victorious countries—Germany also cuts a favourable figure. Even should public opinion prove to be accessible to this on the face of it strong argument, it still remains to be seen whether the conclusion drawn is that reparations claims must be maintained. The burden of the debts service is the concern of the separate “peoples”, and a matter for which others cannot be held responsible in any way. Those who employ the argument seem to realize this themselves, for Italy, for instance—which owing to inflation and more particularly the large remissions granted by the United States is still more favourably placed than Germany—, is generally left out of consideration.

The peoples' answer to this inappropriately used argument of the differences in the burden of debt is that what has been possible for an impoverished Germany should not be impossible for the comparatively much better off victor countries, that is to say, that not maintenance of the existing per capita burden of debt but drastic reduction thereof is needed. In Germany this was achieved by means of inflation, which in one stroke wiped out the 98 milliard marks of war debt, which meant that an annual interest charge of about 6 milliard marks or roughly 100 marks per head of the population was averted. The populations of the late allied countries could in a similar way lessen the heavy interest service with which they are saddled by means of a levy on capital for debt redemption.

The struggle of the French labour movement in favour of a political conciliation between Germany and France is facilitated by the trend of economic development. A lasting impoverishment of the German people is also detrimental to French industry, as Germany is more important as a customer than as a tribute-paying country. About 10 per cent of France's exports go to Germany, representing about twice its net income from reparations. A policy aiming at closer economic cooperation between France and Germany would prove to be much more advantageous than any policy of customs agreements. As a matter of fact in this respect several big capitalist groups have long since learned to ignore the political estrangement between the two countries.

It is nowise outside the bounds of possibility that international finance capital will succeed in bridging the difficulties which remain in the way of the cancellation of the war debts and reparations, by maintaining, in a spirit of touching harmony, the Bank for International Settlements set up under the Young Plan, as *an instrument for the ends of united imperialism*. It is true that this institution has not proved to be what it was intended to be, namely, an instrument for correcting anything that threatened to go wrong in connection with international payments, reparation and war debt payments more particularly. With economic life completely disorganized by the crisis, however, no bourgeois economist or government thinks of blaming it for that¹; nor has it been proved unequal to the ambitious designs which finance capital had with it. We have in mind the task assigned to the Bank of International Settlements of granting loans after the stoppage of deliveries in kind to overseas regions, so as to permit of large scale works being undertaken and Germany thus enabled to continue its exports and raise the means for meeting its reparation obligations. Herein lurk vast possibilities for finance capital, which by concerted action will strive to an increasingly greater and more systematic extent to bestow its blessings upon the world. Whilst developing more and more on international lines, finance capital will acquire a strong influence over the "democratic" state machine. In these circumstances the true character of the League of Nations will have to reveal itself.

If the war debts and reparations are conceived as one of the biggest and most powerful means of exploitation on an international scale, which is maintained so long as it serves the wide interests of world capital, then their abolition may not be regarded as a matter of incidental importance, but conclusions must be drawn on a plane with the far-reaching implications which have been expounded above. It would be proof of a fatal shortsightedness on the part of the socialist

¹ In its second Annual Report for the year ending 31 March 1932 the Bank for International Settlements safeguards itself against censure by means of the theoretically sound statement that the fundamental causes of the present situation are too closely connected with the whole economic system for direct monetary measures or a return to normal methods of credit to be of any avail.

labour movement if it were to be satisfied with the bald cancellation of the reparation and war debt obligations. In this sphere tasks of supreme importance await the labour movement, in the execution of which sentence will be passed upon capitalism. It will above all have to watch that if and when the war debts and reparations—which have proved to be such an effective means of world-wide exploitation that universal impoverishment has been its tangible result—are cancelled, this extraction of tribute from the working classes by international finance capital is not perpetuated in some other form.

The burden of debt will continue to weigh upon the peoples until the socialistically organized workers put forth powerful efforts to enforce its redemption out of the possessions of capital. They will have to regard any remains of the reparations and war debts period, such as the Bank for International Settlements, for instance, with the utmost suspicion and use every effort to prevent international finance capital from laying further tribute upon the workers in any form whatsoever. The class conscious proletariat must become convinced of the inevitability of a period of imperialism such as the world has never experienced before if the control of the economic system is left in the hands of an increasingly powerful finance capital. By the further debasement of the social economic position of the workers throughout the world during the present crisis (a process which it has been shown in the preceding pages has been taking place at an accelerated speed since the war) the ground has been prepared for more intense exploitation.

In the trend of social development the war debts and reparations are a factor hastening and accentuating relative impoverishment. In this light they acquire deeper significance, in that their consequences do not cease with cancellation of the debts. Cancellation must be conceived as the point where capitalism is satisfied that the conditions are fulfilled for carrying on the process of continued and increased exploitation from a higher plane. Reparations and war debts have served to lower the workers' standard of living to a level where capitalism is assured a greater margin of exploitation.

Although closely bound up with politics, war debts and reparations are primarily an economic issue, seeing the fact

that world capital has used them as a means of increasing its power. *The working classes must rise above the national political differences, and recognize the international community of interest consequent upon the interdependence of their economic conditions.*

If there is one service which the period of reparations and war debts can render to the cause of the proletariat it is this that it gives occasion to throw into relief the fact that international solidarity on the part of the working classes is an imperative necessity, which has been created by capitalism itself, and which means the end of the present form of society.

STATISTICAL APPENDIX

I. Gross capital value* of war debts (other than reparations.)

<i>In milliards of Reichsmarks</i>			
War debts of countries with reparation claims		Claims to war debts	
France	12.4	United States	29.2
Great Britain	15.0	Great Britain	22.2
Belgium	1.1	France	2.8
Italy	3.5	Italy and others	0.4
Others	1.2		
	Total		Total
	33.2		54.6
Russian repudiated debts	17.0		
Debts of countries without reparation claims	4.3		
	Total		
	21.3		

* Annuities provided under the Payment Plans capitalized at 5 per cent on 31 December 1931.

II. Distribution of the 59 reparation annuities provided under the Young Plan

<i>In milliards of Reichsmarks</i>			
	Gross	Out-payments*	Net**
France	59.5	43.2	16.3
Great Britain	21.1	19.1	2.0
Italy	16.9	15.3	1.6
Belgium	5.7	2.9	2.8
Rumania	1.8	1.6	0.2
Servia	3.8	1.2	2.6
Greece	0.5	0.5	—
Portugal	0.7	0.4	0.3
Japan	0.5	—	0.5
Poland	0.02	—	0.02
	Total	Total	Total
	110.52	84.2	26.32

* Inter-ally debts

** Reconstruction debts

III. *Distribution of the capital value* of the reparations*
In millions of Reichmarks

Reparation claims		Reparation debts	
United States	1,200	Germany	39,295
Great Britain	7,975½	Hungary	97
France	20,487	Bulgaria	154
Belgium	2,475½	Czechoslovakia	169½
Italy	4,722		
Yugoslavia	1,511	Total (in round	
Rumania	498	figures)	39,500
Japan	226		
Portugal	254		
Greece	373½		
Poland	8½		
Czechoslovakia	2½		
Total (in round		figures)	
figures)		39,500	

* Capitalized at 5 per cent under the Young Plan, including the approximately 420 million marks payable by Hungary, Bulgaria and Czechoslovakia.

IV. *The Young Plan in operation.*

	<i>In millions of Reichsmarks</i>		
	1929-30 (7 months)	1930-31	1931-32 (3 months)
France	418.8	900.7	209.6
British Empire	53.1	366.8	90.5
Italy	42.5	156.0	47.7
Belgium	70.7	98.2	25.7
Rumania	—	10.0	3.0
Yugoslavia	72.1	79.4	19.8
Greece	—	3.6	1.7
Portugal	6.0	13.2	3.3
Japan	13.2	13.2	3.3
Poland	0.5	0.5	0.1
Total	676.9	1641.6	404.7

V. Financial effect of the Hoover Plan.

Government	Suspended Receipts £ '000 ¹	Suspended Payments £ '000 ¹	Net Loss (—) or Gain (+) £ '000 ¹
United States	53,600	Nil	— 53,600
Great Britain ²	42,500	32,800	— 9,700
France	39,700	23,600	— 16,100
Italy	9,200	7,400	— 1,800
Belgium	5,100	2,700	— 2,400
Rumania	700	750	+ 50
Yugoslavia	3,900	600	— 3,300
Portugal	600	350	— 250
Japan	600	Nil	— 600
Greece	1,000	650	— 350
Canada	900	Nil	— 900
Australia	800	3,900	+ 3,100
New Zealand	330	1,750	+ 1,420
South Africa	110	(340)	— 110
Egypt	90	Nil	— 90
Germany	Nil	77,000	+ 77,000
Hungary	Nil	350	+ 350
Czechoslovakia	10	1,190	+ 1,180
Bulgaria	150	400	+ 250
Austria	Nil	300	+ 300

¹ All receipts and payments converted at former pars of exchange.

² The British debit balance is accounted for by the war debts of the dominions reconstruction debts and other items excluded from the scope of the Balfour Note.

VI. Additional payments and receipts on liquidation of the Hoover Moratorium.

(Annuities calculated at 3 per cent payable from 1933 to 1943)

	Receipts £ '000 ¹	Payments £ '000 ¹	Net Annual Payment or Receipt £ '000 ¹
U.S.A.	6,300	Nil	+ 6,300
Great Britain	5,000	3,800	+ 1,200
Italy	1,100	900	+ 200
France	4,700	2,800	+ 1,900
Belgium	600	300	+ 300
Germany	Nil	9,000	— 9,000

¹ Conversions have been made at former pars of exchange.

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