
Lecture eight: The 1920s—the road to depression and fascism

By Nick Beams

The aftermath of World War I: Revolutionary conditions in Europe

At the conclusion of the lecture on World War I, we examined some of the propositions advanced by Professor Neil Harding. The most significant charge he brings against Lenin, and Marxism as a whole, is that there is not, and cannot be, a “science of revolution,” and therefore “the search for definitive guidance with regard to the ‘objective’ limits of action, particularly and especially in periods of revolutionary trauma [is] doomed to failure.” [1] If this charge is true, then one would have to acknowledge the failure of Marxism, which, as Lenin insisted, is, above all, a guide to action.

Harding bases himself on remarks by Engels in his preface to Marx’s work *The Class Struggles in France*. Engels noted that in any given political situation it was not possible to have full knowledge of the underlying economic processes and changes. “It is self-evident that this unavoidable neglect of contemporaneous changes in the economic situation, the very basis of all the processes to be examined, must be a source of error. But all the conditions of a comprehensive presentation of current history unavoidably include sources of error—which, however, keeps nobody from writing current history.”

This applies even more to revolution. In Harding’s view, Marxism becomes, on this basis, irresponsible, one could say criminal, because it exhorts masses of people to “lay their lives on the line in a civil war” without being aware of changes in the underlying economic situation that must be the source of error. While Engels noted that the problems he identified did not prevent anyone from writing current history, it is a vastly different matter, according to Harding, when it comes to making it by carrying out a revolution.

“Precisely the same strictures,” he continues, “can be levelled against Lenin’s theory of imperialism (the economic constant of his whole analysis), and his derivative theory of the state.” [2]

That is, the central argument against the theory of imperialism, which formed the theoretical foundation for the Bolsheviks’ seizure of power, is that it could not provide a definitive answer as to the fate of world capitalism.

“Lenin urged his followers on with the certainty of an ideologue, and, consequently, he had to ignore the methodological uncertainties that lay at the very heart of his analysis. This does not mean that Lenin violated the logic of Marxism in inspiring and leading the October Revolution. It merely means that Marxism could *never* supply in advance a specification of the necessary and sufficient conditions for a successful socialist revolution. Marxist revolutionary action could only be based upon

a series of more or less well-informed predictions or inferences from a more or less accurate analysis of a temporally distant socio-economic structure. Its ‘justification,’ therefore, always lies *after*, rather than *before*, the event. It is justified if, and only if its predictions turn out to be accurate. That, precisely, was the burden of difference between making history and merely writing it. In the event, none of the principal predictions, upon which the whole Russian revolutionary venture was premised, in fact materialised. The country was forced in upon its own ruined resources and low cultural level. In these circumstances the regime, as even Lenin was prepared to admit, was bound to degenerate. But what was never conceded was Lenin’s (and the Bolsheviks’) huge responsibility for inaugurating a venture of total transformation that turned to cataclysm when the predictions upon which it was based proved to be false. Men can, no doubt, be inspired by ideas to heroic and self-denying action but, by a similar token, those same ideas can inspire actions that, inadvertently perhaps, lead on to barbarism. Ideologies, are, in this sense, never innocent; they always wear upon themselves the mark of Cain.” [3]

In other words, the Russian Revolution was a “leap in the dark,” a gigantic gamble, a criminal venture, whose failure brought tragic consequences. The ultimate responsibility for Stalinism lies with Lenin and the Bolsheviks, for, while they may have opposed Stalin and the bureaucratic apparatus that he headed as it emerged, they launched the revolution in a situation where, as events were to show, the conditions did not exist for it to spread. They launched a revolutionary struggle in conditions where they could not know what the outcome would be, and are therefore responsible for everything that followed.

The obvious conclusion is not just that the Russian Revolution was wrong, but that the road of revolution must never be taken again because it is impossible to know the outcome, because it cannot be determined with absolute certainty whether the economic conditions have sufficiently matured.

The fundamental theoretical analysis that underlay the Bolsheviks’ seizure of power was, as Lenin put it, that the chain of imperialism had snapped at its weakest link. It was not just the link that broke, but the whole chain—that is, Russia was only the most advanced expression of the developing revolutionary situation across Europe as a whole.

That analysis was not Lenin’s alone. It was shared to a greater or lesser degree by the leaders of European imperialism and the US president, Woodrow Wilson.

Wilson’s famous 14 Points, issued in January 1918, was a direct response to the Russian Revolution, and, in particular the Bolsheviks’ call for the negotiations with the German High Command at Brest-Litovsk to become the basis for a general

peace agreement. Responding to an appeal issued by Trotsky calling on the peoples of Europe to force the convening of a general peace conference, US Secretary of State Robert Lansing advised that the appeal should be ignored.

Attacking the “fundamental errors” of the appeal, in a memo to Wilson, he warned that the Bolsheviks were appealing “to a class and not to all classes of society, a class which does not have property but hopes to obtain a share by process of government rather than by individual enterprise.” In a graphic display of the notions of biological superiority that were so widespread in the ruling elites, Lansing denounced the document as “an appeal to the ignorant and mentally deficient, who by their numbers are urged to become masters. Here seems to me to lie a very real danger in view of the present social unrest.”

The danger of the appeal, he wrote, was that “it may well appeal to the average man, who will not perceive the fundamental errors.” In addition to their attacks on property, the Bolsheviks were undermining nationalism by advancing “doctrines which make class superior to the general concept of nationality.... Such a theory would be utterly destructive of the political fabric of society and would result in constant turmoil and change. It simply cannot be done if social order and government stability are to be maintained.” [4]

Wilson, however, knew that the Bolsheviks’ appeal could not be ignored. The political situation was growing more dangerous for all the Allied governments as mass discontent deepened. His concerns were elaborated in a discussion with the retiring British ambassador on January 3.

According to a report of the meeting: “He himself [the president] with the full consent of the American people and with their express approval has made an appeal to the German people behind the back of the German Government. The Bolsheviks in Russia were now adopting the same policy. They had issued an appeal to all the nations of the world, to the peoples and not to the governments. He was without information at present, or at least without certain information, as to what reception had been given to this appeal. But there was evidence at hand that certainly in Italy and probably also in England and France the appeal had not been without its effect. In the United States active agitation was proceeding. It was too early yet to say with positive certainty how successful this agitation had been. But it was evident that if the appeal of the Bolsheviks was allowed to remain unanswered, if nothing were done to counteract it, the effect would be great and would increase....” [5]

Already, before the outbreak of the war, class tensions had been on the rise amid warnings in all the major European capitals of an approaching pre-revolutionary situation. In Austria, official circles had concluded that the only alternative to civil war was a general European conflict. In Russia, the strike wave that developed in 1913 and 1914 was even bigger than that which accompanied the 1905 revolution. In Germany, especially after the victory of the Social Democratic Party in the 1912 elections, there had been speculation and discussion within ruling circles over whether an external conflict could be used to release the tensions building up. Prince von Bulow wrote in his memoirs: “At the end of 1912 I heard from Dusseldorf that Kirdorf, one of the biggest Rhenish industrialists...had declared that if this goes on another three years

Germany will have landed in war or revolution.”

In Italy, the months preceding the outbreak of the war were marked by riots and strikes on a wide scale and local republics were set up in many towns. The red flag was hoisted over the town hall of Bologna. In France, there was a growing militancy in the working class, with 1,073 strikes involving a quarter of a million workers taking place in 1913 and including postal and telegraph workers previously considered loyal to the state. Strikes by agricultural workers often led to riots and the burning of owners’ houses.

In Britain, the immediate pre-war period was one of growing violence in which, according to the writer George Dangerfield’s account, “fires long smouldering in the English spirit suddenly flared, so that by the end of 1913, Liberal England was reduced to ashes.” The long-time Labour politician Emanuel Shinwell recorded in his memoirs: “The discontent of the masses spread, the expression of millions of ordinary people who had gained little or nothing from the Victorian age of industrial expansion and grandiose imperialism.”

According to the diplomat and politician Harold Nicolson, the growing industrial upheavals, marked by the unfolding of a “revolutionary spirit,” combined with the crisis over Irish home rule, had brought the country “to the brink of civil war.” In a conference held in Buckingham Palace in July 1914, George V warned: “That cry of civil war is on the lips of the most responsible and sober-minded of my people.” The historian Halevy has described the industrial unrest as “verging at times on anarchy,” concluding that it was a “revolt not only against the authority of capital but against the discipline of trade unions.”

Now the threat that had been haunting the European ruling classes—that the so-called “social question” would one day give rise to revolution—had been realised in the form of the Russian Revolution. On November 4, 1918, Beatrice Webb, one of the leading Fabian socialists and a strident advocate of parliamentarianism, recorded in her diary the fears of ruling elites throughout Europe: “Are we to be confronted with another Russia in Austria, possibly even in Germany—a Continent in rampant revolution?” [6]

When the Allies convened in Paris to draw up a treaty to present to Germany, the Soviet government was not invited. But throughout the months of complex negotiations, as the Allies attempted to resolve their conflicts, the revolution was ever present. “Communist Russia,” wrote Herbert Hoover, at that time in charge of American distribution of food supplies in Europe, “was a spectre which wandered into the Peace Conference almost daily.” [7]

Wilson’s close associate, the journalist Ray Stannard Baker, pointed to the contrast between the Congress of Vienna, which followed the defeat of Napoleon in 1815, and the negotiations at Versailles. “[A]t all times, at every turn in these negotiations, there arose the spectre of chaos, like a black cloud out of the east, threatening to overwhelm and swallow up the world. There was no Russia knocking at the gates of Vienna, apparently, the revolution was securely behind them; at Paris it was always with them.” [8] Few people, he noted, realised how “explosive was the situation throughout Europe during the conference. All the governments were shaky; a little misstep on the part of Lloyd

George, Clemenceau, Orlando, and their ministries might have gone down.” [9]

During the Peace Conference, British Prime Minister Lloyd George sent a letter to French President Clemenceau in which he set out his fears: “The whole of Europe is filled with the spirit of revolution. There is a deep sense not only of discontent but of anger and revolution amongst the workmen against prewar conditions. The whole existing order in its political, social and economic aspects is questioned by the masses of the population from one end of Europe to the other.” [10]

The Peace Conference was convened under the banner of Wilson’s 14 Points. The final document, however, breached all of its principles. When a member of the American delegation, William C. Bullitt, announced his resignation in disgust over the peace terms to be presented to Germany, he insisted that Wilson should have made an appeal to the popular masses of Europe, over the heads of their governments. “Colonel” Edward M. House, Wilson’s closest adviser, explained why that was not possible.

There was no doubt, he said, that “if the President should exert his influence among the liberals and labouring classes, he might possibly overthrow the governments” of some of the Allies. But that would have involved a sharp political turn to the left throughout Europe, creating the conditions where “Bolshevism” could strengthen. This was why Wilson had been right not to pull out of the conference. Otherwise, there would have been “revolution in every country in Europe, and...the President was not ready to take this responsibility.” [11]

What these citations point to, as well as events themselves, is the existence of a revolutionary situation across Europe in the aftermath of the war. The fact that this situation did not lead to an actual socialist revolution was due to the role of the social democratic leaders of the working class, above all in Germany. There the leaders of the Social Democratic Party formed a counter-revolutionary alliance with the Army High Command to preserve the German state, while unleashing the Freikorps, the forerunners of the Nazi stormtroopers, to smash the workers’ councils created in the revolutionary upsurge in October-November 1918 and murder the revolutionists, in particular, Rosa Luxemburg and Karl Liebknecht.

However, notwithstanding the undoubted existence of an objectively revolutionary situation following the war, we are still left with the question of the longer term. Was this revolutionary period merely a passing historical moment, a kind of epiphenomenon of the war, destined to be followed by a restabilisation in which the capitalist class would resume control, or were there deep contradictions within the heart of the capitalist economy that would lead to further eruptions? This question, which concerns all the issues raised by Harding, can be answered only through an examination of the political economy of the post-war period.

Capitalist crisis, political perspective and revolutionary leadership

What must be the basis of a scientific approach though which

we seek to conduct an examination of the historical process in light of the laws of political economy? In the introduction to his lectures on *The Philosophy of History*, Hegel remarked that “it is the desire for a rational insight, and not merely the accumulation of a mass of data, which must possess the mind of one concerned with science.”

In an appreciation of Marx, Joseph Schumpeter pointed to “one thing of fundamental importance” that he achieved. “Economists,” he wrote, “always have either done work in economic history or else used the historical work of others. But the facts of economic history were assigned to a separate compartment. They entered theory, if at all, merely in the role of illustrations, or possibly of verification of results. They mixed with it only mechanically. Now Marx’s mixture is a chemical one; that is to say, he introduced them into the very argument that produces the result. He was the first economist of top rank to see and to teach systematically how economic theory may be turned into historical analysis and how historical narrative may be turned into *histoire raisonnée*.” [12]

If one examines the history of industrial capitalism over the past 200 years, it is clear that economic growth has taken place through a series of fluctuations. The business cycle, comprising periods of boom, stagnation and recession and punctuated by crises, is a permanent feature of the capitalist economy, notwithstanding periodic claims that it has been abolished.

It is also clear that there are longer periods that have their own features and peculiarities. For example, the period from 1849 (the start of the mid-Victorian boom) to the financial crash of 1873 is different from the period 1873-1896, which has gone down in economic history as the great depression of the nineteenth century. Likewise, the 1920s and 1930s are very different from the post-war boom of the 1950s and 1960s, just as that period is very different from today. In all of these periods, the business cycle continued to operate, yet economic development was very different. Clearly, there are processes at work that shape the operation of the business cycle and establish the framework within which economic development takes place over the longer term.

The relationship between the business cycle and the longer historical periods in the “curve of capitalist development” was the subject of a major report delivered by Leon Trotsky to the Third Congress of the Communist International in June-July 1921, and was the subject of many speeches and articles by Trotsky dealing with questions of perspective over the next several years.

When the Third Congress convened, it was clear that the initial revolutionary upsurge that had followed the First World War was receding. The working class had failed to come to power in Germany, the Hungarian revolution had been overturned, and there was a certain economic revival following the deep-going crisis of 1919-1920. These developments posed new challenges in the development of the perspectives of the revolutionary movement.

On the right wing, the social democrats, having aligned themselves against the Russian Revolution, declaring it to be premature, and organising the counter-revolution against the German working class, hailed the upturn in the business cycle as justifying their stance. The upturn, they maintained, demonstrated that the conquest of power by the Bolsheviks was

invalid from the standpoint of Marxism and constituted a “putsch” because the productive forces were still capable of undergoing further development within the framework of capitalism. The perspective of the conquest of power by the working class, therefore, had to be consigned to the indefinite future, as it had been before the war.

On the other hand, numerous left tendencies advanced the so-called theory of the offensive. According to this perspective, there was no possibility of an upturn in the capitalist economy. The economic crisis of the immediate post-war years would continuously deepen and lead inexorably to the conquest of power by the working class.

Trotsky’s analysis was aimed at showing that capitalism had not established a new equilibrium and that the perspective of the social democrats was false. The war and the Russian Revolution were not accidents, but signified that the capitalist system had entered a period of profound disequilibrium that would continue.

At the same time, he took issue with the “lefts” who identified the downturn in the business cycle following the war with the historic crisis of the capitalist economy. The situation was far more complex. By 1921, it was clear that an economic upturn was taking place. But this did not mean that a new equilibrium had been established.

In opposition to the “lefts” and their identification of a downturn in the business cycle with the historic crisis of capitalism, Trotsky explained that if one were to draw a curve delineating the development of capitalism, it would be seen that it was a “composite of two movements; a primary movement which expresses the general upward rise of capitalism, and a secondary movement which consists of the constant periodic oscillations corresponding to the various industrial cycles.” [13]

The relationship between these two movements was the following: “In periods of rapid capitalist development the crises are brief and superficial in character, while the booms are long-lasting and far-reaching. In periods of capitalist decline the crises are of prolonged character while the booms are fleeting, superficial and speculative. In periods of stagnation the fluctuations occur upon one and the same level.” [14]

Against those who maintained that the economic crisis of 1919-1920, becoming ever more grave, had to persist until the conquest of power by the working class, Trotsky insisted that while capitalism remained, it would continue to oscillate cyclically, as a man continues to breathe even on his deathbed, and that, no matter what the general conditions might be, a commercial economic crisis would act to sweep away surplus commodities, devalue existing capital, and, for that very reason, create the possibility for an industrial-commercial revival.

But this did not at all mean that capitalism would be able to restore the conditions for equilibrium—that is, the conditions for economic development that had made possible its pre-war growth. “On the contrary,” Trotsky explained, “it is quite possible that after its very first consequences this boom will collide against the economic trenches dug by the war.” [15]

But what if capitalism continued? Was it possible that at some point in the future a new equilibrium would arise, ensuring a general expansion such as had taken place in the nineteenth

century and for the first decade of the twentieth? In his report to the Third Congress, Trotsky did not rule out such a perspective, but made clear that it was possible only under very definite conditions.

“If we grant—and let us grant it for the moment—that the working class fails to rise in revolutionary struggle, but allows the bourgeoisie the opportunity to rule the world’s destiny for a long number of years, say, two or three decades, then assuredly some sort of new equilibrium will be established. Millions of European workers will die from unemployment and malnutrition. The United States will be compelled to reorient itself on the world market, reconvert its industry and suffer curtailment for a considerable period. Afterwards, after a new world division of labour is thus established in agony for 15 or 20 or 25 years, a new epoch of capitalist upswing might perhaps ensue.” [16]

Returning to this question in a speech six months later, in what tragically turned out to be a forecast of the fate of the European and international working class, he again emphasised that it was not a matter of the automatic interplay of economic factors. Only if the working class remained passive and if the Communist Party committed one blunder after another would it be possible for economic forces to “restore in the long run some sort of new capitalist equilibrium upon the bones of millions upon millions of European proletarians, and through the devastation of a whole number of countries. In two or three decades a new capitalist equilibrium would be established, but this would at the same time mean the extinction of entire generations, the decline of Europe’s culture, and so forth. This is a purely abstract approach, which leaves out of consideration the most important and fundamental factors, namely, the working class, under the leadership and guidance of the Communist Party.” [17]

Trotsky’s remarks establish a point of immense methodological significance. Contrary to the positions of Harding, the historical evolution of capitalism cannot be considered outside of the development of the class struggle and the role of the parties and tendencies in the working class movement.

In other words, the unfolding of the capitalist economy did not in and of itself produce a single, inevitable historical outcome. Rather, it set the groundwork on which the class struggle was to be fought out—a struggle within which the role of the subjective factor, revolutionary leadership, was to assume decisive importance.

If the working class were not capable of overthrowing the bourgeoisie, because of the policies of its leadership, then a new equilibrium would be possible—obtained at a terrible cost. But the attainment of such a situation would not signify that the capitalist system still had a progressive historical role to play, but rather that the revolutionary class, the proletariat, had not been able to overthrow it. Given different leadership and policies, an entirely different outcome, resulting from the same set of economic conditions, would have been possible.

The same issues arose when the historical process was viewed from the standpoint of the bourgeoisie. While it remained in the saddle, it did not do so because of the automatic working out of the objective laws of the capitalist economy. Rather, the historical crisis of the capitalist mode of production meant that the fate of the bourgeoisie depended directly upon its intervention.

Postwar economic impasse

Historical analyses of the political economy of the 1920s generally begin with a discussion of the impact of the war and its economic aftermath. This was the approach adopted by contemporary observers, to whom it appeared that the growing problems of the 1920s were the result of the devastation of the war that had so disrupted the equilibrium of the world economy.

From our vantage point, the problem with this approach, however, immediately becomes apparent once we compare the period following World War I and the post-World War II period. In the first case, we find a decade of highly unstable recovery, punctuated by a series of sharp recessions and economic crises, finally leading to the deepest depression in the history of world capitalism and the most barbaric regime ever seen—Nazism in Germany. In the second case, notwithstanding the far greater destruction of capital goods and infrastructure, we find that 10 years after the war's end, world capitalism is enjoying the greatest boom in its history.

Rather than examining the impact of the war on the capitalist economy, it is necessary to approach the question the other way around. That is, to examine how the long-term shifts and changes in the capitalist economy gave rise to the war and the economic developments that followed it. This is not to suggest either that war was simply a product of economic processes, or that it, in turn, had no impact on the underlying economy. Indeed, the war, and above all the political reconstruction of Europe undertaken through the Versailles Treaty, had far-reaching economic effects. But the war was not the cause of the crises that beset the European and eventually the world economy. Rather, it exacerbated already-developing economic tendencies.

In his analysis of this question, Trotsky pointed to the relationship between the curve of capitalist development, taken as a whole, and the eruption of the war.

“Beginning with 1913,” he wrote in a report to the Fourth Congress of the Communist International, “the development of capitalism, of its productive forces, came to a halt one year before the outbreak of the war because the productive forces ran up against the limits fixed for them by capitalist property and the capitalist forms of appropriation. The market was split up, competition was brought to its intensest pitch, and henceforward capitalist countries could seek to eliminate one another from the market only by mechanical means. It is not the war that put a stop to the development of productive forces in Europe, but rather the war itself arose from the impossibility for the productive forces to develop further in Europe under the conditions of capitalist management.” [18]

Economic growth in capitalist Europe was slower in the period between the wars than at any other time in the twentieth century. In the period 1913-1950, gross domestic product per capita of 15 Western European economies increased by an average of 0.5 percent per year compared with 1.4 percent in the period 1890-1914 and 4.0 percent in the period 1950-1973.

The problem that confronted the economies of Western Europe in the 1920s was not so much the destruction of industrial capacity, but rather finding markets for the increased capacity of industry, which had expanded in the course of the war. For example, world

ship-building capacity had almost doubled since 1914; iron and steel capacity in Britain and Central Europe was 50 percent higher in the mid-1920s than it had been before the war. Yet, these industries experienced continuously depressed conditions. At the same time, Germany, which had been a leader in the production of chemicals in the pre-war period, found that its export markets had been halved as a result of increased production by the Allies.

The eruption of war in Europe in 1914 signified that the productive forces had come into conflict with the nation-state system. The aggressive character of German imperialism represented the drive by the most dynamic section of European capital to reorganise the old continent to create the conditions for its expansion. The Versailles Treaty, however, did nothing to resolve the underlying problems of capitalist development that had given rise to the war. Rather, it exacerbated them. Indeed, according to the assessment of one historian of this period, “it can...be argued that the immediate consequences of more than four years of hostilities were less important than the immediate postwar settlement in determining the longer-term future of Europe.” [19]

The post-war resettlements involved the biggest exercise in reshaping European political geography ever undertaken. But this process deepened all the problems. There was a separation of areas that had formed a single economic unit. Germany lost 6.5 million people and 13 percent of its land area. Upper Silesia was lost, and the link between the coal of the Ruhr and the iron ore of Lorraine was broken.

The number of economic units in Europe within which productive factors could move without restriction increased from 20 to 27. The integrated economy of the Austro-Hungarian economy was broken up and parcelled out among seven states. Five new nations were carved out of the western borderlands of Russia. There were now 27 separate currencies in Europe instead of 14 before the war, and an additional 12,500 miles of frontiers. Many of the borders separated factories from their raw materials, farms from their markets, ironworks from coalfields.

Summarising this process, the historian William Keylor noted: “Unlike the national unification process of Western Europe in the nineteenth century, which enlarged economic units and increased productivity, the nation-building in Eastern Europe after the First World War reduced the size of existing economic units and thereby decreased the efficiency that has traditionally resulted from economies of scale.” [20]

Apart from the redrawn boundaries, the most contentious issue arising from the Versailles Treaty was the decision to impose war reparations on Germany. Article 231 of the treaty, the infamous “war-guilt” clause, stated: “The Allied and Associated Governments affirm, as Germany accepts, the responsibility of Germany and her Allies for causing all the loss and damage to which the Allied and Associated Governments and their nationals have been subjected as a consequence of a war imposed upon them by the aggression of Germany and her Allies.”

The issue of reparations has often been presented as a consequence of France's drive to inflict maximum economic damage on Germany. But France acted no differently than the other capitalist great powers, including the United States, which were all seeking to establish the best position for themselves in

the post-war world. If they had different responses to particular questions, it was because they had different interests to pursue.

The position of the French president, Clemenceau, as Keynes pointed out, was entirely logical for someone “who took the view that European civil war is to be regarded as a normal, or at least a recurrent state of affairs for the future, and that the sort of conflicts between organised great powers which have occupied the past hundred years will also engage the next.” Any concessions to Germany based on fair and equal treatment would only have the effect of “shortening the interval of Germany’s recovery and hastening the day when she will once again hurl at France her greater numbers and her superior resources and technical skill.” Hence, the policy of France was aimed at cutting German territory, reducing its population and, above all, reducing its economic strength in order to try to remedy the inequality of strength between the two main rivals for European hegemony.

If Britain was willing to sometimes adopt a more conciliatory approach—notwithstanding the pledges made in the “khaki election” of December 1918, in which Lloyd George had pledged to squeeze Germany hard “until the pips squeak”—it was because her aims were served by the destruction of the German fleet and the handing over of her colonies. With the position of the Empire secure, Britain was anxious to ensure the revival of the Germany economy, which was a valuable export market.

The position of the United States was guided by its determination to capitalise on its newly established economic dominance, and, consequently, it refused all suggestions that inter-Allied debts, in particular those to the US, be wiped out or reduced, in order to lessen German war reparations.

Following US entry into the war, an official US Treasury bulletin issued in late April 1917 stated that in placing a portion of American wealth at the disposal of the European Allies, the United States government was not only helping them, but “lessening the work and danger and suffering of our own men in bringing the war to an early close.” With America not in a position to be able to put soldiers into battle until a year after the declaration of war, the European powers regarded the loans as, in a sense, a payment for men placed on the battlefield. They considered that they were fighting as proxies for the US, at least after April 1917, and should not have to repay loans in pursuit of this objective. That was not the view of the US Treasury. It took the position in December 1918, and maintained it right through the 1920s, that there was no connection between inter-Allied debts and German reparations. The Allies would have to pay up regardless of what Germany could pay.

When the leading industrialist, Walther Rathenau, proposed that Germany take over the Allied war debt to the United States, equivalent to about 44 billion gold marks, in lieu of reparations, the Americans would not agree, insisting that there was no connection between reparations and war debts. The US was reluctant to effect the transfer, fearing that Germany’s ability to pay was less than that of France, Britain and the other allies. It would have been a bad business deal to swap a claim on the victorious allies for a mortgage on an insolvent and defeated Germany.

There was a complex web of debts. Germany had 11 creditors. The US received payments from 16 debtors. Britain collected

debts from 17 countries and France from 10. Small countries such as Hungary, Bulgaria, Rumania and Czechoslovakia had as many as 9 or 10 creditors each.

No fewer than 28 countries were involved in war debt relations. Five were debtors only, 10 were creditors only, and 13 both debtors and creditors. Ten were net debtors and 18 were net creditors. Of the \$28 billion in inter-Allied debts, the US government was owed \$12 billion, some \$4.7 billion by Britain. Britain, in turn, was owed \$11 billion by its European allies. Some \$3.6 billion was owed by Russia, which was uncollectible after the revolution.

Before the peace talks began, the French government made an official request in a letter to US Treasury Secretary Carter Glass on January 15, 1919, calling for the debt question to be made part of the peace settlement, and to be resolved simultaneously.

Glass replied that the US was not in support of debt payments being discussed in Paris in conjunction with the Peace Conference. The effect of this decision was to ensure that the Allies, and France in particular, would press for the maximum reparations from Germany. In the event, an amount for reparations was not included in the treaty, but was left to a War Reparations Commission that was to issue a report in May 1921.

In February 1920, the British government proposed a general cancellation of war debts, pointing out that “the existence of a vast mass of inter-government indebtedness not only involves very grave political dangers, but also forms at the present time a most serious obstacle to the recuperation of the world and particularly Continental Europe from the immense strain and suffering caused by the war.” [21]

The official reply from US Treasury Secretary David F. Houston made clear that the US was determined to enforce its claims. Rejecting the assertion that debt cancellation would aid economic recovery of Europe and the world in general, Houston insisted that debt cancellation “does not touch matters out of which the present financial and economic difficulties of Europe chiefly grow.” [22]

He then proceeded to deliver a lecture on the virtues of the free market and sound government finance. “The relief from present ills, in so far as it can be obtained,” he wrote, “is primarily within the control of the debtor governments and peoples themselves. Most of the debtor countries have not levied taxes sufficient to enable them to balance their budgets, nor have they taken any energetic and adequate measures to reduce their expenditures to meet their income. Too little progress has been made in disarmament. No appreciable progress has been made in deflating excessive issues of currency or in stabilising the currencies at new levels, but in Continental Europe there has been a constant increase in note issues. Private initiative has not been restored. Unnecessary and unwise economic barriers still exist. Instead of setting trade and commerce free by appropriate steps there appear to be concerted efforts to obtain from the most needy discriminatory advantages and exclusive concessions. There is not yet apparent any disposition on the part of Europe to make a prompt and reasonable definite settlement of the reparation claims against Germany or to adopt policies which will set Germany and Austria free to make their necessary contribution to the economic rehabilitation of Europe.” [23]

Moreover, Houston continued, the cancellation proposal “does not involve mutual sacrifices on the part of the nations concerned; it simply involves a contribution mainly from the United States.” While the US had not sought or received any substantial benefits from the wars, the Allies “although having suffered greatly in loss of lives and property have, under the terms of the treaty of peace and otherwise, acquired very considerable accessions of territories, populations, economic and other advantages. It would, therefore, seem that if a full account were taken of these and of the whole situation there would be no desire or reason to call upon the government of this country for further contributions.” [24]

The Reparations Commission delivered its report on May 5, 1921. It fixed German reparations at 130 billion gold marks, around \$33 billion. So far as the Allies were concerned, they would now set out to extract payments from Germany that would then be used to repay their loans to the United States.

“What a curious spectacle!” Churchill was to remark in a speech some four months later. “The great...nations of the civilised world...all hoping to get enormous sums out of each other or out of Germany. In fact, you might say that debt collecting has become our principal industry...” [25]

One of the motivations for the establishment of this system was the underlying crisis of post-war finances. According to one calculation, the total cost of the war was \$260 billion, representing “about six and half times the sum of all the national debt accumulated in the world from about the end of the eighteenth century up to the eve of the First World War.” [26]

Taking all the belligerent powers together, some 80 percent of the excess of wartime spending over the levels reached in the last three years of peace was financed by borrowing. Much of this was financed through bank credit. This method of finance was chosen by the belligerents in the belief that they would be able to make the loser pay.

Churchill’s half-joking remark that debt collection had become “our principal industry” points to the underlying problem confronting post-war capitalist Europe—the inability to establish a new foundation for economic expansion.

In his criticism of the Versailles Treaty, Keynes had pointed to the importance of the German economy for the whole of continental Europe. But for France, German economic growth was a threat, not a benefit. Economic expansion on the European continent had become a struggle of each against all—a struggle in which debt collection formed a component part. There seemed to be no way out on the international arena.

Europe and America in the post-war crisis

The unviability of the reparations scheme did not take long to become apparent. German inflation, which had escalated rapidly during the war and its immediate aftermath, began to take off during 1922. In January 1923, in retaliation for German non-payment of reparations, French forces occupied the Ruhr, setting into motion a political crisis that was to continue until October.

During this period the German currency collapsed into

hyperinflation, bankrupting entire sections of the middle class, but benefiting sections of industry which were able to liquidate their debts. There is no question that by the summer months, with the collapse of the Cuno government, brought down by a general strike in Berlin in August, the political crisis was assuming revolutionary proportions.

The German Social Democratic Party and its associated trade unions, which had provided the chief prop for the capitalist order in the postwar period, were rapidly losing support in the working class to the German Communist Party (KPD). But at no stage during this period did the KPD advance a worked-out revolutionary strategy and develop the tactics to implement it.

This is not the place to undertake an analysis of the role of the KPD. Suffice it to say that it was a product of the deep-going crisis of leadership which had afflicted the party ever since the murder of Rosa Luxemburg in January 1919. The problems of the party were further exacerbated by the onset of a political degeneration within the Comintern leadership, bound up with mounting attacks on Leon Trotsky from the emerging bureaucracy under the leadership of Stalin.

The political crisis in Germany came to a head in October, when the KPD leadership called off a proposed insurrection after its proposal for a general strike was turned down by a meeting of trade union and factory delegates in Chemnitz. The political paralysis of the KPD was summed up later by Heinrich Brandler, its leader at the time, who explained that while he “did not oppose the preparations for the uprising of 1923” he did not “view the situation as acutely revolutionary yet.” [27]

The experiences of the January-October crisis prompted a reassessment in ruling circles, both in France and Germany. The French occupation of the Ruhr had been sparked by the continued German defaults throughout 1922 on reparation payments. But occupation had solved nothing. Rather than receive additional payments, the French collected just \$625,000 over costs in the first four months of 1923, compared with \$50 million in the same period of 1922. [28]

For the German bourgeoisie, the policy of passive resistance against the French occupation and the inflation of the currency had only created a deep-going political crisis—with threats to the stability of the bourgeois order from the right, in the shape of the fascists, and the more serious threat from the left, in the form of the KPD.

A tactical turn was undertaken by both sides. The French government agreed to international mediation of the reparations payments, to bring them more into line with Germany’s capacity to pay, while the German ruling elites moved to stabilise the currency and accept the obligation to undertake reparations payments.

The eruption of the 1923 crisis signified the exhaustion of the capacities of the European ruling classes to organise a political and economic restabilisation of the continent after the war. The antagonisms that had led to the war remained, while economic and political turmoil led to confrontations with the working class which continually threatened the stability of bourgeois order.

The period since the armistice had seen a series of upheavals, not only in Germany, but in Italy, Britain and France. The post-war revolutionary upsurge had been contained, above all because

of the role of the social democratic parties in providing the chief prop for the bourgeoisie in the name of preventing the spread of “Bolshevism.” But, as the events in German crisis of 1923 had demonstrated, continued political and economic instability would make this task increasingly difficult. It was at this point that a new power entered the postwar European scene—the United States.

America had intervened in the war to protect its own economic interests, prevent the spread of social revolution and effect a reorganisation of the world in line with its increasingly global interests. Those motivations were at the centre of its intervention in the reparations crisis.

A commission was established under the chairmanship of Charles Dawes, the first director of the US Bureau of the Budget, to consider ways of balancing the German budget, stabilising its currency and devising a viable system of annual reparations payments. The plan provided for a schedule of annual payments starting at 1 billion gold marks in the first year and rising to 2.5 billion in the fifth, with variations according to changes in the world economic situation and the gold price. A Reparations Agency was to be established in Berlin to oversee the process and a loan of 800 million marks was to be raised for the German government, with collateral provided by German railroad securities to stabilise budget finances and launch the process.

The Dawes Plan and the restabilisation of the German economy saw the creation of a new currency, the Reichsmark, converted from the old mark at a trillion to one, in August 1924. Under the agreement, the Reichsbank became independent of the German government, maintaining a reserve of gold and foreign currencies and pursuing a high interest rate regime as the basis of a deflationary program.

The Dawes Plan was just as necessary for the stability of the United States economy as it was for the economies of Germany and the rest of Europe. The reparations system, as first devised, was unworkable.

The system of debts and reparations depended on Germany and the other European powers being able to earn foreign currencies through exports. But the United States was not inclined to return the markets it had won from its rivals in the war, nor was it prepared to open the US market to European exports. In fact, in 1921 it raised US tariffs in anticipation of an attempt by Germany and other European exporters to increase their penetration of the US market by depreciating their currencies.

But the US economy, having become dependent on the markets provided by Europe, could not allow Europe to slide into economic chaos. How then to supply Germany and the European debtors with dollars to pay their reparations and loans without impinging on the economic position of the United States? The Dawes Plan appeared to provide the answer.

A triangular system of payments was established—from the United States to Germany, from Germany to the Allies, and then from the Allies back to the United States, with Wall Street the chief beneficiary. In 1926, the leading British Labour MP, Philip Snowden, observed that the US would receive \$600 million a year on account of European debts. The estimate of German reparations was \$250 million per year.

“Therefore, what all this amounts to is that America is going to take the whole of the German reparations and probably an equal sum in addition. This is not a bad arrangement for a country that entered the war with ‘No indemnities, and no material gain’ emblazoned on its banners.” [29]

The system of loans and repayments not only demonstrated the predatory character of US finance capital—Uncle Sam was increasingly denounced as Uncle Shylock—it was, more fundamentally, an expression of the historic crisis of the global capitalist economy.

The resort to financial activities—debt enslavement, share market speculation, financial arbitrage—is always a manifestation of problems at the heart of the capitalist economy, in the mechanisms for the accumulation of surplus value. That is, when capital is unable to extract surplus value at a rate sufficient to increase, or at least maintain, the average rate of profit, it attempts to overcome this problem through purely financial methods, without having to undertake the arduous and complex tasks associated with industrial production. And so it was in this case.

The Dawes Plan, which sought to stabilise the German economy, and more generally the European economy, opened the way for a rush of capital from the US to Europe. At the same time, another precondition for this process was set in place—the return to the gold standard and the institution of deflationary policies to ensure monetary stability. In the case of Germany, deflation was necessary to attract funds from the US. In Britain, the push for a return to the gold standard came from the City of London, where it was recognised to be essential if the City were to have any chance of maintaining its position in the global financial system in the face of the ever-greater challenge coming from New York.

A memorandum from the Bank of England to the chancellor of the exchequer in early 1920 declared: “The first and most urgent task before the Country is to get back to the gold standard by getting rid of this specific depreciation of the currency. This end can only be achieved by a reversal of the process by which the specific depreciation was produced, the artificial creation of currency and credit, and for this the appropriate instrument is the rate of interest. The process of deflation of prices that may be expected to follow on the check to the expansion of credit must necessarily be a painful one to some classes of the community, but this is unavoidable.” [30]

The Dawes Plan loan, \$110 million of which was raised in New York, was the spark which set in motion a stream of finance from the US. No longer would New York banks and investment houses wait until applicants came to them. They went out with plans and proposals for loans in a manner not to be seen again until the “recycling” of Arab petro dollars in the 1970s.

The stable currency and high interest rates in Germany encouraged the purchase of German bonds. Between 1924 and 1930 these purchases totalled \$2.6 billion, with American investors taking more than 60 percent. By 1930, Germany had a debt of 26 billion Reichmarks, compared to a national income of about 75 billion Reichmarks per year. At the same time, German loans became an important part of the US financial system. During this period, 20 percent of the American capital market comprised

the sale of foreign bonds.

The Dawes Plan and the restabilisation of Europe through the intervention of the US raised fundamental questions of perspective which Trotsky began to address.

The strategy which had guided the Bolsheviks in the Russian Revolution was that the World War signified that capitalism had exhausted its historically progressive role and that this posed the objective necessity for the socialist transformation. The task was not to build socialism in one country—the reactionary utopia later advanced by Stalin—but the socialist transformation of the world. The Russian Revolution was therefore the first step in this direction.

But as the first revolutionary wave receded and the bourgeoisie, not without considerable difficulty, managed to hold onto power and effect a certain political and economic restabilisation, the question arose: was the conquest of political power in Russia premature? Had capitalism exhausted itself?

Addressing these issues in a speech delivered in 1926, Trotsky explained: “If it turned out that capitalism is still capable of fulfilling a progressive historical mission, of increasing the wealth of the peoples, of making their labour more productive, that would signify that we, the Communist Party of the USSR, were premature in singing its *de profundis*; in other words, it would signify that we took power too soon to try to build socialism. Because, as Marx explained, no social system disappears before exhausting all the possibilities latent in it. Confronted with the new economic situation unfolding before us at present, with the ascendancy of America over all capitalist mankind and the radical shift in the correlation of economic forces, we must pose anew this question: Has capitalism outlived itself or has it still before it a perspective of progressive work?”

For Europe, Trotsky continued, the question had been decided in the negative. The war was the outcome of a revolt of the productive forces against the confines of the national state system. But the result of the war was a situation “ten times worse than before”—even more rigid tariff barriers, more frontiers, more numerous armies, increased indebtedness together with more restricted markets. America, however, was undergoing a dynamic development, while in Asia and Africa capitalism had taken only its first major steps.

“The conclusion seems to be the following: capitalism has outlived itself in Europe; in America it still advances the productive forces, while in Asia and Africa it has before it a vast virgin field of activity for many decades if not centuries. Is that really the case? Were it so ... it would mean that capitalism has not yet exhausted its mission on a world scale.

“But we live under conditions of world economy. And it is just this that determines the fate of capitalism—for all the continents. Capitalism cannot have an isolated development in Asia, independent of what takes place in Europe or in America. The time of provincial economic processes has passed beyond recall. American capitalism is far stronger than European capitalism; it can look to the future with far greater assurance. But American capitalism is no longer self-sufficing. It cannot maintain itself on an internal equilibrium. It needs a world equilibrium. Europe depends more and more on America, but this also means that America is becoming increasingly dependent upon Europe.” [31]

Dynamics of a systemic crisis

The postwar global economy was wracked by a profound structural crisis. United States capitalism was undertaking a rapid development, but at the same time it was increasingly dependent on European capitalism, which had begun to fall back not only relatively but in some cases absolutely. This contradiction was to deepen throughout the 1920s, notwithstanding the postwar recovery, and was to assume even more explosive forms by the end of the decade.

There was a huge inflow of foreign investment into Germany from 1924—a total of \$7 billion over six years. But a large portion of it was used to finance mergers rather than carry out the modernisation of German industry.

For a time, the recycling system set in motion by the Dawes Plan, whereby surplus investment capital flowed out from the United States into Germany and then back to the US in the form of loan repayments, financed by German reparations, appeared to work. Germany imported around 28 billion RM in the period 1924-1930, out of which she paid reparations of 10.3 billion RM. So long as the inflow of capital continued, the system ran smoothly.

However, by 1928-1929 American investment started to fall, prompting a withdrawal of short-term funds. While the withdrawal of funds was the immediate cause of the financial crisis which engulfed Germany from 1929 onwards, the entire financial system was inherently unstable. As one analysis, written in 1932, put it: “Even if the world depression had not begun at the end of 1929 and international lending had not suddenly decreased almost to vanishing point, it was inconceivable that new loans could have continued to exceed the rising reparation and Allied debt instalments, plus interest charges on the vast volume of private indebtedness that had already been created.” [32]

The inherently unstable financial situation was rooted in fundamental problems of the German and European economies as a whole. As all historians of this period have noted, the vast bulk of the capital inflow into Germany was not used to modernize and expand industry, but was employed in the financing of government activities and projects. That is, the loans were not invested in productive capital.

German industry, which had been a global leader in the pre-war period of capitalist upswing, was now being eclipsed in the struggle for world markets. German exports declined markedly in the first half of the 1920s. Economic recovery in general was slow. It was only by 1925 that Europe returned to the levels of production that had been attained in 1913. It has been calculated that had the European economy continued to grow at its pre-war rate, the production levels attained in 1929 would have been reached in 1921. Such was the extent of the overall downswing in the European economy.

In Germany, the net domestic product had risen to just 103 percent of its 1913 level by 1928. Exports, however, were still at 86 percent of their 1913 values. In the period 1910-1913, the ratio of exports to national income was 17.5 percent. In the years 1924-1924 it fell to 14.9 percent. [33]

As Germany and the other European powers declined, so the United States rose. By 1923 it had become the world’s greatest exporter and the second largest importer. Between 1926 and 1929

its share of world industrial production was 42.2 percent, compared to 35.8 percent in 1913. The importance of its investment outflows for the stability of the European and world economy can be gauged from the following figures. Between 1919 and 1929 the long-term foreign investment holdings of the United States increased by \$9 billion. In 1929 American investments were two thirds of all new investment in the world. American foreign holdings rose to \$15.4 billion, of which \$7.8 billion were portfolio investments and \$7.6 billion were direct investments.

The secret of US expansion was not hard to discern. It was to be found in the new production methods of American industry which, with the development of the assembly-line system, had brought about a vast increase in the productivity of labour and the extraction of surplus value.

The financial stabilization which followed the Dawes Plan, and the deflationary environment it created, sparked an intense discussion in German political, academic and industrial circles over the need for the rationalization and modernization of the German industry. No longer was it possible to accumulate profits simply through the process of inflation. Now the road to increased profits lay through higher productivity, rationalization and cost reduction.

In her valuable study of this process, the historian Mary Nolan sums up the impact of American industry as follows: "It was America's industrial heartland that fascinated Germans, or rather the heartland of the second industrial revolution of iron, steel and machine making. This was 'the technology of girders and gears,' a world of continuous production and component parts, staggering productivity, and a minutely subdivided labour process. Its most visible symbols were Ford's Highland Park and River Rouge factories and the Model T, but it also included the vast iron and steel works that stretched from western Pennsylvania, through Ohio and Indiana, and into Chicago. This was the successful American counterpart of Germany's large, labour-intensive and crisis-ridden heavy industry sector, which was at the centre of the Weimar rationalization movement....

"The sheer size of Ford's Highland Park and River Rouge plants awed German visitors. Highland Park, which was opened in 1910-1911 and introduced the assembly line in 1912-1913, encompassed over 50 acres and employed over 68,000 workers by 1924. And that was Ford's old plant! River Rouge, begun in 1916 and completed a decade later, had 160 acres of floor space spread over 93 buildings. There were 27 miles of conveyor belts and over 75,000 employees... Even more impressive to German visitors than the scale of production was its innovative character. In the Ford works everything was subordinated to the principle of the efficient and inexpensive production of one standardized product, rather than a multiplicity of different goods. Individual parts were simplified and standardized to a degree that aroused the envy of Germans, who saw norms as the essential prerequisite for successful rationalization at home. Instead of universal machines that could perform many tasks, the Ford works were filled with specialized machines, tailored to the production of one particular standardized part and served by a worker who performed only one task." [34]

The trade union and social democratic party leaders were no less enthusiastic about the introduction of American methods.

They hailed Ford's methods as creating the possibility for reforming capitalism and resolving the social question. In September 1925 the General Confederation of German Trade Unions (ADGB) sent a delegation of 14 to the United States, which produced a report, authored by four of them, hailing the new system as providing the possibility for the restructuring of capitalism in the interests of the working class.

The report claimed that "the central problem of the European economy is and will remain increasing mass purchasing power.... Thus it is completely clear that the trade union struggle to increase wages is not only a social necessity but also a task upon whose accomplishment the further development of the whole economy depends." [35]

This assessment was based on a complete misreading of the new system of production, in line with the thinking of Henry Ford himself, who sometimes claimed that the payment of higher wages created the mass market for cars and other consumer goods. In fact, the essence of the new system was not that it paid higher wages, but that it extracted greater profits, providing the basis for new investment and further economic expansion.

Despite the great enthusiasm for American methods, Fordism, as it was becoming known, did not take root in Germany. The reason is to be found in the profound differences in the situation confronting American and German capitalism.

The American system of production was the outcome of a veritable second industrial revolution which had its origins in the years immediately following the Civil War. The securing of the Union, through the victory of the northern industrial bourgeoisie, and the creation of a national market established the framework for the system of mass production that was to develop over the next five decades, culminating in the development of the assembly line in the auto industry and the production of mass consumption goods. Profits were made from capital intensive production methods in which economies of scale enabled the lowering of costs.

American capitalism was able to spread across a whole continent, with a vast internal market created through the development of the railway system and a common system of laws. German capitalism could not follow this path. On every side it was hemmed in by the barriers and borders of the European nation-state system—a system of constrictions which worsened after the Versailles Treaty. Whereas in America the concentration of capital took place through the establishment of large-scale enterprises, producing at low cost, in Germany and Europe in general the restrictions of the market led to the formation of cartels, through which profits were extracted by the restriction of production and the maintenance of high prices.

The German cartel movement had begun in the 1890s following the rapid industrial expansion of the previous 20 years, and was a feature of all sections of industry in the 1920s. Meanwhile, the constrictions on the market had become even more severe.

German industrialisation had received its initial impetus from the Zollverein in the 1830s, leading eventually to unification of the German states under Bismarck. But now, even a customs union with Austria was banned under the Versailles Treaty, lest an expanded German economy draw the economies of eastern

and southeastern Europe into its orbit and weaken the position of France.

These restrictions meant that the German modernisation movement of the 1920s was based on mergers and the formation of cartels, combined with rationalisation of the workforce rather than the expansion of production. Rather than development of mass production for an expanding market, German modernisation involved further cartelisation, restriction of production and the maintenance of higher costs.

While German rationalisation involved the closing of the most inefficient factories and the restructuring of others, it never amounted to the “new industrial revolution” that was hailed by some observers. “The reality of German industrial restructuring was more limited, contradictory, and, for all concerned, unsatisfactory than such sweeping statements implied. Between the stabilization crisis and the world economic depression, only a few years and relatively limited capital were available to modernize Weimar’s ailing economy, and actual deeds could not match the outpouring of words about rationalization. The transformations within a given branch of industry were highly uneven, and many ambitious, multi-year projects for modernization slowed or stalled completely as the economic crisis began in 1929.” [36]

There is a vast difference between rationalization carried out on the basis of existing methods of production and the development of new systems and processes. Rationalisation on the basis of an existing system, through greater exploitation and cuts in the labour force, increases the productivity of labour and improves the profit position of the individual firm by lowering its costs. But it does not lead to an expansion in the overall mass of surplus value throughout the economy.

The significance of the American system was that it did bring such an expansion, not through restrictive practices and higher prices but through mass production at lower cost. In Europe, the constrictions of the nation-state system made such methods impossible in the 1920s. Consequently, businesses sought to maintain their profits through production restrictions which kept prices high, meaning that the rationalization process in Europe was “only a stunted offspring of the American productive vision as originally conceived.” [37]

The influx of loans from the United States did, however, enable the European economy to grow somewhat in the second half of the 1920s. Taking 1920 as the base of 100, European industrial production had risen to 123.1 by 1929, agriculture to 122.2. But growth never became self-sustaining. Unemployment in Germany fell to 7 percent in 1925, rose to 18 percent in 1926, then fell to 8 and 9 percent until the final months of 1928, then started rising without stopping until the spring of 1933.

The flood of capital into Germany in the wake of the Dawes Plan did not bring about a restructuring of the German economy, but it did make it more vulnerable to American capital flows, under conditions where these flows were becoming increasingly unstable. With the start of the stock market boom, investment capital, which was increasingly of a short-term nature, looked to domestic outlets for a quick return. In 1927 there was sharp decline in the levels of foreign investment in eastern Europe, and the following year the inflow of capital into Germany dropped

as well. In the years 1927 and 1928, the investment inflow into Europe was \$1.7 billion; in 1929 it dropped to \$1 billion. This was at a time when increasing inflows were needed to cover the interest payments on past loans.

None of the contradictions of the European capitalist economy and the nation-state system, which had given rise to the war, had been overcome. Rather, they had intensified. There were deflationary tendencies in both industrial and primary producing countries, excess capacity in all sections of industry, increased tariffs and financial problems arising from war reparations and debts, coupled with increasingly unstable banking systems.

All these problems were exacerbated as the orgy of speculation on Wall Street led to the drying up of the inflow of finance to Europe. When the share market collapse came in 1929, it was not so much the cause of the Great Depression as the catalyst which set the catastrophe in motion.

The Dawes Plan brought about a certain restabilization of European and world capitalism. But it did not establish a new equilibrium. To return to the framework of Trotsky’s analysis at the Third Congress, it did not create the conditions for a new upswing in the curve of capitalist development.

What would that have required? Above all, the development and spread of new methods of production which could advance the accumulation of surplus value and restore the profit rate. To be sure, such methods had been developed in the United States.

However, that was not sufficient. American capitalism could no longer advance on the basis of a single continent. Its continued expansion was bound up with the growth of the world economy, and, above all, Europe. For, as Marx had put it: “The surplus value created at one point requires the creation of surplus value at another point, for which it may be exchanged...” [38] The development of more productive methods in Europe, however, was blocked by the constrictions of the nation-state system. In other words, the contradictions which had led to the war had not been overcome but were assuming even more malignant forms.

The socialist revolution did not spread after the successful conquest of power in October 1917, and for that mankind would pay a terrible price. The reason for the isolation lay not in the objective strength of the capitalist economy, as Harding maintains, but in the role played by the social democratic leaderships of the working class. Let us consider Harding’s positions from this standpoint.

The eruption of the war had exposed an excruciating crisis in the workers’ movement—the parties and organizations which the working class had constructed in an earlier period in order to organise its struggle against capitalism, and transform society itself, had themselves become the central mechanism through which the working class was chained to the decaying capitalist order. How was this problem to be resolved?

Let us suppose that the Bolsheviks had renounced the struggle for power in Russia. The result would certainly have been some sort of military-fascist regime. While various possibilities were contained in the situation, the variant which can be definitely ruled out is the establishment of some sort of bourgeois democracy. Indeed, the bourgeois democrats, and their supporters, the Mensheviks and Social Revolutionaries, had taken the reins of power in the period from February to May. Within a

few months, having proved incapable of meeting any of the demands of the revolutionary movement, they were opening the door for the imposition of a military dictatorship.

So much for the situation in Russia. The international picture shows the same trends. Had the Bolsheviks not taken power, then the grip of social democracy would have strengthened. Those revolutionary elements seeking a way forward following the betrayals of the social democratic leaders would have been pushed back. This situation would have led to the imposition of dictatorial forms of rule.

If the Bolsheviks can be said to have “gambled” on the spread of the socialist revolution, then the social democracy most definitely gambled on the maintenance of bourgeois democracy and the return of pre-war conditions of capitalist growth and expansion, which would have enabled them to pursue a program of social reform. But bourgeois democracy proved to have no greater strength in the rest of Europe than it did in Russia—its decomposition merely took a little longer. And rather than experiencing a new upswing, world capitalism plunged into its deepest economic crisis ever.

In Germany, there was no more fervent advocate of bourgeois democracy than the Social Democratic Party (SPD). They even mobilised the armed forces of the state to hunt down its opponents on the left. The SPD, whether in government or out of it, was the foundation of every parliamentary regime during the period of the Weimar Republic. And even when the SPD was unceremoniously removed from office in Prussia in the coup of July 20, 1932, it demonstrated its unswerving loyalty to the state by submitting its objections of the Constitutional Court.

The social democrats gambled on bourgeois democracy and the stability of capitalism. The result of their gamble was military dictatorship and fascism throughout Europe. Their gamble failed precisely because the objective contradictions of the world capitalist economy, whose existence had been recognised and acted upon by the Bolsheviks, deepened and intensified.

Notes:

[1] *Leninism* (1996), p. 115.

[2] *Ibid*, p. 111.

[3] *Ibid*, p. 112.

[4] See Lloyd C. Gardner, *Safe for Democracy*, p. 161.

[5] See George F. Kennan, *Russia Leaves the War* (Princeton, Princeton University Press, 1989) p. 249.

[6] Cited in Arno Mayer, *Politics and Diplomacy of Peacemaking* (New York, Alfred A. Knopf, 1967), p. 8.

[7] Cited in William Appleman Williams, *The Tragedy of American Diplomacy*, pp. 113-114.

[8] Mayer, *op. cit.*, p. 10.

[9] Cited in John M. Thompson, *Russia, Bolshevism and the Versailles Peace* (Princeton, Princeton University Press, 1966), p. 14.

[10] Cited in E. H. Carr, *The Bolshevik Revolution, 1917-1923*, Vol. 3, pp. 135-136.

[11] Mayer, *op. cit.*, pp. 800-801.

[12] Joseph Schumpeter, *Capitalism, Socialism and Democracy* (London, Allen and Unwin, 1976), p. 44.

[13] Leon Trotsky, *First Five Years of the Comintern*, Volume 1, pp. 252-253.

[14] Trotsky, *op. cit.*, pp. 253-254.

[15] Leon Trotsky, *First Five Years of the Comintern*, Volume 2, p. 81.

[16] Leon Trotsky, *First Five Years of the Comintern*, Volume 1, p. 263.

[17] Leon Trotsky, *First Five Years of the Comintern*, Volume 2, p. 61.

[18] Leon Trotsky, *First Five Years of the Comintern*, Volume 2, p. 306.

[19] Aldcroft, *Studies in the Interwar European Economy*, p. 1.

[20] William Keylor, *The Twentieth Century World*, pp. 96-97.

[21] Harold Moulton and Leo Pasvolosky, *War Debts and Reparations*, p. 61.

[22] Moulton, *op. cit.*, p. 63.

[23] *Ibid*, p. 63.

[24] *Ibid*, p. 64.

[25] Cited in David Felix, *Walther Rathenau and the Weimar Republic*, pp. 110-111.

[26] See Paul Kennedy, *Rise and Fall of the Great Powers* (New York, 1989), p. 279.

[27] See Isaac Deutscher, *Marxism, Wars and Revolutions* (London, Verso, 1984), p. 162.

[28] Kindelberger, *The World in Depression 1929-1939*, (Harmondsworth, Penguin, 1986), p. 21.

[29] Michael Hudson, *Super Imperialism*, p. 14.

[30] Cited in Feinstein, et. al., *The European Economy Between the Wars* (Oxford, Oxford University Press, 1997), p. 46.

[31] Trotsky, *Europe and America* (New York, Pathfinder, 1970), pp. 57-59.

[32] Moulton, *op. cit.*, p. 91.

[33] See Gilbert Ziebura, *World Economy and World Politics* (New York, Berg, 1990), p. 69.

[34] See Mary Nolan, *Visions of Modernity* (Oxford, Oxford University Press, 1994), pp. 27-36.

[35] Nolan, *op. cit.*, pp. 67-68.

[36] Nolan, *op. cit.*, p. 132.

[37] Charles. S. Maier, *In Search of Stability* (Cambridge, Cambridge University Press, 1987), p. 51.

[38] Marx, *The Grundrisse*, p. 407.