THE ECONOMIC CRISIS

BY ROBERT STARK

THE new economic crisis which has begun in the United States not only creates great hardships for the American people, but is a development of profound political significance. Within our own country, the monopolists and their allies will intensify their drive against the living standards and democratic rights of the people, while the democratic front forces will extend and coordinate their struggle against reaction for democratic rights, for social and economic advances. The crisis will extend throughout the capitalist world, greatly increasing the danger of war, sharpening the world struggle between fascism and democracy. Careful study of the crisis will provide a map of the terrain on which the class struggle will be largely concentrated in the near future.

DISTORTIONS IN THE AMERICAN ECONOMY DURING THE LAST BUSINESS CYCLE

This new economic crisis is a cyclical crisis interwoven with the general crisis of capitalism. Due to the effects of the general crisis of world capitalism, the whole business cycle is distorted from its normal course. Such distortions were particularly marked during the recent period in the U. S. The four phases of the normal business cycle are crisis, depression, recovery, and boom. During the last cycle the crisis lasted from 1929 to 1933, the depression from 1933-35, the recovery from 1935-37. But there developed no boom period. In such a period industry operates virtually at capacity, nearly all workers are employed, many new enterprises are started, and production expands to new record levels. But instead of developing into boom, the recovery movement was interrupted by a new crisis. Other distortions of the recovery period, closely interrelated, and without precedent in American history, were:

1. The peak of industrial activity was below the peak of the previous cycle. The index of industrial production, at the high point, was 3 per cent below the peak in 1929. Considering the 7 per cent growth of population, peak production per capita in 1937 was 10 per cent below the peak per capita production in 1929.

2. Mass unemployment remained throughout the cycle, at no time falling below 10,000,000.

3. Government relief, work projects, construction activities, etc., provided a considerable portion of the basis for the recovery which did occur. Thus, in 1936, "government," including local and state governments as well as the federal government, was

the source of 18 per cent of the national income,* as against only 8 per cent in 1929.

But these figures do not fully bring out the decisive importance of federal expenditures in raising the purchasing power of the masses to a point where a substantial increase in production could occur. For example, additional purchasing power is created by the employment of workers producing goods purchased by recipients of work relief.

4. There was very little extension of fixed capital during the recovery period. During the three years 1935-37, the total of securities issued by domestic corporations for new capital investments was $2,800,000,000, barely one-third of the total of $8,000,000,000 for the single year 1929. (See Table I, below.) Correspondingly, the value of private non-residential building construction (mainly factories and office buildings) during the years 1935-37 totalled $1,900,000,000, less than the total in any single year from 1925 to 1929. (See Table II.) Construction by utilities and railroads was also very scanty. Government borrowings absorbed a portion of the idle funds, and government projects provided a large portion of the capital goods industries.

The considerable activity in the capital goods industries which developed in 1936-37 was due, not only to government projects, but also to widespread installation of more modern machinery and equipment, designed to increase the productivity of labor.

* The Commerce Department national income figures did not include the special veterans' compensation paid in 1936. This payment was added in making the calculation presented. Without this addition the percentage would be 15%.

TABLE I. FINANCE

(In millions of dollars)

Year	New Capital Issues Domestic Corporations	Increase in Gross Federal Debt
1925	3,605	− 731
1926	3,754	−1,173
1927	4,657	−1,039
1928	5,346	− 726
1929	8,002	−1,009
1935	404	2,078
1936	1,192	3,848
1937	1,194	2,874

Source: New Capital Issues—*Commercial and Financial Chronicle.* Federal Debt—U. S. Treasury Department.

TABLE II. CONSTRUCTION

(In millions of dollars)

Year	Total	Private Residential	Private Non-Residential	Utilities	Government (federal, state and local)
1925	10,159	4,253	1,934	1,791	2,181
1926	10,397	4,056	2,340	1,864	2,137
1927	10,896	4,204	2,191	2,128	2,373
1928	11,060	4,338	2,222	2,016	2,484
1929	10,166	3,098	2,304	2,349	2,415
1935	4,561	764	430	788	2,579
1936	6,485	1,245	639	870	3,731
1937	7,002	1,405	840	1,175	3,582

Source: *Construction Expenditures and Employment, 1925-1936; Construction Expenditures and Employment, 1937 compared with 1936;* Works Progress Administration.

Activity on such a basis was necessarily short-lived, and could not substitute for the investment of capital in the construction of new enterprises.

OBJECTIVE FACTORS WHICH PREPARED THE MATURING OF THE PRESENT CRISIS

What are the factors which caused the distortions described above, and prepared the way for the new crisis?

The primary factor is the great excess of productive capacity, developed especially during the post-war period, in face of a diminishing base of mass purchasing power. This excess of productive capacity, which has become chronic, is characteristic of the period of the general crisis of capitalism. Already in the boom days before the great collapse in 1929, it resulted in the idleness of a considerable part of plant capacity, as well as in colossal idle funds, which were used for speculation on the stock exchange.

"The last cause of all real crises always remains the poverty and restriction in consumption of the masses as compared to the impulse of capitalist production to develop the productive forces as if only the absolute power of consumption of society were their limit." (Marx, *Capital,* Vol. III, p. 568, Kerr edition.)

This contradiction, greatly accentuated in the period of the general crisis of the world capitalist system, was further intensified during the last business cycle. The productivity of labor was greatly increased through speed-up, improved organization of work, and improved equipment. Increases in wage rates which the proletariat obtained failed to compensate for the increased productivity, for the resulting unemployment and part-time work. The rate of surplus value acquired by the capitalists was increased, and the purchasing power of the masses was correspondingly reduced. If we compare the record of manufacturing industries for the cycle 1921-29 with that for the cycle 1930-37, these changes are brought out:

ANNUAL AVERAGES FOR MANUFACTURING INDUSTRIES, 1930-37
(Per cent change from annual averages, 1921-29)

Production	− 7.1%
Employment	−14.5%
Payrolls	−27.2%
Cost of Living	−16.3%
"Real" Payrolls	−13.0%
Man Hours Worked	−31.3%
Productivity per Man Hour	+35.2%

Sources: "Production and Man Hours Worked" from the report *Increasing Productivity and Technological Unemployment*—by the National Research Project. This report gives the figures up to 1934. The computations for the later years were based on the Federal Reserve Board index of manufacturing production, the Bureau of Labor index of employment, and the National Industrial Conference Board index of average hours worked. They were tied in with the N.R.P. figures, use the same series except for production, where the N.R.P. made up its own index, and are certainly comparable with the figures for the years up to 1934.

Employment and Payrolls: Department of Labor.

Cost of Living: National Industrial Conference Board.

Other items computed from the given data.

Thus the decline in employment was double the decline in production, and the decline in payrolls was nearly four times as great as the decline in production. Even when payrolls are adjusted by the cost of living index, which is biased downwards in order to make workers' real wages seem higher than they really are, it remains clear that the worker's share in his product was reduced during the last cycle. This conclusion is verified by census statistics. Estimation of the rate of surplus value by the method used by E. Varga gives the following results:

Census Years	*Rate of Surplus Value*
1921, '23, '25, '27, '29, average	127%
1931, '33, '35,* average	141%

Computation of Surplus Value: For the years 1921-1931 the computations given by E. Varga in *The Great Crisis* (International Publishers, New York) were used. For 1933 and 1935 the same method was applied, with depreciation estimated at $1,600,000,000 in 1933, and $2,000,000,000 in 1935.

* Latest census year for which figures are available.

Unemployment relief, works projects, wage increases obtained, especially by the C.I.O., were counteracting influences insufficient to compensate for the increased exploitation of the proletariat. Reduction of government expenditures in 1937 hastened the maturing of the crisis. Work relief wages were reduced from $2,462,000,000 in 1936 to $1,860,000,000 in 1937. No sum was spent in 1937 to correspond with the soldiers' bonus payment of $1,900,000,000 in 1936.

The purchasing power of the working farmers and farm laborers was also reduced during the last cycle. Exploitation of farmers by the banks and monopolies was greatly increased, so that even with greater production, the farmers' incomes were reduced.

TABLE III.
(In millions of dollars)

Year	*Income from Farm Marketing*	*A.A.A. Subsidies*	*Total*
1927	10,016	...	....
1928	10,289	...	....
1929	10,479	...	....
1932	4,328	...	....
1935	6,507	583	7,090
1936	7,633	287	7,920
1937	8,120	380	8,500

Source: Department of Agriculture.

Even with the government subsidies, farm income in 1937 remained $2,000,000,000 below the level of 1929, although the volume of farm products reached a record high in 1937, exceeding the average of 1924-29 by 8 per cent. The main mechanism by which the monopolies increased their exploitation of the poor farmers was the price scissors, forcing down the price of farm products and keeping up the prices of commodities purchased by farmers. While the scissors is nothing new, it operated to an unprecedented extent during the recent cycle.

RATIO OF PRICES RECEIVED TO PRICES PAID BY FARMERS

(Index Numbers, Aug., 1909-July, 1914=100)

Annual Averages		*Monthly Data*	
1929	95	1936: Dec.	98
		1937: Jan.	101
1932	61	Apr.	97
		July	94
1936	92	Oct.	88
		1938: Jan.	81
1937	93	Feb.	77

Source: Department of Agriculture.

Momentarily closed in January, 1937, the scissors were rapidly and increasingly reopened during the remainder of 1937 and the beginning of 1938, playing an important part in the outbreak of the new crisis.

The second factor which prepared the way for the new crisis is the extended grip of monopoly finance-capital on American economic life. Through the industrial trusts, finance-capital maintains prices above the price which would yield an average rate of profit. Swelling their profits in this fashion, the monopolies at the same time further restrict the real purchasing power of the masses. Through the banks, finance capital refuses to supply cheap credit to small enterprises and new business ventures, in order to maintain its monopoly of production. But by so doing, finance-capital further restricts the accumulation of capital, that is, the building of new factories and machines, and the employment of additional workers.

The extent of price gouging is especially conspicuous in the case of the most strategic monopoly, the steel trust. The composite price of finished steel products was increased in April, 1937, to a point 14 per cent above the average for 1929, and remains at that high point today, while the average price index for all commodities was 8 per cent *below* the 1929 level in April, 1937, and is now (April, 1938), 17 per cent *below* the 1929 level.

The food trusts are also steadily increasing their monopoly tolls. Before the World War, in 1913, the city worker paid 88 per cent more for his food than the farmer received for it. By 1929 the trusts had increased this spread to 113 per cent, and by 1936, the latest year for which figures are available, to 125 per cent. This increased spread, directly affecting the major source of income of the farmer, and the major item of consumption of the worker, greatly aggravates the contradiction between the productive power of society and the purchasing power of the masses.

At the recent meeting of small business men in Washington, the difficulty of obtaining cheap credit was the only complaint on which these business men were in substantial agreement. During the four crisis years 1930-33, there were over 100,000 commercial failures, while the big railroads, industrial concerns, and banks were saved by the R.F.C., bank holidays, and other governmental assistance.

Table IV, derived from *The Statistics of Income* for 1932, shows how the huge trusts were able to operate at a profit even during the worst year of the last crisis, while the smaller companies were losing heavily and, in many cases, going bankrupt.

TABLE IV.

PROFITS OF LARGEST CORPORATIONS AND OF ALL OTHER CORPORATIONS IN 1932

	Number	*Percent of total assets*	*Percent of net profit to capital stock*
All Industries			
Largest Corporations (assets over $50,000,000)	618	53.3%	0.8%
All other Corporations ..	391,403	46.7%	−7.1%*
Food Industries			
Largest Corporations	19	34.8%	7.6%
All other Corporations ..	12,966	65.2%	−2.4%*
Tobacco Industry			
Largest Corporations	4	68.0%	29.0%
All other Corporations ..	332	32.0%	10.6%
Financial Corporations			
Largest Corporations	232	47.9%	2.2%
All other Corporations ..	103,909	52.1%	−7.0%*

Compiled from *Statistics of Income*, 1932, of the U.S. Bureau of Internal Revenue.

NOTE: Net profits as used in this table include only profits of enterprise, after payment of interest, rent, and the salaries of corporation officials.

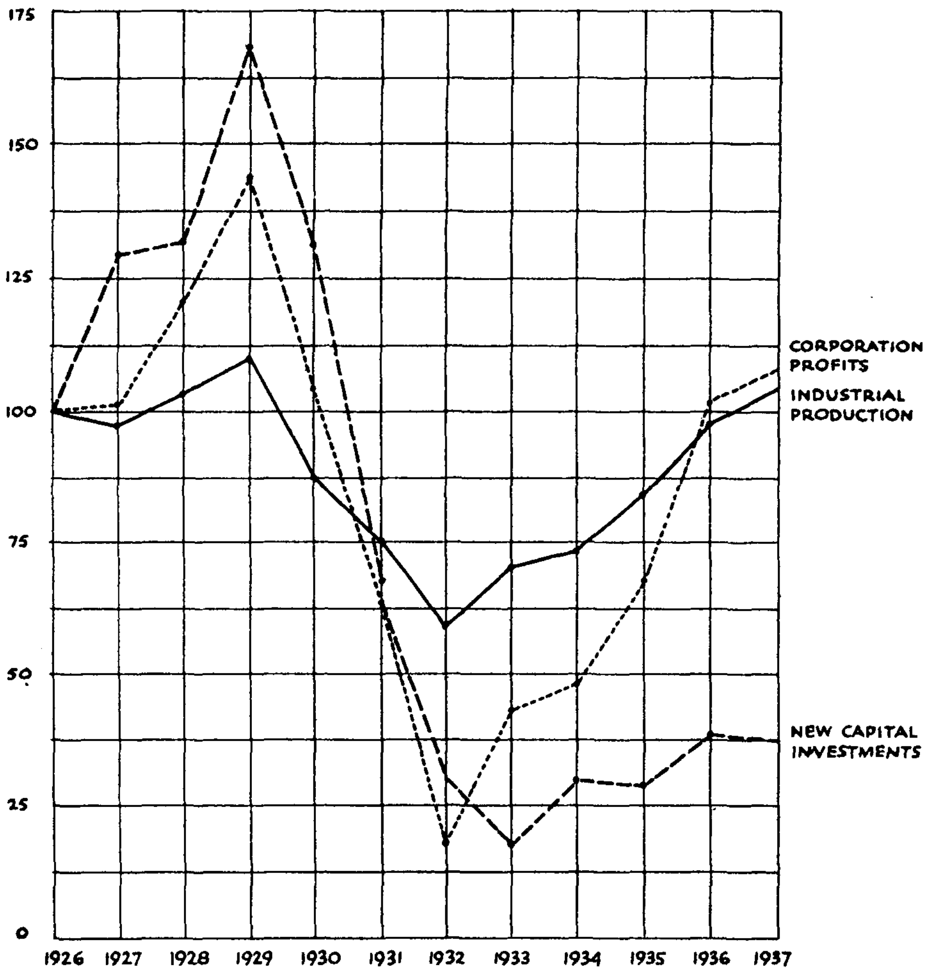
* Loss.

The third factor which prepared the maturing of the present crisis, and deformed the business cycle, is the great decay of world imperialism, and

INDUSTRIAL PRODUCTION, PROFITS, AND NEW CAPITAL INVESTMENTS

1926 - 1937

(Index Numbers: 1926=100)



Sources:
Production: Federal Reserve Board
Profits: Standard Statistics Company
New Capital Investments: Commercial and Financial Chronicle

Note: Profits and New Capital Investments as presented in the chart allow for changes in the purchasing power of the dollar.

DATA FOR CHART ON INDUSTRIAL PRODUCTION, PROFITS, AND NEW CAPITAL INVESTMENTS

Index numbers, 1926 = 100

Year	*Industrial Production*	*Profits*	*New Capital Investments*	*Wholesale Prices*	*Adjusted Series* *Profits*	*Adjusted Series* *New Capital Investments*
	(1)	(2)	(3)	(4)	(5)	(6)
1926	100	100	100	100	100	100
1927	98	96	123	95	101	129
1928	103	117	128	97	121	132
1929	110	136	161	95	143	169
1930	89	89	111	86	103	129
1931	75	46	49	73	63	67
1932	59	12	19	65	18	29
1933	70	28	11	66	42	17
1934	73	36	22	75	48	29
1935	83	54	22	80	68	28
1936	97	83	31	81	102	38
1937	103	92	32	86	107	37

SOURCES AND METHODS OF COMPUTATION

1. Federal Reserve Board Index converted to a 1926 base. 1937 data estimated from 11 months figures and an estimate of 85 for December.

2. Standard Statistics index of profits of 161 corporations. 1937 index estimated from figures for first three quarters and an estimate of 75 for the fourth quarter. This series covers industrials, utilities, and railroads, and is not comparable with the figures on page 439, limited to industrials.

3. Commercial and Financial Chronicle series converted to an index base (does not include refunding investments). Index for 1937 based on eleven months' figures and an estimate of $90,000,000 new investments in December. This series covers all new capital investments, and is not the same as that given in page 430 of the text.

4. Bureau of Labor Statistics Wholesale Price Index for all commodities.

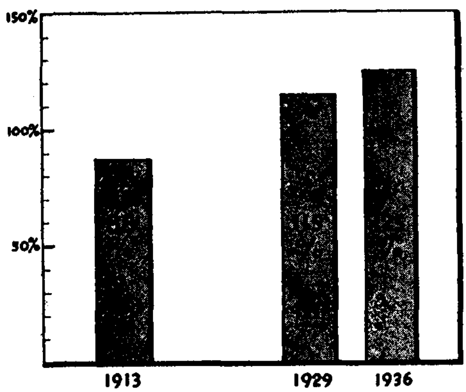
5. Column 2 divided by column 4.

6. Column 3 divided by column 4.

The adjusted series were used to avoid comparing the volume series (industrial production) with the two value series (profits and investments). Deflation by the wholesale price index puts the series for profits and new investments on a purchasing power basis. While such a deflation is not necessary for the purpose of the text argument, which uses the chart to show that new capital investments are relatively low compared to profits, the adjustment was made to avoid giving the impression that profits in 1937 were low in relation to the level of industrial production in that year.

PERCENTAGE BY WHICH RETAIL FOOD PRICES EXCEED FARM PRICES

1913 - 1936



Source: U. S. Dept. of Agriculture

Note: The Agricultural Department gave the data in the form, farm value as a percentage of retail value: in 1913, 53%; 1929, 47%; 1936, 44%. This was converted to the basis used on the chart to give a more effective picture.

the changed position of American imperialism in the capitalist world. Unable to expand in the restricted domestic market, finance-capital endeavors to export its capital to foreign markets, at the expense of other finance-capitalist cliques. During the period of 1919-30, American imperialism exported a reported total of $10,000,000,000 in capital investments. A large part of this was exported to Europe, whose capitalists, weakened by the war, lacked the resources necessary for the post-war reconstruction. A large part went to colonial and semi-colonial countries, particularly Latin-America, where American imperialism expanded at the expense of rival imperialisms, particularly British.

The export of capital created a market for American machinery and material for use in the foreign enterprises developed, and a certain market for American finished goods in the countries where these enterprises were established. Thus the contradiction between American productive capacity and purchasing power was temporarily alleviated. It was largely due to the strong world position of American imperialism that American production expanded to such high record levels during the 'twenties, while production in the European capitalist countries failed to exceed the pre-war level.

However, the great crisis so weakened the agrarian economies of the colonial and semi-colonial countries that the exportation of capital, both by American and European imperialisms, has virtually stopped. Wholesale defaults, in Europe and elsewhere, have rendered foreign investments taboo. The aggressive fascist imperialisms resorting to dumping methods, by means of subsidies, etc., in order to develop their export trade, have cut into American markets. Thus, Germany is now the largest exporter to Brazil, long dominated by American imperialism. The aggression of Japan in China has destroyed American investments and reduced markets for American products in the Far East. The export of war materials —in the broad sense—has but slightly compensated for these losses to American imperialism. The export of capital and the expansion of foreign markets were lost to American imperialism as a method of increasing production and of temporarily alleviating domestic contradictions.

Thus the three main objective factors which prepared the early maturing of the economic crisis were the increased exploitation of the toilers, the extended grip of the monopolies, and the intensification of the general crisis of world capitalism. Because of these factors, the huge profits of the trusts, which reached the level of the 'twenties during the recovery period, to a large extent remained idle, and were not accumulated in the form of new factories and machinery that would have created additional employment. But the surplus products of the capitalists, the material representation of their unspent profits, can be used only as new capital. As a result the surplus products remained unused or unsold, and the new crisis matured before the old crisis was fully overcome.

THE DEVELOPMENT OF THE CRISIS

The development of the present economic crisis is indicated by the following data:

TABLE V.
INDEX OF INDUSTRIAL PRODUCTION
(1929 = 100)
(Adjusted for seasonal variations)

	Total	*Durable Goods*	*Non-Durable Goods*
1937:			
Mar.	99	94	103
Aug.	98	104	94
Sept.	93	94	92
Oct.	87	84	86
Nov.	75	62	81
Dec.	71	50	81
1938:			
Jan.	68	47	80
Feb.	67	. .	. .

Source: Federal Reserve Board.

The index of non-durable goods production (mostly consumers' goods) declined rapidly after March, having reached the limit set by the purchasing power of American society, curtailed by chronic unemployment and agrarian crisis. Durable goods production (mainly capital goods) continued to increase until August, while orders given at the peak of production were being filled. However, since capital goods are purchased only for the purpose of producing consumers' goods, the decline in consumers' goods production was followed by a decline in capital goods, more sharp than any previously experienced. This drop, accelerated by Wall Street's sabotage (discussed in more detail later), amounted to over 50 per cent in four months. During the single month of November, when Wall Street intensified its sabotage in order to prevent the passage of progressive legislation by the Special Session of Congress, durable goods production fell by over 25 per cent.

Since January, production has shown little change. Up to the present (mid-April) there has been no sign of even a temporary increase such as that which occurred in the spring of 1930 after the 1929 crash.

During the latter half of 1936 and the early months of 1937 a speculative boom in raw materials occurred on the major world markets, based on the general cyclical improvement in business, and on the increasing war demand for copper, steel scrap, and other raw materials. Between June, 1936, and March, 1937, the price of copper increased by 67 per cent, tin 40 per cent, and steel scrap, 62 per cent. Farm products and other raw materials participated in speculative increases, although to a lesser extent.

While prices were rising, manufacturers hastened to buy the raw materials, to create a reserve supply before prices got still higher. At the same time they increased their prices. Wholesalers and retailers hastened to order large quantities of goods in anticipation of still higher prices. As a result business generally was very active, and the level of production was above the ultimate consumer demand. Raw material production was especially increased in all parts of the world. In the U. S., copper production was increased from 72,000 tons in October, 1936, to 94,600 tons in April, 1937. The index of mineral production increased from 98 in August, 1936, to 128 in March, 1937, and U. S. farm production in 1937 reached a record level. This was largely due to weather conditions; but the high prices prevailing in the early part of the year doubtless stimulated production.

When the speculators and capitalists "in the know" saw that over-production was taking place, the speculative boom broke, and prices rapidly declined.

COMMODITY PRICE INDEXES
(1926 = 100)

	1936		1937		1938	
	June	*Mar.*	*June*	*Sept.*	*Dec.*	*Apr. 9*
All Commodities	79.2	87.8	87.2	87.4	81.7	78.5
Farm Products	78.1	94.1	88.5	85.9	72.8	68.1
Raw Materials	77.6	90.1	86.1	84.4	75.4	70.9
All Commodities—Other than Farm Products and Foods	78.8	85.5	86.1	85.9	83.6	82.2
Metal and Metal Products	85.2	96.0	95.9	97.1	96.3	95.9

Source: Department of Labor.

The declines were mainly in raw materials and foodstuffs, the trusts controlling the production of many finished commodities were able to hold prices up, and keep most of the price advances gained in 1936-37.

When prices broke, businessmen reduced their buying, retailers sold goods they had already accumulated, and manufacturers processed raw materials already on hand. As a result, commodity stocks in the hands of producers began to accumulate. Raw material stocks in February, 1938, were nearly 50 per cent greater than a year before, and were approaching the peak level of the previous crisis. These developments constituted a crisis in the sphere of commodity *circulation,* and hastened the decline in production.

Since these price movements were worldwide, the crisis symptoms in the sphere of circulation have developed throughout the capitalist world. While these symptoms will doubtless be reflected in the level of production, the crisis in production has so far been limited mainly to the U. S. However, in recent months, substantial reductions in production have occurred in England and other countries, and there can be no doubt that the American crisis marks the beginning of a new world economic crisis.

The impact of the crisis on the working class is very severe:

(1923-25 = 100)

Item	*Aug., 1937*	*Feb., 1938*
Factory Employment:		
Total	102.3	82.5
Durable Goods	98.1	73.8
Non-Durable Goods	106.9	91.8
Payrolls:		
Total	103.8	73.5
Durable Goods	104.0	64.2
Non-Durable Goods	103.5	85.3
Hours of Work per Week (actual, average)	38.9	33.5

Sources: Employment and Payrolls: U. S. Department of Labor.

Hours of Work: National Industrial Conference Board.

In six months, 20 per cent of all factory workers were laid off, and payrolls were slashed by 30 per cent, the decreases being particularly severe in the heavy goods industries. The extent of part-time work is indicated by the reduction in the average number of hours worked. The development of unemployment, according to the A. F. of L., is as follows:

September	7,513,000
October	7,706,000
November	8,479,000
December	9,307,000
Jan., 1938	10,973,000

Thus, there was an increase from the low point of September of nearly

3,500,000 unemployed within four months. However, the A. F. of L. figures are obviously too low. The special unemployment census conducted in November indicated that about 11,000,000 were unemployed at that time, allowing for incomplete reporting. Thus it appears that the A. F. of L. figures are too low by about two and a half million. If this error is constant, the low point of unemployment for the whole cycle was actually about ten million in September, 1937, and by January thirteen and a half million were unemployed. The number has doubtless increased since January, especially in the trade and service industries, which felt the crisis later than manufacturing industries. For example, the seasonally adjusted index of department store sales declined more from January to March, than from August, 1937, to January, 1938. At present, after eight months of crisis, the number of unemployed workers in the U. S. probably exceeds 15,000,000, nearly equal to the peak unemployment of the previous crisis.

WHO IS TO BLAME FOR THE CRISIS?

The spokesmen for Wall Street charge that the crisis resulted from the New Deal's reform program and the C.I.O. unionization drive. Between higher taxes and higher wages, big business claims, profits were destroyed, and nothing was left but to shut up shop.

Robert Jackson, in his radio address against the 60 families, correctly said:

"The unvarnished truth is that the government's recovery program has succeeded nowhere else so effectively as in restoring the profits of big business. Labor has had no such advance. The small merchant has had no such prosperity. The small manufacturer has had no such advantage."

Jackson presented figures to prove his point. Figures are available which also prove that the largest corporations have been making better profits than ever before. In the following table the index numbers of the Standard Statistics Company covering the profits of 120 large industrial corporations are compared with the index numbers of factory payrolls. (The Department of Labor index converted to a 1926 base.)

(Index: 1926=100)

Quarterly Average	*Payrolls (unadjusted)*	*Profits (unadjusted)*	*Profits (adjusted for seasonal variations)*
Oct.-Dec., 1936 . .	88.3	115.1	112.7
Jan.-Mar., 1937 . .	92.5	104.3	109.8
Apr.-June, 1937 .	100.6	128.6	117.4
July-Sept., 1937 .	97.8	113.0	106.8
Average, Oct., 1936 to Sept., 1937 . .	94.8	115.2	. .

While the substantial gains achieved by the C.I.O. succeeded in increasing factory payrolls to the level of 1926 during the second quarter of 1937, profits of large industrial corporations rose in the same quarter to a point nearly 30 per cent above their 1926 profits. The contrast for the entire twelve-month period immediately preceding the recession in business is nearly as striking, with payrolls at 94.8 per cent of the 1926 level, and profits at 115.2 of the 1926 level. It is plain that when big business claims that the C.I.O. destroyed profits, and thereby forced shut-downs, big business crudely lies.

The fifteen public utility corporations included in the Standard Statistics tabulations showed profits during the twelve months ending last September, exceeding 1926 profits by 29.2 per cent. Exact statistics are not available to compare payrolls over the same period, but the available figures indicate that payrolls in the public utility industries were from 5 to 10 per cent below the 1926 level. Here again, increased exploitation of labor —and more lucrative monopoly prices.

Since the profit indexes quoted refer to profits after taxes are paid, they also expose the Wall Street cackling against "prohibitive" taxes. The fact of the matter is, that the New Deal spending program, and the wage increases obtained as a result of the C.I.O. organizing drive, were factors tending to increase the degree of recovery, to postpone the crisis, and to mitigate its effects on the masses. Both the New Deal program and the wage increases partly counteracted the increased exploitation of the working class, partly counteracted the reduced markets for goods resulting from chronic mass unemployment and low farm prices.

In a very real sense the finance-capitalists are responsible for every economic crisis. They control the economy of the country and they are to blame for the sufferings which capitalism inflicts on the masses. But their control is anarchic, directed towards the greatest profit of each big capitalist. The very system makes crises inevitable, and the monopolists are powerless to prevent the disastrous results of their control.

In this case, however, the Wall Street gang is especially blameworthy. They deliberately pursued a course of action which hastened and aggravated the crisis. Their actions, directed against the New Deal and the labor movement, weakened the factors making for further recovery, and accentuated the contradictions making for crisis. It is worth while to trace these actions in some detail.

1. The attack against government spending and social legislation. The reactionary attack against the W.P.A. bore its first fruits in the reductions in work relief expenditures during the first half of 1937. Since the government spending program provided a major part of the basis for recovery, its reduction further narrowed the base of purchasing power, and hastened the maturing of the crisis. Reaction then succeeded in further reducing W.P.A. appropriations for the 1938 fiscal year, and in putting over the Woodrum amendment, to prevent any expansion of work relief to meet increased unemployment. The result was that during the autumn of 1937, when millions of workers were losing their jobs in private industry, the W.P.A., instead of hiring some of these workers, was forced to lay off additional W.P.A. workers. This obviously intensified the developing crisis.

The fight against wage and hour legislation, abetted by the criminal tactics of William Green, has succeeded in delaying this legislation for over a year. The fight against the Wagner-Steagall Housing Act succeeded in greatly weakening this measure and delaying its enactment until late in 1937, so that the first steps towards the building of houses are just getting under way.

All of these administration measures tended to increase the basis for recovery, to alleviate the factors making for a new crisis. The Wall Street tactics of reducing existing federal activities, of delaying and weakening new administration measures, tended to hasten the crisis, and certainly increased its severity.

2. The sabotage of plant extension. Although the extension of plant and equipment was kept at a low level throughout the cycle by the deformation of the capitalist economy, there were certain fields where considerable expansion was possible, at a profit. This was especially true of the electric power and light industry, where production in 1937 was 25 per cent above the 1929 level. Although the utility magnates have admitted the possibility of billions of new construction, actual expenditures have remained very low:

ELECTRIC LIGHT AND POWER CONSTRUCTION
(millions of dollars)

1928	681
1929	800
1930	844
1935	170
1936	277
1937	429

Source: Construction Expenditure and Employment—Works Progress Administration.

The power monopolists openly attempted to blackmail the administration, demanding an end to T.V.A. and holding company legislation before they would carry out their construction program. The result was to keep expenditures to a bare minimum necessary to meet the expanded demand for power, reducing and delaying construction, and hastening the crisis.

3. The failure to support the stock market. On August 18 the annual report of Charles R. Gay, President of the New York Stock Exchange, was made public. This report attacked the Securities and Exchange Commission, and charged that government regulation weakened the securities market. That week the stock market started downward, and declined 40 per cent during the next two months. A relatively small number of shares were traded during this period, showing that Wall Street did nothing to support the market, although the decline was nearly as serious as the break of September-November, 1929. In fact, financial plotters took a pretty profit by short selling during the decline. During the entire decline, there was a preponderance of buying in odd-lot purchases, showing that what support came to the market did so in the form of small speculators hunting bargains. While the importance of the stock market is greatly exaggerated by bourgeois economists, its movements undoubtedly do have some effect on the course of business activity.

Wall Street accelerated the stock market decline in an attempt to discredit federal regulation of the securities markets, and to create a situation where the passage of progressive legislation by the special session of Congress would be more difficult.

4. Intensification of the decline in production. As already pointed out, the decline of production, especially in the heavy goods industries, was concentrated in a very few months, from September to January. The most rapid drop in American history was accelerated by wholesale cancellation of orders, partial and complete factory shutdowns, which were actually concealed lockouts. The most rapid decline was in November, just prior to the special session of Congress. There

is no doubt that shutdowns and layoffs were artificially increased in that period in order to increase the reactionary pressure against the special session of Congress. The finance-capital organ, *The Annalist,* for December 31, 1937, stated:

"Capital is undoubtedly on strike, as stated by the Assistant Attorney General, but not for the reasons he gives. . . . Under the Wagner Act there is only one absolutely unencumbered prerogative left to the employer, *and that is to discharge an employee because of lack of work.*"

While the decline in heavy goods production was dictated by the economic conditions prevailing, it was undoubtedly increased in extent and speed by Wall Street sabotage.

And so we have a spectacle of the leading monopolists, the historic purveyors of faith in capitalism, and roseate predictions of economic progress, now offering nothing but pessimism, attacks against the New Deal and against organized labor. It should be clear this time that the people themselves must fight the crisis—against Wall Street. For the sabotage continues. Roosevelt's spending program to meet the crisis is already meeting a furious barrage from reaction. All measures seeking to alleviate the toilers' sufferings, seeking to restore purchasing power, will be fought by finance-capital. The fight against the crisis must also be a fight to break the sit-down of Wall Street.

FINANCE-CAPITAL'S SOLUTION OF THE CRISIS

Wall Street's solution of the crisis is the historic ruthless solution of capitalism, with new aspects to meet the present conditions of decaying capitalism. The economic crisis is the cataclysm by which the contradictions of capitalism are temporarily solved, only to reappear in aggravated form during the next cycle. And the capitalists' solution is at the expense of the workers, farmers and small business men. The surplus of capital is solved by the destruction of capital, the wearing out of machinery, the bankrupting of smaller and weaker capitalists. Already the monthly number of business failures is 50 per cent greater than last year. The surplus of commodities is solved by a great reduction in production. The accumulated stocks of goods are meanwhile partly destroyed by rotting or deliberate destruction, and partly consumed by the capitalists, including the various small fry officials, rentiers, etc., who continue to purchase goods from savings as well as current income. The reduced rate of profit, resulting from lower production and prices, is restored by cutting wages. In addition, the monopolists force down the price of the raw materials they purchase, driving hundreds of thousands of farmers into foreclosure.

The monopolists, their grip on industry increased, their exploitation of workers and farmers increased, are then ready to renew production.

That is the method by which the last crisis was "solved." But today the people are resisting this solution at their expense. The invigorated labor unions, particularly the C.I.O., have so far limited, and in most industries prevented wage cuts. The Workers Alliance is fighting for increased work relief. The farmers, beginning to cooperate with the labor unions, will more successfully resist foreclosures and evictions.

THE WORKING CLASS SOLUTION OF THE CRISIS

The working class aims to solve the crisis at the expense of those who brought it on, the monopolists. Above all, the working class fights to prevent the misery and starvation which would accompany Wall Street's solution. The working class solution follows four main principles:

1. We propose to increase purchasing power by increased government work projects, C.C.C., legislation guaranteeing the farmer his cost of production. All of these proposals require government expenditures. They must be financed by taxing the idle wealth and swollen incomes of Wall Street.

We further propose to uphold and increase purchasing power by minimum wage legislation, increased organization to prevent wage cuts, government legislation and organized consumer action to force down monopoly prices. All of these proposals, which do not require government expenditure, will increase purchasing power by reducing or preventing further increases in the monopolists' profits.

2. We propose to produce the goods the people need by various government projects, useful W.P.A. projects, extended low-cost housing, flood control and soil erosion, extended T.V.A., R.E.A., and aid to municipal power projects, etc. All of these projects would be financed by using the idle funds of the capitalists.

We further propose that the government take over those industries most hamstrung by monopolist control, especially the railroads and the anthracite coal industry. In all industries, let the government operate idle factories in cooperation with the workers normally attached to these factories.

3. All of the proposals mentioned above will increase employment, directly and also indirectly through increased employment in private industry, since activity in the producers' goods industries will be increased to supply the materials required for the government projects, and activity in the consumers' goods industries will be increased to supply the increased purchasing power of the people.

We further propose to increase employment by passage of maximum hours legislation, the Crosser Six-Hour Day Bill for the railroads, trade union activity to reduce the hours of work without reduction in pay, aiming for a 30-hour week in all industry, union activity to reduce intensity of work, eliminate speed-up and stretchout, for vacations with pay.

4. All of these proposals will help the farmer and merchant, by increasing the demand for their products, and by reducing the monopoly price squeeze. In addition, we propose a moratorium on farm foreclosures, increased government loans at lower interest rates, extension of the tenant-aid program, legislation limiting the robbery by the landlords of the sharecroppers and tenants, extension of social security and minimum wage legislation to farm workers.

We advocate increased organized action by farmers, in cooperation with the unions, to achieve the economic and political demands of farmers and workers.

We further propose nationalization of the banks, which are controlled by the monopolies and which hamstring small enterprises; government loans at low interest to small business men, a moratorium on urban home foreclosures, additional government loans to home owners at lower interest rates.

Those proposals which require government expenditure can be financed by taxing the rich. At present taxes on consumption, levied on those least able to pay, exceed taxes on wealth and income, levied on those able to pay. The rich, as individuals and through the monopolist corporations, have enough current income and idle wealth to pay many times their present taxes without reducing their extravagant standard of living.

Such proposals constitute a people's solution of the crisis, a program of recovery for the people, at the expense of Wall Street, a program for which the people will have to organize and fight as never before against the fierce reactionary opposition. The President's fireside chat of April 14 marks a good beginning towards this program. It will mark an extension of federal work projects and public works to a higher level than any previously attempted. It will mark the extension of government low cost housing construction to a significant volume. It will mark the first government measures towards the supply of credit to small business.

"The recovery program, it is true, falls short of answering the desperate situation in which the monopolies have plunged us. With 15,000,000 already unemployed, the program could be much bigger than the President outlined it. But—let us first make sure that the President's program is enacted as it stands. It is a fine beginning. Let's pass it and then go on from there."—*Daily Worker*, April 16.

EDGAR SNOW'S "RED STAR OVER CHINA"

BY V. J. JEROME and LI CHUAN

For a reading public continuously misinformed about the Chinese Soviets and the Chinese Communist Party, Edgar Snow's *Red Star Over China** lifts the curtain upon the life of a new world in the former Chinese Soviet Regions.

"Any one who comes to our Soviet region will witness that here we have a new free world with a bright future." These words, spoken in 1934 by Mao Tse-tung, chairman of the former Soviet government, are confirmed in living reality by the warmly sympathetic reporting of this book, marred though it is by errors in interpretation.

Mr. Snow, a talented young journalist with evident love for the Chinese people, traveled through the Soviet Regions in Northwestern China from June to October, 1936. During this period the Kuomintang government was making its plans for "final annihilation" of the Red Army, despite the increasing demand of the Chinese people for an ending of the civil war, and unity for resistance to Japanese aggression.

The historic change which China has since undergone—from internal dissension and helplessness to valiant and successful resistance—is due in large measure, beyond all dispute, to the revolutionary forces in Northwestern China, led by the Communist Party of China.

Snow was the first foreign correspondent to enter the Soviet Regions. He was given every chance to investigate all phases of life there. Leaders of the Communist Party, the Chinese Soviet government, Red Army commanders, for the first time related their biographies, with the Chinese revolution as the kaleidoscopic background. No doors were closed. Every bypath as well as the main road of Soviet life was open for his inspection.

WHAT SNOW SAW IN THE SOVIET REGIONS

In an agrarian country where more than 80 per cent of the people live enmeshed in a semi-feudal economy, any shifting of the status of this broad underlying mass of people is a phenomenon of historic significance. The dynamic ability of the Communist Party and its heroic Red Army to raise this mass from the depths of poverty and misery is ably indicated by Snow:

"I have already described the burden borne by the peasantry in the Northwest under the former regime. Now, wherever the Reds went there is no doubt they radically

* *Red Star Over China,* by Edgar Snow. Random House, New York, $3.00.