

Leon Trotsky - Report on the World Economic Crisis and the New Tasks of the Communist International - 1921

Leon Trotsky
21 October 2008

In this brilliant report, Trotsky introduces the concept of the curve of world capitalist development and uses it to elucidate the revolutionary potential of the world situation. He details the titanic politico-economic shifts unleashed by World War I -- the ruination of Europe, the development of industry especially in the US and Japan, and the unstable financial trickery which had permitted the re-establishment of a certain capitalist equilibrium in post-war Europe. Against those, both inside the USSR and outside, who drew pessimistic conclusions concerning the revolutionary potential of the world situation, Trotsky explained the tensions building up inside the capitalist system: the risk of a crisis of overproduction and the continued development of militarism -- a remarkable anticipation of the twin crises of the Depression and World War II.

1917 - 1921

WITH THE IMPERIALIST war we entered the epoch of revolution, that is, the epoch when the very mainstays of capitalist equilibrium are shaking and collapsing. Capitalist equilibrium is an extremely complex phenomenon. Capitalism produces this equilibrium, disrupts it, restores it anew in order to disrupt it anew, concurrently extending the limits of its domination. In the economic sphere these constant disruptions and restorations of the equilibrium take the shape of crises and booms. In the sphere of inter-class relations the disruption of equilibrium assumes the form of strikes, lockouts, revolutionary struggle. In the sphere of interstate relations the disruption of equilibrium means war or - in a weaker form - tariff war, economic war, or blockade. Capitalism thus possesses a dynamic equilibrium, one which is always in the process of either disruption or restoration. But at the same time this equilibrium has a great power of resistance, the best proof of which is the fact that the capitalist world has not toppled to this day.

The last imperialist war was an event which we rightfully appraised as a colossal blow, unequaled in history, to the equilibrium of the capitalist world. Out of the war has actually risen the epoch of the greatest mass movements and revolutionary battles. Russia, the weakest link in the capitalist chain, was the first to lose her equilibrium and the first to enter the road of revolution in 1917 - in the month of February. Our February Revolution had great repercussions among the working masses of England. 1917 in England was the year of the greatest strike struggles through which the English proletariat succeeded in checking the war -

produced process of declining living conditions among the toiling masses. In October 1917 the working class of Russia took power. Strike struggles extended throughout the entire capitalist world, beginning with the neutral countries. In the autumn of 1918 Japan passed through a zone of tumultuous "rice" disorders, which according to some figures involved upwards of 25 percent of the population and which were met with cruel repressions on the part of the Mikado's government. In January 1918, mass strikes took place in Germany. Toward the end of 1918, following the collapse of German militarism, revolutions took place in Germany and Austria-Hungary. The revolutionary movement keeps expanding. The most critical year for capitalism - at any rate for European capitalism - arrives: the year 1919. In March 1919 a Soviet Republic is formed in Hungary. In January and March 1919 fierce battles between the revolutionary workers and the bourgeois republic break out in Germany. In France there is tension in the atmosphere during the period of demobilization, but the illusions of victory and the hopes for its golden fruits still remain too strong; the struggle does not even begin to approximate here the proportions it assumes in the conquered countries. In the United States toward the end of 1919 the strikes acquire a mighty sweep, embracing the railway workers, the miners, the steel workers, etc. Wilson's government unleashes wild repressions against the working class.

In the spring of 1920 in Germany an attempt to install counter-revolution through the Kapp putsch mobilizes and drives the working class to struggle. The intense but formless movement of the German workers is again mercilessly crushed by Ebert's republic, which they had saved. In France the political situation reaches the pitch of intensity in May of last year during the proclamation of the general strike which, incidentally, proved to be far from general and which was poorly prepared and betrayed by the opportunist leaders who did not want the strike but didn't dare admit it ... In August the Red Army's advance on Warsaw - likewise a part of the international revolutionary struggle - meets with failure. In September the Italian workers, taking seriously the verbalistic-revolutionary agitation of the Socialist Party, seize plants and factories, but are shamefully betrayed by the party, suffer defeat all along the line, and are then subjected to a ruthless counter-offensive by the unified reaction. In December the revolutionary mass strike unfolds in Czechoslovakia. Finally, at the beginning of the current year, revolutionary battles with their toll of mass victims erupt in Central Germany; England witnesses the resumption of the stubborn miners' strike, which hasn't ended to this very day; and a general strike breaks out in Norway.

When in the initial postwar period we observed the unfolding revolutionary movement, it might have seemed to many of us - and with ample historical justification - that this ever-growing and ever-

strengthening movement must terminate directly in the conquest of power by the working class. But now almost three years have already elapsed since the war. Throughout the world, with the single exception of Russia, power continues to remain in the hands of the bourgeoisie. In the interim the capitalist world did not, of course, remain standing still. It has been undergoing change. Europe and the entire world have lived through a period of postwar demobilization, an extremely acute and dangerous period for the bourgeoisie - the demobilization of people and the demobilization of things, i.e., industry - the period of wild postwar commercial boom followed by a crisis which has yet to terminate. And now we are confronted in its full scope by the question: Does development actually proceed even now in the direction of revolution? Or is it necessary to recognize that capitalism has succeeded in coping with the difficulties arising from the war? And if it has not already restored, is it either restoring or close to restoring capitalist equilibrium upon new post-war foundations?

The Bourgeoisie Gains Appeasement

If, before analyzing this question from its main economic aspects, we approach it purely politically, we shall have to set down a whole number of symptoms, facts and statements which attest to this, that the bourgeoisie has become stronger and more stable as the class in power, or at all events feels that way. In 1919 the European bourgeoisie was in a state of extreme confusion. Those were the days of panic, the days of a truly insane fear of Bolshevism, which then loomed as an extremely misty and therefore all the more terrifying apparition and which used to be portrayed on Parisian posters as a killer clenching a knife in his teeth, etc., etc. As a matter of fact, incarnated in this specter of Bolshevism with a knife was the European bourgeoisie's fear of retribution for its war crimes. The bourgeoisie at any rate was aware how little the results of the war corresponded with the promises it had made. It knew the exact cost in lives and wealth. It feared an accounting. The year 1919 was, without doubt, the most critical year for the bourgeoisie. In 1920 and 1921 we observe a gradual influx of self-assurance among the bourgeoisie and along with this an undeniable consolidation of its state apparatus, which immediately following the war was actually on the verge of disintegration in various countries, for example, Italy. The bourgeoisie's recovery of its self-assurance took on especially graphic forms in Italy after the cowardly treachery of the Socialist Party in September. The bourgeoisie had imagined itself to be confronted with horrible bandits and assassins; it found instead - cowards.

Owing to an illness which removed me from active work in the last period, I have had an opportunity to read many foreign newspapers and I have accumulated a whole file of clippings that graphically characterize the shift in the bourgeoisie's mood and its new appraisal of the world political situation. All the evidence points to one thing: the bourgeoisie's self-assurance is undeniably firmer today than in 1919, or even 1920.

With your permission I shall adduce a few very instructive citations.

The *Neue Züricher Zeitung*, a rather sober Swiss bourgeois conservative newspaper, which has been following with great interest and considerable perspicacity the political developments in Germany, France and Italy, stated the following in connection with the March action in Germany:

Germany of 1921 bears no resemblance to Germany of 1918. Governmental consciousness has become so strong that Communist methods meet with opposition among almost all the layers of the population, although the number of Communists, who during the revolutionary days comprised a small and resolute handful, has since

grown inordinately.

On April 28, when both camps were preparing for May Day, the Paris newspaper, *Le Temps*, wrote:

It suffices to survey the road traversed since last year in order to become completely reassured: Last year's May Day was set as the beginning of a general strike which was in its turn to usher in the first phase of the revolution. Today, absolute confidence prevails in the nation's effort to surmount all the crises consequent upon the war.

The selfsame *Neue Züricher Zeitung* wrote in April of this year concerning the situation in Italy as follows:

The year 1919: the bourgeois parties, verging on complete collapse, in a state of hopeless division and suicidal resignation are in full retreat before the energetic onslaught of well-disciplined Red forces; *the year 1921*: the bourgeois cohorts firmly coalesced and imbued with faith in victory enter into battle with the Bolsheviks, who are completely dispirited and hardly dare stir. And this thanks to the fascists.

My next illustration comes from an entirely different source, namely, a quotation from a resolution of our sister Communist Party of Poland.

If I am not mistaken, this party held a conference in April where a decision was adopted to participate in the forthcoming parliamentary elections. The motivation for this decision reads as follows:

After the turn in the winter of 1918 when the struggle began to favor the bourgeoisie which had by then succeeded in setting its state apparatus in order; after the Workers' Soviets had been crushed by the government, with the cooperation of the PPS (the Polish Socialist Party) - after this, the party is obliged to utilize the electoral struggle and the rostrum of the Sejm.

There cannot of course be any talk here to the effect that the Polish Communist Party intends to change its principled position. It is simply evaluating the current situation as different from that of 1919.

The objective situation of the Social-Democratic parties in relation to the state and to the bourgeois parties has likewise correspondingly altered. Social Democrats are everywhere being pushed out of the government. If they are again drawn into the government, it is only temporarily and owing to outside pressure, as was the case in Germany. The Independent Party [of Germany] has made a complete turn to the right, likewise under the direct or indirect influence of the new situation, whose meaning it tends greatly to exaggerate. The Independents of all countries and the Social Democrats of all countries, who seemed to differ so much a year or a year and a half ago, have been brought closer together today, with the cooperation of Amsterdam.[1]

Thus the enhancement of the bourgeoisie's self-assurance as a class is absolutely undeniable; and equally undeniable is the actual consolidation of the police-state apparatus after the war. But in and of itself this fact - important though it is - does not by far settle the question; and, in any case, our enemies are overhasty in trying to draw from it the conclusion that our program is bankrupt. We had, of course, hoped that the bourgeoisie would be overthrown in 1919. But, of course, we were not sure of it; nor did we build and rest our program of action upon this date. When Herr Otto Bauer[2] and other theoreticians of the Second and Two-and-a-Half Internationals say that our predictions have been proved bankrupt, one might think that involved here were predictions concerning some astronomical event. It is as if we have been mistaken in our mathematical calculations that a solar eclipse would occur on such and such a day, and were consequently proved to be poor astronomers. But that is not at all how the matter stands in reality. We had not predicted a solar, eclipse, i.e., an event beyond our will and entirely independent of our actions. Involved is a historical event which can and will occur with our participation. When we spoke of the revolution resulting from the World War, it meant that we were and are striving to utilize the consequences of the World War in order to speed the revolution in every way possible. That the revolution hasn't taken place to this very day

throughout the world, or at least in Europe, does not at all signify "the bankruptcy of the Communist International," for the program of the Comintern is not based on astronomical data. Every Communist who has to any measure thought out his ideas understands this. But inasmuch as the revolution has not come hot on the tracks of war, it is absolutely self-evident that the bourgeoisie has utilized the breathing space afforded it, if not to surmount and eliminate the most frightful and terrible consequences of the war, then at least to camouflage them, patch them up, etc., etc. Has it succeeded in accomplishing this? In part, yes. To what extent? It is here that we touch the essence of the question which involves the restoration of capitalist equilibrium.

Has World Equilibrium Been Restored?

What is the meaning of capitalist equilibrium concerning which international Menshevism speaks nowadays with such complete assurance? For their part, the Social Democrats provide no analysis of this concept of equilibrium. They neither separate out its component parts or give any clear exposition. The equilibrium of capitalism contains a great many factors, events and facts - some basic, others secondary, and still others tertiary. Capitalism is a world phenomenon. Capitalism has succeeded in embracing the entire terrestrial globe; and this manifested itself most acutely during the war and during the blockade when one country, bereft of a market, was producing surpluses, while another, in need of commodities, lacked access to them. And today this interdependence of the dismembered world market manifests itself here and everywhere. Capitalism, at the stage attained before the war, is based on a world division of labor and a world exchange of products. America has to produce a certain quantity of grain for Europe. France has to produce a certain quantity of luxury goods for America. Germany has to produce a certain quantity of cheap consumer goods for France. This division of labor is in its turn not something constant, something given once and for all. It takes shape historically; it is constantly disrupted by crises and competition - let alone tariff wars. And it is restored over and over again only to be again and again disrupted. But world economy on the whole rests on a lesser or greater division among the respective countries of the production of corresponding necessities. Now it is this world division of labor that has been severed at its roots by the war. Has it been restored or no? This is one aspect of the question.

In each country agriculture supplies industry with prime necessities for the workers and with goods for productive use (raw materials), whereas industry supplies the village with household goods, consumer goods and the means of agricultural production. Here, too, certain reciprocal relations become established. Finally, within industry itself there is the production of the means of production and the production of the means of consumption, and between these two main branches of industry a certain interrelationship is established, which undergoes constant disruption in order to be regenerated over and over again on new foundations. The war has drastically disrupted all these interrelations and proportions if only by virtue of this single fact, that during the war Europe's industry and to a large measure also that of America and Japan produced not consumer goods and the means of production so much as the means of destruction. To the extent that consumer goods continued to be produced, they were utilized not so much by the workers who produce as by those who destroy the soldiers of imperialist armies. Now, has this disrupted harmonious relationship between city and country, between the various branches of industry within each country - has this been restored or no?

Next follows the class equilibrium which rests upon the economic equilibrium. In the pre-war period a state of so-called armed truce

prevailed in international relations. But not alone there, for between the bourgeoisie and the proletariat we also had by and large a reign of armed truce, maintained by a system of collective wage agreements concluded between the centralized unions and the ever more centralized industrial capital. This equilibrium has likewise been wholly disrupted by the war - and it was this that led to the colossal strike movement throughout the world. The relative class equilibrium of bourgeois society without which production is unthinkable - has this been restored or no? And if it has, upon what foundation?

Class equilibrium is closely bound up with political equilibrium. During the war and even prior to the war the bourgeoisie kept its mechanism in balance - although this escaped our notice at the time - through the medium of the Social Democrats, the social-patriots, who were the bourgeoisie's most important agency and who kept the working class within the bounds of bourgeois equilibrium. Only thanks to this was the bourgeoisie enabled to venture into the war. Has it restored anew the equilibrium of its political system today? And to what extent have the Social Democrats preserved or squandered their influence over the masses and how much longer can they play their part as guardians of the bourgeoisie?

Next in order is the question of the international equilibrium, i.e., the world co-existence of capitalist states separate and apart from which the restoration of capitalist economy is, of course, impossible. Has equilibrium in this sphere been reached or no?

One must evaluate all these varied aspects of the question before it is possible to answer whether the world situation remains revolutionary, or whether they are correct who consider our revolutionary perspectives to be utopian.

An analysis of each aspect of this question must be illustrated by a great many facts and figures which are difficult to report to a large gathering and which are hard to remember. I shall therefore try to give only the basic data required for an orientation on this question.

Europe's Economic Decline - in Figures

Has a new world division of labor been established? Of decisive importance in this sphere is the fact that the center of gravity of capitalist economy and bourgeois power has shifted from Europe to America. This is a fundamental fact which every comrade must firmly and clearly bear in mind in order to understand the events now unfolding before us and those which will unfold in the course of the next few years. Prior to the war Europe was the heart of the capitalist world, it was the globe's chief market place, its main factory and its main bank. The European industrialist - first the English and next the German; the European merchant - primarily the English; the European usurer - first the English and next the French - these were the actual directors of world economy and, therefore, of all world politics as well. Today this is no longer the case. Europe has been hurled back.

Let us try to fix in figures, even if these are extremely approximate, the shift of the economic center of gravity and the proportions of Europe's economic decline.

I shall begin with the simplest and most elementary facts, with the world production of material values. First, let us take agriculture. If we compare the 1920 crop with the average crop for the last five pre-war years, we shall find that it is almost 20 million double-quintals [4,408,800 tons] below the average. Moreover, in the belligerent European countries the crop is 37 percent below the pre-war average; in the neutral countries it remains at its previous levels, while in the trans-Atlantic countries it is 21 percent above. Russia is not included in this calculation. Before the war

Russia used to supply the world market with about 100 million double-quintals on the average. The world market was poorer this year by some 120 million double-quintals. In spite of this, however, on American farms one can to this day find great quantities of grain which remain unsold because of the decline in prices on the world market.

If we turn to cattle-raising, we get almost an identical picture. World production of cattle remains virtually in the same condition as before the war. Cattle-raising among the belligerent European countries has been considerably reduced. The neutral countries have retained their pre-war levels, while the trans-Atlantic countries have greatly raised theirs. But now we find that meat prices on the Chicago meat market - the most important in the world - are today below the pre-war prices. Despite the war and its casualties, the population of the belligerent countries is today greater than before the war. There are 80 million individuals more. The quantity of grain in the market has been reduced by 120 million double-quintals.

Meat and grain products are actually available, but remain scarce - for lack of money. This means that the world has become poorer and hungrier. This is the first fact, bare and simple.

If we analyze the world's coal consumption, we shall find almost the same picture, but in even bolder outline. The total world consumption of coal in 1920 amounted to 97 percent of the total consumed in 1913; consequently, it has dropped. In comparison with the pre-war period, Europe produced 18 percent less, while North America stepped up her output 13 percent. The same thing applies to cotton. The sum total of all products has declined. Europe has gone down. America has gone up.

Before the war, the national wealth, that is, the aggregate possessions of all the citizens and states participating in the last war was estimated at approximately 2,400 billion gold marks. The annual income of all these countries, that is, the quantity of products produced by them in a year, was estimated at 340 billion gold marks. How much did the war expend and destroy? In the neighborhood of 1,200 billion gold marks, *i.e.*, not less than one-half of what all the belligerent countries had accumulated in the course of their entire existence. Naturally, the war expenditures were in the first place covered by levies on current revenue. But if we assume that in each country the national income during the war dropped even by one-third because of the huge diversion of labor, it follows that it then amounted to 225 billion gold marks; and if we further assume that all the non-military expenditures swallowed 55 percent, it follows that war expenditures could be covered out of current national revenues to the sum of not more than 100 billion gold marks a year. For the four war years this comes to 400 billion gold marks. Which means that the deficit of 800 billion had to be made up by dipping into the basic capital of the belligerent nations, primarily by failing to replenish their productive apparatus. It therefore follows that after the war the total wealth of the belligerent countries amounted not to 2,400 billion gold marks, but only to 1,600 billion, *i.e.*, one-third less.

However, not all of the belligerent countries became impoverished at the same rate. On the contrary, there are among the belligerents - as we shall presently see - countries that have grown richer, namely, the United States and Japan. This means that the European countries which participated in the war have lost more than a third of their national wealth, and some of them - Germany, Austria-Hungary, Russia, the Balkans - considerably more than half.

Capitalism as an economic system is, you know, full of contradictions. During the war years these contradictions have reached monstrous proportions. To obtain the resources required for war, the state resorted primarily to two measures: first, issuance of paper money; second, flotation of loans. Thus an ever-increasing amount of the so-called "valuable paper" (securities) entered into circulation, as the means whereby the state pumped real material values out of the country in order to destroy them in the war. The greater the sums expended by the state,

i.e., the more real values it destroyed, the larger the amount of pseudo-wealth, of fictitious values accumulated in the country. State-loan paper has piled up mountain-high. Superficially it might seem that a country had grown extremely rich, but in reality the ground was being cut under the economic foundation, shaking it apart, bringing it to the verge of collapse. State debts have climbed to approximately 1,000 billion gold marks, which adds up to 62 percent of the present national wealth of the belligerent countries. Before the war, the world total of paper and credit money approximated 28 billion gold marks, today the amount is between 220 and 280 billion, *i.e.*, ten times as much. And this, of course, does not include Russia, for we are discussing only the capitalist world. All this applies primarily, if not exclusively, to European countries, mainly continental Europe and particularly Central Europe. On the whole, as Europe kept growing poorer and poorer - as she has to this very day - she became and is still becoming incased in ever-thicker layers of paper values, or what is known as fictitious capital. This fictitious capital-paper currency, treasury notes, war bonds, bank notes, and so on - represent either mementos of deceased capital or expectations of capital yet to come. But at the present time they are in no way commensurate to genuine existing capital. However, they function as capital and as money and this tends to give an incredibly distorted picture of society and modern economy as a whole. The poorer this economy becomes, all the richer is the image reflected by this mirror of fictitious capital. At the same time, the creation of this fictitious capital signifies, as we shall see, that the classes share in different ways in the distribution of the gradually constricting national income and wealth. National income, too, has become constricted, but not to the same extent as the national wealth. The explanation for this is quite simple: The candle of capitalist economy was being burned at both ends. In order to finance the war and the postwar state economy, they drained not only the national income but the basic funds of national wealth as well.

When a government issues a loan for productive purposes, say, for the Suez Canal, behind the particular government bonds there is a corresponding real value. The Suez Canal supplies passageway for ships, collects tolls, provides revenue and, in general, participates in economic life. But when a government floats war loans, the values mobilized by means of these loans are subjected to destruction, and in the process additional values are obliterated. Meanwhile, the war bonds remain in the citizens' pockets and portfolios. The state owes hundreds of billions. These hundreds of billions exist as paper wealth in the pockets of those who made loans to the government. But where are the real billions? They no longer exist. They have been burned. They have been destroyed. What can the owner of these securities hope for? If he happens to be a Frenchman, he hopes that France will be able to wring billions out of German hides, and pay him.

In many respects the havoc among the mainstays and the productive apparatuses of the capitalist nations has been more far-reaching than can be established by means of statistics. This is most clearly to be seen in housing. All the energies of capitalism had been directed - because of the frenzied war and postwar profits - toward the production of new items for personal or military use. But the restoration of the basic productive apparatus was neglected more and more. This applies wholly to urban housing. Old houses were poorly repaired while new ones were erected in insignificant numbers. Hence the terrible housing shortage throughout the capitalist world. Owing to the current crisis the destruction of the productive apparatus may not be so noticeable today because the major capitalist countries are utilizing not more than one-half or one-third of their productive capacities. But in the sphere of housing, owing to the constant increase of population, the disorganization of the economic apparatus manifests itself with full force. America, England, Germany, France need hundreds of thousands and even millions of apartments. But the necessary work cannot be undertaken in the face of the insurmountable

obstacles arising from the universal impoverishment. Capitalist Europe must and will tighten its belt, reduce the scope of its operations and drop to a lower level for many years to come.

As I have said, within the framework of Europe's universal impoverishment, different countries have become impoverished at different rates. Let us take Germany as the country that has suffered the most among the major capitalist powers. I shall adduce key figures which characterize Germany's economic position as it was before the war and as it is today. These figures are not very exact. A statistical computation of national wealth and national income is a very difficult thing under capitalist anarchy. A real audit of revenue and property will be possible only under socialism, an audit in terms of units of human labor, and taken naturally under a socialist society with a well organized and well functioning mechanism, from which we are still very, very far removed. But even inexact figures are of service to us inasmuch as they enable us to roughly approximate the changes that have occurred in the economic position of Germany and other countries during the past 6 or 7 years.

On the eve of war Germany's national wealth was estimated at 225 billion gold marks, while the highest pre-war national income was 40 billion. Prior to the war Germany was, as you know, growing rich very swiftly. In 1896 her income was 22 billion. Within 18 years (from 1896 to 1913) it had increased by 18 billion, that is, at an average rate of a billion a year. These 18 years generally marked a period of great capitalist prosperity throughout the world, and especially in Germany. Today her national wealth is estimated at 100 billion marks, while her national income is 16 billion, *i.e.*, 40 percent of the pre-war level. True enough, Germany has lost a part of her territory, but the main losses are bound up with the war expenditures and the postwar rape of Germany. According to the calculations of the German economist Richard Calwer,[3] commodity production in 1907 is equivalent to the labor productivity of 11.3 million workers. Working conditions have since then undergone a drastic change. There has been a reduction in working time, the intensity of labor has dropped, and so forth and so on. He therefore arrives at the conclusion that Germany's labor force expressed in 1907 units amounts to 4.8 million, *i.e.*, not more than 42 percent.

In analyzing agriculture Calwer gets the same result.

Calwer's calculations thus completely corroborate the figures cited by me. Meanwhile Germany's national debt has grown to 250 billion marks, *i.e.*, it is two and a half times greater than Germany's national wealth today. In addition, reparations to the sum of 132 billion marks have been imposed on Germany. Were the English and the - French to demand full and immediate payment of these sums - they would have to put in their pockets all of Germany, beginning with Stinnes' mines and ending with President Ebert's cuff-links. Germany's emission of paper currency amounts today to 81 billion marks. Of these not more than 5 billion are secured by gold. Consequently, the German mark is worth 6-7 pfennigs today.

True, following the war Germany scored great successes on the world market, exporting her commodities at very cheap prices. While this cheapness meant big profits for the German merchants and exporters, for the German population as a whole it spelled in the final analysis ruin, since cheap prices on the world market were contingent upon low wages and malnutrition for the workers, state subsidies for grain, and rent regulations - which in their turn were accompanied by a complete stoppage of house-building, minimum of repairs, etc., etc. Thus with every German product dumped on the world market a certain part of Germany's national wealth is carried away for which she receives no equivalent in exchange.

In order to "revive" German economy it is necessary to stabilize her currency, *i.e.*, it is necessary to halt the emission of more paper money and to reduce the quantity already in circulation. And to do that, it is necessary to renounce debt payments, *i.e.*, declare state bankruptcy.[4]

But this measure in and of itself implies a dire disruption of the equilibrium, for it involves a transfer of property from the present holders to other hands and it must therefore provoke a fierce class struggle over the new distribution of the national income. Meanwhile Germany grows poorer and keeps declining.

Let us next take a victor country - France.

France, according to the ballyhoo in her bourgeois newspapers, is a country whose wounds are healing. It is undeniable that in certain fields France has achieved some successes during the postwar period. But to exaggerate them is to commit a very great blunder. It is very difficult to adduce statistics relating to French economy because much more is kept hidden there than in other countries. This is done both by the French bourgeoisie and by the French government. It must be said that more lying is done by the French capitalist press than by any other, and this probably includes the field of economic statistics.

I shall now cite some figures which the French bourgeois economists are boastfully using in an attempt to prove that capitalist economy has been restored. Let us take the sphere of agriculture. Before the war France used to produce annually 86 million quintals of wheat (a quintal is 100 kilograms, a little over 220 pounds); oats - 52 million; potatoes - 132 million. In 1919 her wheat crop was 50 million, and the last crop (1920) - 63 million. In 1919, potatoes - 77 million, and the last year - 103 million.

Now let us take cattle-raising. In 1913 there were approximately 15 million head of horned cattle, but today - 12.8. Horses in 1913 numbered 7 million, today - 4.6. Sheep in 1913 numbered 16 million, today - 9. Pigs were 7 million, today - 4. A sharp decrease.

Let us take coal, a very important product and a key factor in industry. In 1913 France mined 41 million tons of coal; in 1919 - 22 million; in 1920 - 25. And if we include Alsace-Lorraine and the Saar Basin,[5] then the 1919 output will come to 35.6 million tons of coal. We have here an increase. But this increase still leaves coal production far below its pre-war level. But how have these rather modest successes been achieved? In agriculture they have been achieved primarily through the stubborn and diligent labor of the French peasant. But in the purely capitalist sphere these successes were achieved primarily by looting Germany, by taking away her cows, seed, machinery, locomotives, gold and especially coal.

From the general economic standpoint there is nothing positive here, for instead of creating new values there was primarily a transposition of old values. Moreover it ought to be added that Germany's losses were 1½ to 2 times as great as France's gains.

We thus discovered that having stripped Germany of her key metallurgical and coal areas, France has nevertheless far from reached her pre-war levels. Let us now take France's foreign trade. Trade balances are highly symptomatic of world economic equilibrium, *i.e.*, of the existing state of exchange among the various countries. A capitalist country considers itself to be in a good position if it exports more than it imports. The difference is paid off in gold. Such a balance is called favorable. When a country is compelled to import more than it exports, the balance is unfavorable, and such a country must add a part of its gold reserve to its exports. The gold reserve begins melting away and the ground is gradually cut under the country's monetary and credit system. If we take France during the last two years - 1919 and 1920, that is, during the French bourgeoisie's two years' work of "reconstruction" - we shall find that in 1919 the trade balance was unfavorable to the tune of 24 billion francs, while in 1920 the deficit amounted to 13 billion. Before the war, the French bourgeois never saw such figures, not even in his wildest dreams. In two years the trade deficit totals 27 billions. True enough, for the first quarter of the current year France managed to keep her trade balance without a deficit, that is, her exports equaled her imports. Certain bourgeois economists started beating the drums in this connection: France was, mind you, restoring her trade balance. But the leading organ of the French bourgeoisie *Le Temps* had the following to say on this score on

May 18:

You are mistaken, we didn't have to pay out gold during these three months only because we imported very little raw material. But that simply means that in the latter part of the year we shall export few products which we manufacture from foreign raw materials in general and American raw materials in particular. Consequently, while we have managed to keep a favorable trade balance during these three months, in the next period the trade deficit will inescapably begin to grow.

And so the trade balance has not been improved through either the revival of economy or an increase in exports, but through a decrease in raw material imports, *i.e.*, at the cost of lowering tomorrow's productivity.

Before the war the amount of paper currency in circulation was less than 6 billion francs; today - more than 38 billion. As touches the purchasing power of the franc, it is pointed out by the same newspaper that toward the end of March, when the crisis was already raging throughout the world, American prices were 23 percent above pre-war, *i.e.*, less than one-quarter higher, whereas French prices had gone up 260 percent, that is, more than three and a half times the pre-war levels. This means that the purchasing power of the franc has depreciated several times over. Now let us take up the French budget. It falls into two sections: normal expenditures and emergency funds. The normal budget comes to 23 billion francs - a sum unknown in pre-war times! How are these huge sums allocated? 15 billion are to cover interest on the debt; 5 billion - to maintain the army. A total of 20 billion. That's all the French government proposed to wring from the taxpayers. In reality they succeeded in wringing out some 17.5 billion. The "normal" government income is, therefore, hardly sufficient to cover even the interest on the debt and the upkeep of the army. But in addition there are emergency expenses to be met: more than 5 billion for the army of occupation, and 23 billion for all sorts of war compensation and work of restoration. These expenses are debited to Germany. But it is quite self-evident that as time goes on Germany is less and less able to pay them. Meanwhile, however, the French government subsists either by floating new loans or by issuing additional paper currency. A prominent French financial journalist, Leon Chavenon, the director of *L'Information*, the foremost economic periodical in France, is in favor of continuing the issuance of paper money. He declares: "Apart from this, the only other way out is through open bankruptcy." This means that the only alternative is: either a masked bankruptcy through further emissions of paper money, or an open declaration of bankruptcy. That is how matters stand with France, a victor country which occupies a favorable position in ruined Europe in the sense that she could and can restore her equilibrium at Germany's expense. The situation in Italy and Belgium is at all events not superior to that of France.

Let us pass now to Great Britain, the richest and most powerful country in Europe. During the war we grew accustomed to saying that England was getting rich from the war, that the British bourgeoisie had plunged Europe into war and was feathering its nest. This was true, but only within certain limits. England made profits in the initial period of the war but began to suffer losses in the second period. The impoverishment of Europe, especially of Central Europe, acted to disrupt trade relations between England and the rest of the continent. In the last analysis this had to hurt and did hurt England's industry and finances. Moreover, England herself was compelled to shoulder enormous war expenditures. Today England is in a state of decline, and this decline is becoming more and more precipitous. This fact may be illustrated by industrial and commercial indices which I shall presently cite, but the fact itself is incontestable and is corroborated by a whole series of public and wholly official declarations by the most eminent English bankers and industrialists. During the months of March, April and May, the respective English publications carried the annual reports of corporations, banks, and so on. These authoritative gatherings, where the leaders of the various enterprises make their reports, assessing the general state of affairs in the

country or in their own particular branch of industry, provide exceptionally instructive material. I have gathered a whole file of such reports. All of them bear out one and the same thing: England's national income, *i.e.*, the aggregate income of all her citizens and the state, has dropped considerably below the pre-war total.

England is poorer. The productivity of labor has fallen. Her world trade for 1920 has, in comparison to the last pre-war year, declined by at least one-third, and in some of the most important branches, even more. Especially sudden is the change undergone by the coal industry which used to be the main branch of English economy, or more precisely, the root and trunk on which England's entire world economic system rested. For the coal monopoly was the root of the power, vigor and prosperity of all other branches of English industry. Not a trace of this monopoly remains today. Here are the basic factual data on the state of English economy. In 1913 England's coal industry supplied 287 million tons of coal; in 1920 - 233 million tons, *i.e.*, 20 percent less. In 1913, the production of iron amounted to 10.4 million tons; in 1920 - a little more than 8 million tons, *i.e.*, again 20 percent less. The export of coal in 1913 amounted to 73 million tons; in 1920 - all told only 25 million tons, *i.e.*, one-third of the pre-war total. But during the current year, 1921, the slump in the coal industry and coal exports took on absolutely abnormal proportions. In January the coal output was 19 million tons (*i.e.*, below the 1920 monthly average); in February - 17; in March - 16. And then the general strike erupted and the coal output verged on zero. For the first five months of 1921 the exports are 6 times below what they were for the same period in 1913. Expressed in prices England's entire export for May of this year is three times below that of May of last year. As of August 1, 1914 England's national debt was 700 million pounds sterling; on June 4 of this year - 7,709 million pounds, *i.e.*, an elevenfold increase. The budget has swelled threefold.

If you thumb through the reports of the directories of banks and industrial enterprises for March and April you will find that England's national income has declined one-third or one-quarter as against the pre-war period. That is how matters stand in England, the richest country in Europe, a country which suffered the least from military operations and gained the most from the war in its initial period.

The most graphic proof of the decline of English economic life lies in the fact that the English pound sterling is no longer a pound sterling; that is, it is no longer equivalent to the set of figures which once exercised their sway everywhere and which are still imprinted on it. Today it is only 76 percent of what it pretends to be. As against the incumbent sovereign of the money market - the US Dollar - the pound has lost 24 percent of its nominal magnitude. What could better characterize the instability of our epoch than the fact that the most stable, absolute and incontestable thing in the whole world - the English sovereign (in English this word signifies both "pound sterling" and "ruler") - has lost its former position and has become transfigured into a relative magnitude! Considering that nowadays in Germany the sphere of philosophy has become activated over relativity - and I refer here to Einstein's philosophy[6] - one ought perhaps to interpret German philosophy as an act of revenge against English economics, inasmuch as the English pound sterling has after all become - relative. Incidentally, it has ever been the custom in Germany to reply to economic poverty by exacting revenge in the field of philosophy.

The data we have cited adequately characterizes the situation throughout Europe. Among the belligerent countries we find Austria at one pole, as the country that has suffered the most (if we leave out Russia), and at the other pole - England. Between them are located Germany, Italy, Belgium, France. The Balkan countries are completely ruined and have been thrown back into the economic and cultural conditions of barbarism. So far as the neutral countries are concerned, in the first period they undoubtedly profited by the war; however, since they cannot play an independent economic role but must live in the interstices among the big countries and

are economically dependent upon the latter, it follows that the decline of the major European countries has produced the greatest economic difficulties among the neutral countries who have likewise sunk today far below the levels attained in the first period of the war.

Thus Europe's income as a whole, that is, the quantity of material values produced by all the European populations, has fallen at least by one-third as compared to pre-war times. But far more decisive, as I have stated before, is the slump in the basic apparatus of economy. The peasant was unable to obtain synthetic fertilizers, agricultural implements and machines; the mine owner, spurred on by high coal prices, did not bother to renovate the equipment in the mines; the stock of locomotives became worn out, the railways remained by and large in a state of disrepair, and so forth and so on. All this has acted upon the main fabric of economy to render it weaker, frailer, less reliable. How to measure and compute all this? Capitalist statistics fall far short of this. Such an inventory, that is, an inventory in terms of values of the productive condition not of an isolated enterprise but of entire countries and the whole of Europe, would undoubtedly show that the war and postwar regimes alike survived and continue to survive at the expense of Europe's basic productive capital. This means, for example, that Germany instead of allotting 50,000 workers to recondition the pits, consigns 50,000 workers more to mine the coal which must go to France. France, on the other hand, in an attempt to reduce her trade deficit seeks to export the greatest possible volume of goods abroad and does not recondition her equipment to the necessary extent, either. And this applies to all European countries, for Europe as a whole shows a deficit, *i.e.*, an unfavorable trade balance. The debilitation of Europe's economic foundations will manifest itself on the morrow even more acutely than it has yesterday or today. History's great mole is burrowing its tunnels ever deeper beneath the very foundations of Europe's economy.

America's Economic Flowering

We get an entirely different picture when we step into the Western Hemisphere. America has passed through a development of a diametrically opposite character. She has meanwhile enriched herself at a dizzy pace. In the war she participated chiefly as a quartermaster. True, she had to bear expenses herself consequent to the conduct of the war but these expenditures were insignificant as against not merely her war profits but also all the advantages opened up by the war for America's economic development. The United States not only obtained in the person of warring Europe a virtually unlimited buyer who bought anything and everything, and at higher prices besides; but for a number of years was relieved of her chief competitors in the world market - Germany and England, whose main occupation was the war. Till the very eve of the war the bulk of American exports, that is, two-thirds, consisted of agricultural products and raw materials. During the war US exports grew uninterruptedly and even feverishly. Suffice it to point out that American exports climbed to a total 2½ times greater than the highest pre-war one, and that in 6 years (from the beginning of 1915 to the end of 1920) exports exceeded imports by 18 billion dollars. Furthermore the exports have altered drastically in their nature. Today the United States exports 60 percent manufactured goods and only 40 percent agricultural produce, meat products, raw materials (cotton, etc.).

To sketch the main outlines of the present role of the United States in world economy I shall cite the following key figures. Within the boundaries of the United States live 6 percent of the world's population; 7 percent of the earth's surface falls to the share of the United States. Of the world's annual gold production the United States supplies 20 percent; the

United States' share of the world's shipping tonnage is 30 percent, whereas before the war it had not more than 5 percent. Of the world's iron and coal the United States produces 40 percent; tin - 40 percent; silver - 40 percent; zinc - 50 percent; coal - 45 percent; aluminum - 60 percent; the same proportion of copper and cotton; oil from 66 to 70 percent; corn - 75 percent; automobiles - 85 percent. Throughout the whole world there are today a little less than 10 million automobiles. Of these America's share is 8,500,000, while the rest of the world has 1,400,000. There is one automobile to every twelve Americans. Today the center of gravity of world economy is no longer to be found in Europe, but in the United States. Europe has slumped and continues to drop lower and lower. The United States has all the while experienced an unprecedented growth, whose key data are as follows:

The number of horses has increased from 20 to 22 million. Cattle - from 62 to 68 million. This doesn't, of course, amount to a great deal. But if we take the coal output, we find that in 1913 it amounted to 517 million tons; in 1920 - 580 million, *i.e.*, a rather appreciable increase. Oil production rose from 248 million barrels in 1913 to 442 million in 1920. Here we already have a large increase. Cotton and iron have remained virtually at pre-war levels; but in sea-going ships, we find a huge increase. In 1913 the ships built for the merchant marine had a freight-carrying capacity of 276,000 tons, while in 1919 - 4,075,000 tons; and in 1920 - 2,746,000 tons. This stepped-up shipbuilding has enabled the United States to catch up with the leading great power in this sphere - England. While before the war Great Britain possessed more than half of the world tonnage, and the United States only 5 percent, today the interrelationship has sharply altered. England now has not more than 35 percent while the United States possesses 30 percent of the world tonnage. Thus the United States is challenging England's domination of the seven seas.

The United States has completely taken over the domination of the coal market, which England once had. No less important is America's crushing superiority in the sphere of oil whose role in industrial and military affairs grows apace. But the same change has occurred not only in the sphere of industry and world trade but also in the money market. England was the pre-war world's chief usurer, next came France. The whole world was in debt to them, including America. Today, however, the only country that owes no one but to whom everybody else is in debt is - the United States. Europe, *i.e.*, European governments, cities and enterprises, owe the United States 18 billion gold dollars. But this is only the beginning. Each passing day sees this debt increased by \$10 million, because of failure to pay the accruing interest and through the extension of new American credits. In tune with this, as I have already remarked, the Dollar has become the "Sovereign" of the world financial market. Hitherto, in presenting its references, the Dollar would say: My name is the Dollar and I represent approximately one-fifth of a pound sterling. So far as the latter was concerned, it needed no references; it came and went as the Pound Sterling, and that's all there was to it. Things have now changed drastically. Nowadays the pound sterling travels with a passport, like all of the other monetary units; and this passport states that the pound sterling is actually not a pound sterling at all but just so many dollars (nearly one-fourth below the figure given in old pre-war financial handbooks).

Almost one-half of the world's gold reserve, on which the entire monetary system rests, is now concentrated in the United States. Almost one-half of the world reserve!

Such is the postwar position of the United States. How was it brought into being? It grew out of Europe's war market which was unlimited and which bought at any price. In the English colonies, in Asia, in Africa, and in South America, too, there were no competitors to be met, they had almost completely disappeared, and the United States had free play for its fullest development. We thus had, in the space of seven years, a complete reversal in the sphere of world division of labor. For four-odd years Europe became converted into a sheet of fire fed not only by Europe's

income but also by her basic capital, while the American bourgeoisie warmed its hands at the flames. America's productive capacity has grown extraordinarily but her market has vanished because Europe is impoverished and can no longer buy American goods. It is as if Europe had first done everything in her power to help America climb to the topmost rung and then pulled the ladder out.

The Other Countries - The Crisis

Japan has likewise used the war epoch to advantage and her capitalism has achieved great successes which, of course, are in no way commensurate to the development of the United States. Certain branches of Japanese industry blossomed at hothouse tempos. However, while in the absence of competitors Japan proved capable of swiftly expanding individual branches of her industry, today when many of these competitors have returned she has not always been able to retain positions already conquered. The total number of Japanese working men and women (in Japan woman labor is employed on an extremely large scale) runs to 2,370,000, of whom 270,000 (some 12 percent) are organized in trade unions.

In the colonial and semi-colonial countries, in the East Indies, in China, capitalism has scored great conquests during the last seven years. Before the war Asia yielded 56 million tons of coal. In 1920 her yield was 76 million tons, *i.e.*, 36 percent more.

Today the entire world is living through a cruel crisis which began last spring in Japan and America, *i.e.*, precisely in those countries which were on the upgrade and not in decline during the recent period.

The *Economist*, the most authoritative English economic periodical, tells a rather curious story of how the crisis started. It is a very interesting episode. The American worker, mind you, began rolling in wealth and started buying silk shirts, the manufacture of which is a most important branch of the Japanese textile industry. The Japanese silk industry expanded rapidly in a brief space of time, but since the workers' purchasing capacity is all in all very limited and took a sudden drop the instant that American industry began its reconversion upon the signing of the peace, the Japanese silk industry fell immediately into the throes of a sharp crisis, which was then transmitted to other branches of industry, pounced upon America and then leaped across the ocean, and today the crisis in the entire world has plumbed depths unprecedented in the history of capitalism. Thus it all started with a trifle - a little silk shirt - and ended up in something big: prices plummeted downward and at a mad pace factories began to close down, workers were thrown out into the streets. In America there are now not less than five million and, according to some, six million unemployed.

In the history of the crisis, the silk shirt episode plays approximately the same part as a flap of a bird's wings that brings down the avalanche. The avalanche was obviously about to descend anyway. But this episode is likewise of interest because it illustrates an undeniable improvement in living standards, at least among certain categories of American workers, in recent years. Of the 8.5 million automobiles a rather considerable number is owned by skilled American workers; but today and especially in the next period American workers will not have the means for automobiles and silk shirts.

Well, there is a crisis in Europe and a crisis - in America. But these crises are of a different order. Europe is poorer, while America wallows in wealth. America's productive apparatus remains in comparatively good condition. Her factories are first class. Equipment and supplies are at hand. True, the quality of goods has deteriorated in wartime, the railways have been worn out, since the main concern of the capitalists was to

deliver merchandise to the eastern ports. But, on the whole, America has not only preserved her economic apparatus but also expanded it.

Europe's purchasing capacity has shrunk. She has nothing to offer in exchange for American goods. The world's economic center of gravity has sharply shifted to America, and partly to Japan. While Europe is suffering from anemia, the United States suffers no less today from plethora.

This abnormal incongruity between the conditions of European and American economies - an incongruity ruinous to both sides - finds its most graphic expression in the sphere of sea transport. In this sphere as in so many others, the dominant position before the war belonged to England. She held in her hands about 50 percent of the world tonnage. Seeking to gain domination in every field, the United States has built up its merchant fleet as its trade expanded in wartime. US tonnage has been raised from three or four million to 15 million tons, and is today almost on par with England.

In recent years, the world tonnage has increased in absolute figures by approximately one-fifth. Yet industry and world trade have fallen. There is little or nothing to export. Europe's anemia and America's plethora act equally to paralyze the functioning of the Atlantic transport system.

Before I go on to deal with the nub of the question as to whether or not this picture will subsequently undergo change in the sense that an equilibrium will be restored, allow me to add a brief comment. Capitalist statisticians and economists may, after all, say that Russia's economy hasn't been improved during this period either. Comrade Lenin will make the report on Russia's economic situation. The few words I wish to say on this subject are in an entirely different connection. The US Secretary of State, Mr. Hughes[7], wrote in a letter to the famous Mr. Gompers, who is also notorious in some ways, that it was senseless to reestablish economic relations with Russia inasmuch as she represents nothing but a gigantic vacuum at the present time. The impoverishment and decline of Russian economy cannot possibly be blamed, in Mr. Hughes' opinion, upon the blockade and the Civil War; because, in the first place, those branches of industry have suffered which used to stand on their own feet before the war, and secondly, because far fewer people were mobilized for the Civil War than for the World War. Now, this last argument - if Mr. Hughes will indulge me - is just a little too clever because everyone knows that the World War has played a role in the decline of Russian economy. But apart from this, the argument is equally fallacious in other respects, because during the great imperialist war the Czarist government kept the key skilled labor forces in the factories. It didn't need them for the conduct of the war as we did. It had its nobility, its cadre of highly trained officers. Our military apparatus, in the most difficult days, consisted first and foremost of skilled workers whom we were, in general, compelled to mobilize forthwith. Today when we are already in the midst of demobilization, I can let out the secret that at the time when we fought on 24 fronts our army numbered 5,300,000 men and of these not less than 750,000 were skilled, workers. And this means that the economy had incurred the direst and most unbearable of losses. Conversely Mr. Hughes completely forgets that capitalist Russia was an integral sector of the world capitalist economic system, and took part in the world market's process of circulation. We are now suffering from the shortage of the most insignificant and minor items which our country did not produce before the war, and whose production couldn't possibly be organized in the midst of blockade and civil war. The comrades in charge of our industry have cited several instances of this sort. For example, we need drills, gauges, calipers and other measuring instruments; we need steel cables and belts for the coal mines. These articles were never manufactured in our country. The Donetz coal industry suffers incredibly from the lack of steel cables. The whole world knows that metal screens, so essential in the paper industry, were always imported by us from Germany and England and never produced in our country. Similarly in need are those branches of our industry which before the war stood on their own feet. But it is self-

evident (and very easy to prove) that no other system, under the given conditions following the first imperialist war, following the complete collapse of the Czarist army and capitalist economy - no other system except the Soviet system could have waged a new war for three years, could have supplied and equipped an army without perishing in the process. By all this, it is understood, I do not at all mean to deny that we committed great blunders in this sphere.

Boom and Crisis

Bourgeois and reformist economists who have an ideological interest in embellishing the plight of capitalism say: In and of itself the current crisis proves nothing whatever; on the contrary, it is a normal phenomenon. Following the war we witnessed an industrial boom, and now - a crisis; it follows that capitalism is alive and thriving.

As a matter of fact, capitalism does live by crises and booms, just as a human being lives by inhaling and exhaling. First there is a boom in industry, then a stoppage, next a crisis, followed by a stoppage in the crisis, then an improvement, another boom, another stoppage and so on.

Crisis and boom blend with all the transitional phases to constitute a cycle or one of the great circles of industrial development. Each cycle lasts from 8 to 9 or 10 to 11 years. By force of its internal contradictions capitalism thus develops not along a straight line but in a zigzag manner, through ups and downs. This is what provides the ground for the following claim of the apologists of capitalism, namely: Since we observe after the war a succession of boom and crisis it follows that all things are working together for the best in this best of all capitalist worlds. It is otherwise in reality. The fact that capitalism continues to oscillate cyclically after the war merely signifies that capitalism is not yet dead, that we are not dealing with a corpse. So long as capitalism is not overthrown by the proletarian revolution, it will continue to live in cycles, swinging up and down. Crises and booms were inherent in capitalism at its very birth; they will accompany it to its grave. But to determine capitalism's age and its general condition - to establish whether it is still developing or whether it has matured or whether it is in decline - one must diagnose the character of the cycles. In much the same manner the state of the human organism can be diagnosed by whether the breathing is regular or spasmodic, deep or superficial, and so on.

The gist of the matter, Comrades, may be depicted as follows: Let us take the development of capitalism - the growth of coal production, textiles, pig iron, steel, foreign trade, etc. - and draw a curve delineating this development. If in the deflexions of this curve we have expressed the true course of economic development, we shall find that this curve does not swing upwards in an unbroken arc but in zigzags, looping up and down - up and down in correspondence with the respective booms and crises. Thus the curve of economic development is 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.

In January of this year the London *Times* published a table covering a period of 138 years - from the war of the 13 American colonies for independence to our own day. In this interval there have been 16 cycles, *i.e.*, 16 crises and 16 phases of prosperity. Each cycle covers approximately $8\frac{2}{3}$, almost 9 years. Let me call your attention to the zigzags which depict the movements. At a certain point the *Times'* table shows a rise. It begins with the sum of 2 pounds sterling, or 25 gold marks per Englishman. The population has in this interim increased approximately fourfold, foreign trade to an even larger extent, so the per capita figure climbs to 30.5 pounds: and by 1920, expressed in money but

not in real values it already equals 65 pounds per person. In the production of iron we observe a similar development. We see that at the early part of 1851 the demand for iron came to 4.5 kilos per capita. This figure rises to 46 kilos by 1913. Then follows a movement in reverse. This is the general balance sheet, this is the generic result of 138 years of development. If we analyze the curve of development more closely, we shall find that it falls into five segments, five different and distinct periods. From 1781 to 1851 the development is very slow; there is scarcely any movement observable. We find that in the course of 70 years foreign trade rises only from 2 to 5 pounds sterling per capita. After the revolution of 1848 which acted to extend the framework of the European market, there comes a breaking point. From 1851 to 1873 the curve of development rises steeply. In 22 years foreign trade climbs from 5 to 21 pounds sterling, while the quantity of iron rises in the same period from 4.5 to 13 kilograms per capita. Then from 1873 on, there follows an epoch of depression. From 1873 till approximately 1894 we notice stagnation in English trade (even if we take into account the interest on capital invested in foreign enterprises); there is a drop from 21 to 17.4 pounds sterling - in the course of 22 years. Then comes another boom, lasting till the year 1913 - foreign trade rises from 17 to 30 pounds. Then, finally, with the year 1914, the fifth period begins - the period of the destruction of capitalist economy.

How are the cyclical fluctuations blended with the primary movement of the capitalist curve of development? Very simply. 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 a prolonged character while the booms are fleeting, superficial and speculative. In periods of stagnation the fluctuations occur upon one and the same level.

This means nothing else but that it is necessary to determine the general condition of the capitalist organism by the specific way in which it breathes, and the rate at which its pulse beats.

The Postwar Boom

Immediately following the war, an indeterminate economic situation arose. But by the spring of 1919 a boom set in; stock markets became active - prices bounded upward like a column of mercury plunged into boiling water, speculation swirled in seething whirlpools. And industry? In Central, Eastern and Southern Europe the slump continued, as attested by the statistics we have just cited. In France there was a certain improvement, primarily due to the looting of Germany. In England - partly stagnation, partly slump, with the sole exception of the commercial fleet whose tonnage has risen proportionately to the decline in actual trade. Thus on the whole the boom in Europe assumed a semi-fictitious and speculative character; and it does not signify progress, but a further decline of economy.

In the United States, following the war, industry slowed down its war production and began reconversion to a peacetime basis. There was a noticeable upswing in the petroleum, automobile and shipbuilding industries.

1918

1919

1920

In his valuable pamphlet, Comrade Varga quite correctly says:

The fact that the postwar boom was speculative in character is most clearly revealed by the example of Germany. At the time when prices had septupled in the course of 18 months, Germany's industry kept retrogressing ... Her economic conjuncture was the conjuncture of liquidation sales: the remainders of the existing commodity reserves on

the domestic market were dumped abroad at fabulously cheap prices.

Prices rose to their highest levels in Germany, where industry slumped lower and lower. Prices rose the least in the United States where industry continues to rise. France and England stand in between Germany and the United States.

How explain these facts and the boom itself? In the first place, by economic causes: after the war international connections were resumed, even though in an extremely abridged form, and there was a universal demand for every type of merchandise. Secondly, by political-financial causes: the European governments were in mortal fear of the crisis that had to follow the war and they resorted to any and all measures to sustain during the period of demobilization the artificial boom created by the war. The governments continued to put in circulation great quantities of paper currency, floated new loans, regulated profits, wages and bread prices, thus subsidizing the earnings of demobilized workers by dipping into the basic national funds, and thus creating an artificial economic revival in the country. Thus, throughout this interval, fictitious capital continued to distend, especially in those countries where industry continued to slump.

The fictitious postwar boom had, however, great political consequences. There is some justification for saying that it saved the bourgeoisie. Had the demobilized workers from the very beginning run up against unemployment, against living standards lower even than those before the war, it might have led to consequences fatal to the bourgeoisie. In this connection an English professor, Edwin Cannan, wrote in the *Manchester Guardian's* New Year's review that "the impatience of men returning from the battlefields is a very dangerous thing." And he goes on quite correctly to explain the favorable transition through the gravest postwar period - the year 1919 - by the fact that the government and the bourgeoisie had through their joint efforts postponed and delayed the crisis, by creating an artificial prosperity through the further destruction of Europe's basic capital. Says Cannan: "Had the same economic situation obtained in January 1919 as in 1921, chaos might have descended upon Western Europe." The violent fever of the war was prolonged for another year and a half, and the crisis erupted only after the demobilized masses of workers and peasants had already been more or less pigeonholed in their little cells.

The Current Crisis

Having coped with the demobilization and having withstood the first onslaught of the working masses, the bourgeoisie emerged from its state of confusion, alarm and even panic, and regained its self-confidence. It became subject to the hallucination that an epoch had finally arrived of the greatest prosperity, the end of which would never come. Eminent English political and financial figures proposed to float an international loan of two billion pounds for the work of reconstruction. It seemed as if a shower of gold would drench Europe, creating universal welfare. In this way Europe's devastation, the ruination of her cities and villages were transmuted into riches by fantastic loan figures, which actually were in them-selves only poverty's gigantic shadow. Reality, however, quickly shook the bourgeoisie out of its dream world. I have already described how the crisis began in Japan (in March) and in the United States (in April), and then leaped over to England, France, Italy; and by the latter part of the year had spread throughout the world. My entire previous presentation makes it quite self-evident that we are not dealing with mere fluctuations in the course of a recurrent industrial cycle, but with a period of retribution for the havoc and waste of the entire war and postwar epoch.

In 1913 the net import of all the states totaled 65 to 70 billion gold marks. Of this sum Russia purchased 2.5 billion; Austria-Hungary - 3

billion; the Balkans - 1 billion; Germany - 11 billion gold marks. Central and Eastern Europe's share thus came to a little more than one-fourth of the world's total imports. At the present time all these countries import less than one-fifth of their previous amount. This last figure alone sufficiently characterizes Europe's current purchasing capacity.

Europe has declined, her productive apparatus has considerably shriveled since before the war. The economic center of gravity has shifted to America, not through gradual evolution, but through America's exploitation of Europe's war market and Europe's exclusion from world trade.

Thereby America obtained the opportunity to experience a short-lived period of the greatest flowering. However, this phenomenon is an unrepeatable one, because Europe by her retrogression created an absolutely artificial market for America which cannot be replaced by any other today. Having fulfilled this role, Europe has since completely lost its capacity to repeat anything like it. Before the war the European market used to absorb more than half, almost 60 percent of all the exports of American industry; in the course of the war Europe became even more important for America, inasmuch as Europe's imports almost trebled those of the pre-war days. But out of the war Europe emerged as a greatly impoverished continent and is completely deprived of the possibility of obtaining goods from America for lack of equivalents in the shape of gold or other goods. The explanation for the crisis which started in Japan and America is to be found in just this circumstance. After a brief and highly favorable conjuncture of almost two years' duration, there has arrived a completely genuine crisis, whose meaning for Europe is as follows: "You're poor, you must cut your coat according to your cloth; you're no longer in a position to import the goods you need from America." For America this selfsame crisis means the following: "You've enriched yourself because you were placed in a position to siphon off Europe's wealth. This lasted four or five or six years, as long as the war continued. But now an end has come to this affluent state of affairs." Some countries are completely ruined, their productive apparatus must be rebuilt anew. Within each people the division of labor must be resumed. French and German economies still continue to function mechanically owing to the impetus prior to and during the war. Germany, however, must fall back in order to introduce concord and order into her economic apparatus; and just as it was necessary to organize the economy during the war in order to mitigate the privations resulting from it, just so Germany must continue the selfsame policy today, unless the revolution intervenes. Should developments proceed along present lines, it will be necessary to introduce organization into the country's economic life and to establish, first and foremost, the necessary proportion between the means of production and the means of consumption. In other words, the necessary and correct reciprocal relation will be created through the medium of new wars and all sorts of palliative measures, unless the revolution erupts. The very same thing applies to France and to Europe as a whole so long as this period of regression in economic life continues, period in which the capitalist countries tend to sink to the level of those that have suffered the most and have become the poorest. During this leveling-out process America will have to forget about maintaining her greatest and most important markets on their former scale. And this means that the foregoing crisis is not a transitory normal crisis for America but the beginning of a prolonged epoch of depression. Let us refer back to our table in which the various periods are delineated: first, the epoch of stagnation, which lasted 70 years, followed by the epoch of boom from 1851 to 1873. These 22 years of turbulent expansion were marked by two crises and two favorable conjunctural periods, and therewith these favorable conjunctures were genuinely such, while the crises were of very weak character. Next, from 1873 up to the middle of 1890, stagnation sets in again, or at any rate the development slows down exceedingly. Then, there is unprecedented expansion once again. All this is a process of

adaptation, a process of leveling out. Whenever capitalism in any one country runs up against a saturation of this or that market, it is compelled to seek other markets. Major historical events - economic crises, revolutions, and so on - will determine whether we observe stagnation, booms or regressions in such periods. These are the main features of capitalist development.

At the given moment capitalism has entered a period of prolonged and profound depression. Strictly speaking, this epoch should have set in - insofar as one can prophesy about the past - as far back as 1913 when the world market as a result of 20 years of turbulent development had already become inadequate for the development of German, English and North American capitalism. These giants of capitalist development took it fully into account. They said to themselves: In order to avoid this depression which will linger for many years, we shall create an acute war crisis, destroy our rival and gain unchallenged domination over the world market that has become too constricted. But the war lasted far too long, provoking not only an acute crisis but a protracted one; it destroyed completely Europe's capitalist economic apparatus, thereby facilitating America's feverish development. But after exhausting Europe, the war led in the long run to a great crisis in America, too. Once again we are witnessing that selfsame depression which they had sought to escape, but which has been intensified many-fold owing to Europe's impoverishment.

And so, what are the immediate economic perspectives?

It is quite obvious that America will have to suffer curtailment since the European war market is gone beyond recall. On the other hand, Europe will likewise have to level herself out in accordance with the most backward, i.e., the most ruined areas and branches of industry. This will mean an economic leveling out in reverse, and, consequently, a prolonged crisis: in some branches of economy and some countries - stagnation; in others - a weak development. Cyclical fluctuations will continue to take place but, in general, the curve of capitalist development will slope not upwards but downwards.

Crisis, Boom and Revolution

The reciprocal relation between boom and crisis in economy and the development of revolution is of great interest to us not only from the point of theory but above all practically. Many of you will recall that Marx and Engels wrote in 1851 - when the boom was at its peak - that it was necessary at that time to recognize that the Revolution of 1848 had terminated, or, at any rate, had been interrupted until the next crisis. Engels wrote that while the crisis of 1847 was the mother of revolution[8], the boom of 1849-51 was the mother of triumphant counter-revolution. It would, however, be very one-sided and utterly false to interpret these judgments in the sense that a crisis invariably engenders revolutionary action while a boom, on the contrary, pacifies the working class. The Revolution of 1848 was not born out of the crisis. The latter merely provided the last impetus. Essentially the revolution grew out of the contradictions between the needs of capitalist development and the fetters of the semi-feudal social and state system. The irresolute and half-way Revolution of 1848 did, however, sweep away the remnants of the regime of guilds and serfdom and thereby extended the framework of capitalist development. Under these conditions and these conditions alone, the boom of 1851 marked the beginning of an entire epoch of capitalist prosperity which lasted till 1873. In citing Engels it is very dangerous to overlook these basic facts. For it was precisely after 1850, when Marx and Engels made their observations, that there set in not a normal or regular situation, but an era of capitalist *Sturm und Drang* (storm and stress) for which the soil had been cleared by the Revolution of 1848. This is of

decisive importance here. This storm-and-stress era, during which prosperity and the favorable conjuncture were very strong, while the crisis was merely superficial and short-lived - it was precisely this period that ended with revolution. At issue here is not whether an improvement in the conjuncture is possible, but whether the fluctuations of the conjuncture are proceeding along an ascending or descending curve. This is the most important aspect of the whole question.

Can we expect the same effects to follow the economic upswing of 1919-20? Under no circumstances. The extension of the framework of capitalist development was not even involved here. Does this mean that a new commercial-industrial upswing is excluded in the future, and even in the more or less near future? Not at all! I have already said that so long as capitalism remains alive it continues to inhale and exhale. But in the epoch which we have entered - the epoch of retribution for the drain and destruction of wartime, the epoch of leveling out in *reverse* - upswings can be only of a superficial and primarily speculative character, while the crises become more and more prolonged and deeper-going.

Historical development has not led to the victorious proletarian dictatorship in Central and Western Europe. But it is the most brazen and at the same time the most stupid lie to attempt to conclude from this, as do the reformists, that the economic equilibrium of the capitalist world has been surreptitiously restored. This is not claimed even by the crassest reactionaries, who are really capable of thinking, for example, Professor Hoetzch. In his review of the year this professor says in effect that the year 1920 did not bring victory to the revolution, but neither did it restore capitalist world economy. It is only an unstable and extremely temporary equilibrium. Mr. Chavenon says: "In France we now see only the possibility of the further ruination of capitalist economy by state finances, currency inflation and open bankruptcy." I have already tried to show you what this means. I have depicted the acutest crisis which the capitalist world has ever experienced. Three or four weeks ago in the capitalist press, gusts of an approaching improvement could be felt, the approach of an epoch of prosperity. But it is already obvious that this spring breeze was premature. A certain improvement has taken place in the financial situation, i.e., it is no longer as grave as before. In the markets prices have fallen, but this by no means implies a revival of trade. The stock markets are at a standstill, while in production the regression still continues. American metallurgy is operating now only at one-third capacity. In England the last blast furnaces have been shut down. This shows that the curtailment of production continues.

This movement in reverse will not, of course, continue interminably at one and the same tempo. This is absolutely excluded. There must come a breathing spell for the capitalist organism. But from the fact that it will inhale a little fresh air and that a certain improvement will come about, it is still too early to conclude prosperity. A new phase will set in, when they will try to eliminate the contradiction between the basic poverty and the overproduction of fictitious wealth. After which the paroxysms of the economic organism will continue. All this gives us, as has been said, a picture of profound economic depression.

On the basis of this economic depression the bourgeoisie will be compelled to exert stronger and stronger pressure upon the working class. This is already to be seen in the cutting of wages which has started in the full-blooded capitalist countries: in America and in England, and then throughout all of Europe. This leads to great struggles over wages. Our task is to extend these struggles, by basing ourselves on a clear understanding of the economic situation. This is quite obvious. It might be asked whether the great struggles over wages, a classic example of which is the miners' strike in England, will lead automatically to the world revolution, to the final civil war and the struggle for the conquest of political power. However, it is not Marxist to pose the question in such a way. We have no automatic guarantees of development. But when the crisis is replaced by a transitory favorable conjuncture, what will this

signify for our development? Many comrades say that if an improvement takes place in this epoch it would be fatal for our revolution. No, under no circumstances. In general, there is no automatic dependence of the proletarian revolutionary movement upon a crisis. There is only a dialectical interaction. It is essential to understand this.

Let us look at the relations in Russia. The 1905 revolution was defeated. The workers bore great sacrifices. In 1906 and 1907 the last revolutionary flare-ups occurred and by the autumn of 1907 a great world crisis broke out. The signal for it was given by Wall Street's Black Friday. Throughout 1907 and 1908 and 1909 the most terrible crisis reigned in Russia too. It killed the movement completely, because the workers had suffered so greatly during the struggle that this depression could act only to dishearten them. There were many disputes among us over what would lead to the revolution: a crisis or a favorable conjuncture?

At that time many of us defended the viewpoint that the Russian revolutionary movement could be regenerated only by a favorable economic conjuncture. And that is what took place. In 1910, 1911 and 1912, there was an improvement in our economic situation and a favorable conjuncture which acted to reassemble the demoralized and devitalized workers who had lost their courage. They realized again how important they were in production; and they passed over to an offensive, first in the economic field and later in the political field as well. On the eve of the war the working class had become so consolidated, thanks to this period of prosperity, that it was able to pass to a direct assault. And should we today, in the period of the greatest exhaustion of the working class resulting from the crisis and the continual struggle, fail to gain victory, which is possible, then a change in the conjuncture and a rise in living standards would not have a harmful effect upon the revolution, but would be on the contrary highly propitious. Such a change could prove harmful only in the event that the favorable conjuncture marked the beginning of a long epoch of prosperity. But a long period of prosperity would signify that an expansion of the market had been attained, which is absolutely excluded. For after all, capitalist economy already embraces the terrestrial globe. Europe's impoverishment and America's sumptuous renaissance on the huge war market corroborate the conclusion that this prosperity cannot be restored through the capitalist development of China, Siberia, South America and other countries, where American capitalism is of course seeking and creating outlet markets but on a scale in no way commensurate to Europe. It follows that we are on the eve of a period of depression; and this is incontestable.

With such a perspective, a mitigation of the crisis would not signify a mortal blow to the revolution but would only enable the working class to gain a breathing spell during which it could undertake to reorganize its ranks in order subsequently to pass over to attack on a firmer basis. This is one of the possibilities. The content of the other possibility is this: that the crisis may turn from acute into chronic, become intensified and endure for many years. All this is not excluded. The possibility remains open in such a situation that the working class would gather its last forces and, having learned from experience, conquer state power in the most important capitalist countries. The only thing excluded is the automatic restoration of capitalist equilibrium on a new foundation and a capitalist upswing in the next few years. This is absolutely impossible under the conditions of modern economic stagnation.

Here we approach the question of social equilibrium. After all, it is frequently said - and this is the guiding thought not only of a Cunow[9], but also of Hilferding - that capitalism is being automatically restored on a new foundation. Faith in automatic evolution is the most important and the most characteristic trait of opportunism.

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. Europe will be thrown violently into reverse gear. 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 labor is thus established in agony for 15 or 20 or 25 years, a new epoch of capitalist upswing might perhaps ensue.

But this entire conception is exceedingly abstract and one-sided. Matters are pictured here as if the proletariat had ceased to struggle. *Meanwhile, there cannot even be talk of this if only for the reason that the class contradictions have become aggravated in the extreme precisely during the recent years.*

Herein is the nub of the schematic exposition of restored equilibrium which Herr Heinrich Cunow and others see in their daydreams. Each measure to which capitalism is constrained in order to make a step forward in restoring equilibrium, each and all of this immediately acquires a decisive significance for the social equilibrium, tends more and more to undermine it, and ever more powerfully impels the working class to struggle. The first task in achieving equilibrium is to set the productive apparatus in order, but to do so it is indispensable to accumulate capital. But to make accumulation possible it is necessary to raise the productivity of labor. How? Through an augmented and intensified exploitation of the working class, inasmuch as the decline in the productivity of labor power during these three postwar years is a widely known fact. To reestablish world economy on capitalist foundations, it is indispensable to dispose again of a world equivalent - the gold standard. Without it capitalist economy cannot exist, inasmuch as there cannot be any production while prices dance their dance of death, increasing 100 percent in the course of a single month as happens in Germany, contingent upon the fluctuations of German currency. A capitalist is not interested in production. For he is being lured from afar by speculation, which tempts him by much greater profits than can be gained from slowly developing industry. What does the stabilization of currency signify? For France and Germany it signifies a declaration of state bankruptcy. But to declare a state insolvent is to incur a vast shift of property relations within the nation. And those states which have declared themselves insolvent have become the arena for a new struggle over the distribution of the new national wealth, which is a giant step toward the sharpening of the class struggle. At the same time all this signifies a renunciation of social and political equilibrium, *i.e.*, a revolutionary flux. However, the declaration of state bankruptcy does not make it possible immediately to pass to the restoration of equilibrium. This must likewise be followed by the lengthening of the working week, the repeal of the 8-hour day, and more intensive exploitation. Therewith it, of course, becomes necessary to overcome the resistance of the working class. In short, speaking theoretically and abstractly, the restoration of capitalist equilibrium is possible. But it does not take place in a social and political vacuum - it can take place only through the classes. Every step, no matter how tiny, toward the restoration of equilibrium in economic life is a blow to the unstable social equilibrium upon which the Messrs. Capitalists still continue to maintain themselves. And this is the most important thing.

The Aggravation of Social Contradictions

Economic development is thus not an automatic process. The issue is not restricted solely to the productive foundations of society. Upon these foundations there live and work human beings and the development occurs through these human beings. What, then, has taken place in the field of relations between human beings, or, more precisely, between

classes? We have seen that Germany and other European countries too have been thrown back 20 or 30 years in terms of their economic level. Have they perhaps been simultaneously thrown back in social terms, in the class sense? Not at all.

The classes of Germany, the number of workers and their concentration, the concentration of capital and its organizational form - all this had taken shape prior to the war, and in particular as a result of the last two decades of prosperity (1894-1913). And later on, all this became still more aggravated: during the war - with the aid of the state intervention; after the war - through the fever of speculation and the growing concentration of capital. We thus have two processes of development. National wealth and national income keep falling, *but the development of classes continues therewith not to regress but to progress*. More and more people are becoming proletarianized, capital is being concentrated in fewer and fewer hands, banks keep merging, industrial enterprises become concentrated in trusts. As a result, the class struggle inevitably becomes sharper on the basis of a declining national income. Herein is the whole gist of the matter. The more restricted becomes the material foundation under their feet, the more fiercely must classes and groups fight for their share of this national income. We must not lose sight of this circumstance for a single moment. While Europe has been thrown back 30 years with regard to her national wealth this does not at all mean that she has grown thirty years younger. No, in the class sense, she has become thirty years older.

The Peasantry

During the first period of the war it was said and written that the peasantry throughout Europe was profiting by the war. And indeed the state was in critical need of bread and meat for the army. For all this, insane prices which kept soaring were paid, and the peasants stuffed their pockets with paper money. With this paper money which kept depreciating, the peasants paid debts which they had previously contracted when currency was at par. Of course this was a very profitable operation for them. Bourgeois economists reckoned that the prosperity of peasant economy would secure the stability of capitalism after the war. But they miscalculated. The peasants paid off their mortgages but husbandry nowise consists solely of paying off debts to bankers. It consists of cultivating the soil, fertilizing it, acquiring inventory and good seeds, making technological improvements, and so on. This was either not done at all, or it cost wild sums of money. Moreover, there was a scarcity of labor, agriculture declined and the peasants, after the initial semi-fictitious boom, began to face ruin. This process is to be observed in its various stages throughout Europe. But it has also manifested itself very acutely in America. There was extreme suffering among the American, Canadian, Australian and South American farmers when it was revealed that ruined Europe was no longer able to buy their grain. The price of grain dropped. Among farmers there is ferment and dissatisfaction throughout the world. *The peasantry thus ceases to be one of the mainstays of law and order. Before the working class opens up the possibility of attracting to its side in the struggle at least a section of the peasantry (the lowest ranks), of neutralizing another section (the middle peasants), and of isolating and paralyzing the tops (the kulaks, the well-to-do farmers).*

The New Middle Estate

The reformists pinned great hopes upon the so-called middle estate.

Engineers, technicians, doctors, lawyers, bookkeepers, accountants, functionaries, civilians and government employees alike, and so on - all these constitute a semi-conservative stratum which stands between capital and labor and which must, in the opinion of reformists, reconcile both sides, while directing and at the same time supporting democratic regimes. This class has suffered even more than the working class during the war and after, that is, its living standards have deteriorated to an even greater degree than the living standards of the working class. The main reason for this is the decline in the purchasing power of money, the depreciation of paper currency. In all European countries this has given rise to sharp discontent among the lowest and even middle ranks of functionaries and the technological intelligentsia. In Italy, for example, the functionaries are engaged in a bitter strike at this very hour. Of course, functionaries in government or civil employ, bank clerks, etc., etc., have not become a proletarian class, but they have shed their former conservative character. They do not prop up the state so much as shake and convulse its apparatus by their dissatisfaction and protests.

The discontent of the bourgeois intelligentsia is further aggravated by its intimate ties with the commercial-industrial petty and middle bourgeoisie. The latter feel themselves slighted, cheated of their rightful share. The cartelized bourgeoisie continues to wallow in wealth, notwithstanding the country's ruination. It arrogates to itself an ever-increasing portion of the declining national income.

The uncartelized bourgeoisie and the new middle estate are sinking both absolutely and relatively. As regards the proletariat, it is quite probable that despite the deterioration of its living standards, its common share in the declining national income is greater today than before the war. Cartel capital seeks to slash the worker's share by driving it down to pre-war levels. The worker, however, takes as his starting point not the statistical charts but his reduced living standards and strives to increase his share of the national income. And so, the peasants are disgruntled by the decline of the economy; the intelligentsia is growing poorer and sinking; the petty and middle bourgeoisie are ruined and discontented. The class struggle is sharpening.

International Relations

International relations of course play an enormous role in the life of the capitalist world. The latter had this brought home to it all too clearly during the World War. And at the present time when we pose the question of whether it is possible or impossible for capitalism to restore its world equilibrium, we must take note of the international conditions under which this work of reconstruction is being done. It is not hard to ascertain that the international relations have become far more strained, far less compatible with the "peaceful" evolution of capitalism than was the case prior to the war.

Why did the war occur? Because the productive forces found themselves too constricted within the frameworks of the most powerful capitalist states. The inner urge of imperialist capitalism was to eradicate the state boundaries and to seize the entire terrestrial globe, abolishing tariffs and other barriers which restrict the development of the productive forces. Herein are the economic foundations of imperialism and the root causes of the war. What were the results? Europe is now richer in boundaries and tariff walls than ever before. A whole galaxy of tiny states has been formed. The territories of the former Austro-Hungarian empire are now criss-crossed by a dozen tariff lines. The Englishman Keynes[10] has called Europe a madhouse, and indeed from the standpoint of economic development this entire particularism of tiny states with their shut-inness, their tariff systems and so on, represent a monstrous anachronism, an

insane implantation of medievalism into the twentieth century. While the Balkan peninsula is being barbarianized, Europe is becoming Balkanized.

The relations between Germany and France militate as heretofore against the possibility of any kind of European equilibrium. France is compelled to loot and rape Germany in order to maintain her own class equilibrium, which is not commensurate to the depleted foundation of French economy. Germany will not and cannot remain the object of this pillage. At the present time, true enough, an agreement has been reached. Germany has pledged to pay annually 2 billion gold marks, plus 26 percent of her exports. This transaction represents a victory for England's policy, which aims to hinder the occupation of the Ruhr by France. At the present time the bulk of European iron ore is in the hands of France; the bulk of coal - in Germany's hands. The cardinal condition for the regeneration of European economy is the productive combination of French ore with German coal, but such a combination, unconditionally essential for economic development, happens to be mortally dangerous to English capitalism. All the efforts of London are for this reason directed to prevent either a warlike or peaceable combination of French ore with German coal. But this leads to a still greater aggravation of the antagonism between England and France.

France has temporarily accepted the compromise, all the more so since her disorganized productive apparatus is incapable of digesting even the coal with which Germany is now forcibly compelled to supply her. But this does not at all mean that the question of the Ruhr has been definitively settled. The very first infraction by Germany of her reparation obligations will inevitably raise once again the question of the Ruhr's fate.

The growth of France's influence in Europe, and partly in the world as well, during the past year is due not to the strengthening of France but to the patent progressive weakening of England.

Great Britain has conquered Germany. This was the chief issue settled by the last war. And in essence the war was not a world war but a European war, even though the struggle between the two mightiest European states - England and Germany - was resolved with the participation of the forces and resources of the entire world. England has conquered Germany. But today, England is much weaker in the world market, and generally in the world situation, than she was before the war. The United States has grown at England's expense much more than England has at the expense of Germany.

America is battering England down, first of all by the more rationalized and more progressive character of its industry. The productivity of an American worker is 150 percent above the productivity of an English worker. In other words, two American workers produce, thanks to a more perfectly equipped industry, as much as five English workers. This fact alone, established by English statistical researches, testifies that England is doomed in a struggle with America; and this alone suffices to push England toward a war with America, so long as the English fleet preserves its preponderance on the oceans.

American coal is crowding out English coal throughout the world and even in Europe. Yet, England's world trade has been based primarily on her export of coal. In addition, oil is now of decisive significance for industry and defense; oil not only runs automobiles, tractors, submarines, airplanes, but is greatly superior to coal even for the big ocean liners. Up to 70 percent of the world's oil is produced within the boundaries of the United States. Consequently, in the event of war all this oil would be in the hands of Washington. In addition America holds in her hands Mexican oil, which supplies up to 12 percent of the world output. True, Americans are accusing England of having cornered, outside the United States borders, up to 90 percent of the world oil sources and of shutting off the Americans from access to them, while American oil fields face exhaustion within the next few years. But all these geological and statistical computations are quite dubious and arbitrary. They are compiled to order so as to justify American pretensions to the oil of Mexico, Mesopotamia,

and so on. But were the danger of exhaustion of American oil fields actually to prove real, it would constitute one more reason for speeding up the war between the United States and England.

Europe's indebtedness to America is a touchy question. The debts on the whole amount to \$18 billion. The United States always has the opportunity of creating the greatest difficulties in the English money market by presenting its demands for payment. As is well known, England has even proposed that America cancel English debts, promising in turn to cancel Europe's debt to England. Since England owes America much more than the continental countries of the Entente owe her, she stands to profit from such a transaction. America has refused. The capitalist Yankees showed no inclination to finance with their own funds Great Britain's preparations for war with the United States.

The alliance between England and Japan, which is fighting America for preponderance on the Asiatic continent, has likewise aggravated in the extreme the relations between the United States and England.

But most acute in character, in view of all the indicated circumstances, is the question of the navy. Wilson's government, upon running up against England's opposition in world affairs, launched a gigantic program of naval construction. Harding's government has taken this program over from its predecessor and this program is being rushed through at top speed. By 1924 the US navy will not only be far more powerful than that of England, but also superior to the English and Japanese fleets put together, if not in tonnage, then in firing power.

What does this mean from the English point of view? It means that by 1924 England must either accept the challenge and try to destroy the military, naval and economic might of the United States by taking advantage of her present superiority, or she must passively become converted into a power of the second or third order, surrendering once and for all domination of the oceans and seas to the United States. Thus the last slaughter of the peoples, which "settled" in its own way the European question, has for this very reason raised in all its scope the world question, namely: Will England or the United States rule the world? The preparations for the new world war are proceeding full speed ahead. The expenditures for the army and the navy have grown extraordinarily as compared with pre-war times. The English military budget has increased threefold, the American - three and a half times.

The contradictions between England and America are being transformed into a process of automatic proliferation, an automatic approach closer and closer to tomorrow's sanguinary conflict. Here we actually are dealing with automatism.

On January 1, 1914, that is, at the moment when the "armed peace" was under its greatest strain, there were approximately 7 million soldiers with bayonets throughout the world. At the beginning of the current year there were about 18 million soldiers with bayonets. The bulk of these armies weighs down, of course, upon exhausted Europe.

Consequently, militarism has grown. All this is one of the most important obstacles in the way of economic progress. One of the main causes of the war was the intolerable burden of armed peace upon the European economy. A horrible end was preferable to horror without end. But it turned out that this is no end at all, that horror *after* the end is even more horrible than it was before the horrible end, that is, before the last war.

The grave crisis, arising from the constriction of the world market ' acts to aggravate extremely the struggle between the capitalist states, depriving world relations of any kind of stability. Not only Europe but the whole world is being turned into a madhouse! Under these conditions there is hardly any necessity to speak of the restoration of capitalist, equilibrium.

The Working Class After the War

From the standpoint of the revolution, in general and on the whole, all this creates for the working class a very favorable and at the same time an extremely complex situation. After all, what lies ahead of us is not a chaotic, spontaneous assault, the first stage of which we observed in Europe in 1918-19. It seemed to us (and there was some historical justification for it) that in the period when the bourgeoisie was disorganized this assault could mount in ever-rising waves, that in this process the consciousness of the leading layers of the working class would become clarified, and that in this way the proletariat would attain state power in the course of one or two years. There was this historical possibility. But it did not materialize. History has - with the assistance of the bourgeoisie's bad or good will, its cunning, its experience, its organization and its instinct for power - granted the bourgeoisie a fairly prolonged breathing space. No miracles have taken place. What has been destroyed, or burned, or ruined, has not come to life again; but the bourgeoisie did prove itself capable of orientation in a pauperized milieu; it restored its state apparatus and knew how to utilize the weakness of the working class. From the standpoint of revolutionary perspectives, the situation has become more complicated, but still remains favorable. It is perhaps with greater assurance that we can say today that on the whole the situation is fully revolutionary. But the revolution is not so docile, nor so domesticated as to be led on a leash, as we once imagined. The revolution has its own fluctuations, its own crises and its own favorable conjunctures.

Immediately after the war, the bourgeoisie was in a state of highest confusion and alarm - the workers, especially those returning from the army, were in a peremptory mood. But the working class as a whole was disoriented, uncertain of just what forms life would take after the war, unsure of what and how to demand, dubious of what road to take ... The movement, as we saw at the beginning of this report, assumed an extremely stormy character, but the working class lacked a firm leadership. On the other hand, the bourgeoisie was ready to make very great concessions. It kept up the financial and economic war regime (loans, emission of paper currency, grain monopoly, relief for the unemployed working masses, etc., etc.). In other words, the ruling bourgeoisie continued to disorganize the economic foundation and to disrupt more and more the productive and financial equilibrium in order to bolster up the equilibrium between the classes during the most critical period. Up to now it has more or less succeeded in accomplishing this.

At the present time the bourgeoisie is proceeding to solve the question of restoring the economic equilibrium. Involved here are not temporary concessions or sops to the working class but measures of a fundamental character. The disorganized productive apparatus must be restored. Currency must be stabilized, for the world market is unthinkable without a universal world equivalent, and, therefore, equally unthinkable without a universal equivalent is a "balanced" national industry, tied up with the world market.

To restore the productive apparatus is to curtail work on consumer goods and to step up work on the means of production. It is necessary to augment accumulation, *i.e.*, to raise the intensity of labor and slash wages.

To stabilize the currency it is necessary, apart from refusing to pay intolerable debts, to improve the trade balance, *i.e.*, import less and export more. And to this end it is necessary to consume less and produce more, *i.e.*, once again slash wages and raise the intensity of labor.

Every step toward the restoration of capitalist economy is bound up with boosting the norm of exploitation and will therefore unfailingly provoke resistance on the part of the working class. In other words, every effort by the bourgeoisie to restore the equilibrium in production or in distribution or in state finances must inescapably disrupt the unstable equilibrium between the classes.

Whereas during the two postwar years, the bourgeoisie was guided in its economic policy primarily by the desire to propitiate the proletariat, even at the cost of further economic ruination, at the present time, in the epoch

of unprecedented crisis, the bourgeoisie has begun mending the economic situation by steadily increasing the pressure on the working class.

England provides us with a most graphic illustration of how this pressure engenders resistance. And the resistance of the working class acts to disrupt economic stability and to transform all speeches anent the restoration of equilibrium into so many empty sounds.

The struggle of the proletariat for power has been unquestionably protracted. We did not get an overwhelming onslaught, we did not see a picture of wave mounting upon wave, rolling onward incessantly until the capitalist system was swept away in the final surge.

In this struggle we observed both ups and downs, both offense and defense. Class maneuvering was far from always skillful on our part. The reason for it is twofold: In the first place, the weakness of the Communist parties, which arose only after the war, which lacked the necessary experience and the necessary apparatus, which were without sufficient influence and - what is the most important - didn't know how to pay sufficient attention to the working masses. In this sphere we have in any case taken a big step forward during the recent years. The Communist parties have grown stronger and have developed. The second reason for the protracted and uneven character of the struggle lies in the heterogeneous composition of the working class itself, as it emerged from the war.

Least shaken by the war are the labor bureaucracy, the trade union and party bureaucracy and the parliamentarians. Capitalist states in all countries have shown utmost attention to and solicitude for this superstructure, understanding excellently that without it the working class could not possibly have been kept in submission through the years of bloodletting. The labor bureaucracy received all sorts of privileges and emerged from the war with the same habits of bovine conservatism with which it had entered the war, but somewhat more discredited and more intimately bound up with the respective capitalist states. Skilled workers of the oldest generation, inured to their trade union and party organizations, especially in Germany, have by and large remained to this very day the main support of the labor bureaucracy, but their inertia is by no means absolute. Those workers who have passed through the school of war - and they are the pith of the working class - have introduced a new psychology among the proletariat, new habits and new attitudes to the questions of struggle, to the questions of life and death. They are ready to solve questions by means of force, but they have firmly assimilated from the war that a successful application of force presupposes correct tactics and strategy. These elements will march into battle but what they want is a firm leadership and a serious preparation. Many backward categories of workers, including women workers whose number has grown prodigiously during the war, have now become, as a consequence of an abrupt turn in their consciousness, the most militant, though not always the most class-conscious section of the working class. Finally, at the extreme left wing we see the working-class youth, who have grown up during the war amid the roar of battles and revolutionary paroxysms and who are destined to fill a great place in the coming struggle.

All these extraordinarily augmented proletarian masses - the old workers and the worker-recruits, the workers who remained in the rear and the workers who spent several years under fire - this entire multimillion-headed mass is passing through the school of revolution not in the same way and not at the same time.

This was brought home to us again in the instance of the March events in Germany, where the workers of Central Germany, the most backward elements before the war, were eager to rush into battle in March without pausing to consider what were the chances for success whereas the Berlin workers and those of Saxony in the course of revolutionary battles gained some experience and became more cautious. It is undeniable that the general course of the postwar struggle and especially the current offensive of capitalism are fusing together all the layers of the working class with

the sole exception of its privileged aristocracy. The Communist parties are getting more and more opportunities for establishing a genuine working - class united front.

Immediate Perspectives and Tasks

The revolution has three sources which are interconnected. The revolution's first source is the decline of Europe. Class equilibrium in Europe was maintained first of all by England's dominant position on the world market. Today this dominant position of Europe has been completely lost, and irretrievably so. Hence the inevitability of powerful revolutionary paroxysms which can terminate either in the victory of the proletariat or in Europe's complete downfall.

The second source of the revolutionary struggle is in the severe spasms of the entire economic organism of the United States: an unprecedented boom, elicited by the European war, and next - a cruel crisis engendered by the drawn - out consequences of this war. The revolutionary movement of the American proletariat can under these conditions acquire the same tempo, unequalled in history, as the economic development of the United States in recent years.

The third source of revolutionary struggle is the industrialization of the colonies, above all, India. The basis for the liberationist struggle of the colonies is constituted by the peasant masses. But the peasants in their struggle need leadership. Such a leadership used to be provided by the native bourgeoisie. The latter's struggle against foreign imperialist domination cannot, however, be either consistent or energetic inasmuch as the native bourgeoisie itself is intimately bound up with foreign capital and represents to a large measure an agency of foreign capital. Only the rise of a native proletariat strong enough numerically and capable of struggle can provide a real axis for the revolution. In comparison to the country's entire population, the size of the Indian proletariat is, of course, numerically small, but those who have grasped the meaning of the revolution's development in Russia will never fail to take into account that the proletariat's revolutionary role in the Oriental countries will far exceed its actual numerical strength. This applies not only to purely colonial countries, like India, or semi-colonial countries like China, but also to Japan where capitalist oppression blends with a feudal-caste, bureaucratic absolutism.

Thus both the world situation and the future perspectives are profoundly revolutionary in character.

When the bourgeoisie resorted after the war to throwing sops to the working class, the conciliators obsequiously converted these sops into reforms (the 8-hour day, unemployment insurance, and so on); and discovered - amid the ruins - the era of reformism. Today the bourgeoisie has passed over to a counter-offensive all along the line, and even the London *Times* - a super-capitalist daily - refers with alarm to capitalist "Bolsheviks." The current epoch is the epoch of counter-reformism. The English pacifist Norman Angell has called the war a miscalculation. The experience of the last war has shown that the calculation, from the bookkeeping standpoint, was indeed a false one. After the war it might have seemed that the triumph of pacifism was about to arrive and that the League of Nations was its manifestation. Today we see that the calculation of pacifism was a miscalculation. Never before has capitalist mankind engaged in such frenzied preparation for a new war as at the present time. Democracy is being stripped of its illusions even in the eyes of the most conservative layers of the working class. Not so long ago democracy used to be counterposed only to the dictatorship of the proletariat with its terror, its *Cheka*, and so forth and so on. Nowadays democracy is being ever more counterposed to any and all forms of the

class struggle. Lloyd George has advised the coal miners to solicit parliament with their grievances and has branded their strike as an act of violence upon the will of the nation.

Under the Hohenzollern regime the German workers found a certain stability and well defined limits. The workers knew on the whole what could be done and what was forbidden. In Ebert's republic a worker - striker always incurs the risk of having his throat cut in the streets or in a police station, without further ado. Ebertian "democracy" offers the German workers as little as do high wages in terms of completely depreciated currency.

The task of the Communist parties lies in encompassing the existing situation as a whole, and intervening actively in the struggle of the proletariat in order to conquer the majority of the working class on the basis of this struggle. *Should the situation in this or that country become extremely exacerbated, we must pose the basic question pointblank and we must join battle in whatever condition the events catch us.*

However, if the march of events proceeds more evenly and smoothly, then we must utilize all the possibilities in order to *gain the majority of the working class prior to the decisive events.*

We do not as yet have the majority of the working class throughout the world; but a much larger section of the proletariat is with us today than a year or two ago. After we have actually analyzed the existing situation, which is one of the important tasks of our Congress; after we have reviewed the situation in each given country, we must say to ourselves: The struggle will perhaps be long and we shall not advance at so feverish a pace as we should like to. The struggle will be very harsh and will exact many sacrifices. We have become stronger through accumulated experience. We shall know how to maneuver in this struggle. We shall know how to graph for our tactics not only an ideal mathematical line, but also the sinuosities in a shifting situation, amidst which the revolutionary line must cut its way. We shall understand how to maneuver actively amid the decomposition of the capitalist class; we shall be able to mobilize the forces of the workers for the social revolution. I believe that our successes as well as our failures have demonstrated that the difference between us and the Independent Social Democrats does not consist in our having said that we shall make the revolution in the year 1919 while they kept maintaining that the revolution would come much later. No, that's not where the difference lies. The difference lies in this, that the Social Democracy and the Independent Social Democrats support the bourgeoisie against the revolution under any and all circumstances. Whereas we were and are ready to utilize every situation, no matter what changes it may undergo, for the revolutionary offensive and for the conquest of political power. [*Long, enthusiastic applause*]

In today's defensive economic struggles unfolding on the basis of the crisis, the Communists must participate most actively in all the trade unions, in all the strikes and demonstrations, and in all kinds of movements, always maintaining their inner ties unbroken in their work, and always stepping to the forefront as the most resolute and best disciplined wing of the working class. Depending upon the course of the crisis and the shifts in the political situation, the defensive economic struggle may become extended, embracing ever - newer layers among the working class, among the population and among the army of the unemployed; and on becoming transformed at a certain stage into a revolutionary offensive struggle, it may be crowned with victory. It is precisely to this end that our efforts must be directed.

But what if in place of the crisis an improvement should come in the world economic conjuncture? What then? Would this signify that the revolutionary struggle is checked for an indefinite period?

From my entire report, Comrades, it follows that a new upswing, which can be neither prolonged nor profound, can by no means act as a check upon the revolutionary development. The industrial boom of 1849-51 dealt a blow to the revolution only because the Revolution of 1848 had

expanded the framework of capitalist development. As touches the events of 1914-21, they have acted not to expand but to contract in the extreme the framework of the world market, and therefore the curve of capitalist development as a whole will much sooner slope downwards in the next period. In these conditions a temporary boom can only strengthen the class self-assurance of the workers and fuse their ranks not only in the factories but also in struggles and it can provide the impulse not only for their economic counter-offensive but also for their revolutionary struggle for power.

The situation is becoming more and more favorable for us but it is also growing extremely complex. Victory will not come to us automatically. The ground under the enemy's feet is undermined, but our enemy remains strong, our enemy keenly discerns our weak spots, veers and maneuvers, always being guided by icy calculation. We - the entire Communist International - have a great deal to learn from the experience of our battles during these three years, and especially from the experience of our mistakes and our failures. Civil war demands political, tactical and strategical maneuvering; it demands that the peculiarities of each given situation, the strong and the weak sides of the enemy, be taken into account; it demands a combination of enthusiasm with icy calculation; it demands not only the ability to assume the offensive but also the readiness to temporarily retreat in order to preserve one's forces so as to deal all the surer a blow.

Let me repeat, the world situation and the future perspectives remain profoundly revolutionary. This creates the necessary premises for our victory. But full guarantees can be given only by our expert tactics, by our strong organization. To raise the Communist International to a higher level, to make it more expert tactically - that is the basic task of the Third World Congress of the Communist International.

[1] Amsterdam - an abbreviation for the Amsterdam International Trade Union Federation also known as the Yellow Trade Union International.

[2] Otto Bauer - the most prominent leader of the Austrian Social-Democratic Party. Prior to the war of 1914-18 Bauer was the secretary of the parliamentary fraction of the Austrian party. Author of a number of anti-Marxist books on the national and colonial questions. During the First World War Bauer held a centrist position which did not hinder him from becoming Minister of Foreign Affairs in the coalition government set up after the overthrow of the Hapsburgs. Together with Friedrich Adler and others, Bauer participated both in creating the 2½ International and in burying the latter in 1923 through a fusion with the Second International. [Strictly speaking, Bauer was a leading representative of the Austro-Marxist school. - TIA]

[3] Richard Calwer - at one time an eminent German economist. One of a legion of former German Social Democrats who successfully underwent an evolution from Social Democracy to bourgeois democracy.

[4] The inevitability of Germany's state bankruptcy is conceded even by so conservative an economist as Calwer who in his rather interesting pamphlet on state bankruptcy comes to the following conclusion:

"This end-result, pregnant with dire consequences in currency and fiscal policy, will unquestionably come in a violent manner, inasmuch as under the existing economic state of the country, a gradual return to normal conditions of the money market and state finances is absolutely inconceivable. The violent culmination of the entire development is, in the last analysis, nothing else but actual state bankruptcy thereby finally disclosing the long standing insolvency of the state."

A great many books are being generally published today in Germany which deal with state bankruptcy from the standpoint of philosophy, morality, jurisprudence, etc. Be it moral or immoral, these gentlemen will have to declare state bankruptcy. [- L.T.]

[5] Alsace-Lorraine and the Saar basin were assigned to France by the

Versailles Treaty. The Saar basin is one of the richest coal areas in Europe.

[6] Albert Einstein - famous German physicist and mathematician. Einstein created a new epoch in science by supplying scientific grounds for the denial of the absolute character of time and space - a doctrine which had been advanced by Newton and which had been accepted for more than a century as one of the immutable laws of nature. Furthermore, Einstein has greatly advanced the natural sciences by supplying mathematical formulations to various processes in nature. In philosophy a materialist; in politics a pacifist.

[7] Hughes - US Minister of Foreign Affairs under the Harding administration. In the middle 'twenties he was violently opposed to the resumption of normal relations with Soviet Russia.

[8] The reference here is to Engels' introduction to Marx's book *The Civil War in France*. In this introduction Engels wrote that the world crisis of 1847 was the real mother of the February revolution in France and of the March revolution in Germany.

[9] Cunow - the theoretician of the Scheidemann school. Before the First World War Cunow considered himself an orthodox Marxist and fought consistently against theoretical revisionism. The war converted him into a social-imperialist. After perpetrating this treachery Cunow then proceeded to revise the theory of Marx.

[10] Keynes - a prominent English economist. After the war of 1914-18 he became a member of the Allied Supreme Economic Council. In a number of books Keynes demonstrated effectively the economic senselessness of the Versailles Treaty. In 1919 he predicted that the Versailles clauses could not possibly be fulfilled. The reference here is to his first book *The Economic Consequences of Peace*. Today Keynes is among those who are now preparing a worse Versailles for Europe and the world. [His *magnum opus*, *General Theory of Employment, Interest and Money*, laid the basis for Keynesianism, the ideological basis for state intervention in the economy and social reformism after World War II. - TIA]



To contact the WSW and the Socialist Equality Party visit:

wsws.org/contact