Can Capitalism Stabilise, or EXCHANGE IS ROBBERY

By Maurice H. Dobb

WITHIN the last few weeks the value of the German coin, the mark, has "slumped" or fallen in value to an exchange value of 2,100 to 2,300 marks to the English pound sterling. (Before the war £1 equalled 20 marks). As a result there arises on the lips of most of us this kind of question: What is the cause of this sudden slump? Why is it that Britishers going to Germany find the purchasing power of their money so much increased? And the Communist will add the following questions: Will the mark go on slumping? If so, what will be the effect on world capitalism? Is capitalism able to stabilise its exchanges and thereby take a step on the road to capitalist reconstruction? On the answer to the last three questions largely depends the tactics of the working class movement in the near future. On our understanding of all five depends our understanding of the causes of unemployment.

The first thing to be emphasised in discussing the question of the foreign exchanges is that it is not a problem shut off in a water-tight compartment by itself; it is part of one big social problem—the problem of world capitalism. And it is in neglecting this that patchwork reformists usually "come a cropper." When the financial experts at Genoa tried to find ways and means of stabilising the value of the mark, they found that this depended on the question of Reparations; the question of Reparations depended on the whole question of French Imperialism and France's debts to Britain and U.S.A.; and French Imperialist policy depended on the investments of French Finance Capital, and the matter of the debts on the attitude of the American financiers, who pull the strings behind the mannequins which form the Harding administration. In other words, social evolution has reached that stage where capitalism is so linked together that the problems of the world constitute a single problem, and hence can be remedied, not by piecemeal reform, but only by striking at the roots of the matter.

The chief reason why the "external value" or foreign exchange value of the mark has fallen (and this applies to the franc, lire, kronen, and rouble as well) is because the supply of marks in circulation has been vastly increased by the printing of large quantities of paper marks. According to the laws of supply and demand, this vast increase of supply of marks lowered the purchasing power of each mark. In other words, more marks now have to be given for the same quantity of goods as before: prices have risen. The following figures show us clearly how increase of prices in Germany have gone along roughly with increase in note issue:—

	No. of Notes in circulation (millions of marks)	Proportionate increase of Notes (1914-100)	Wholesale (Frankfurter Zeitung Index No.)
Middle 1914	2,400 ...	100 ...	100
Jan. 1921	68,800 ...	2,800 ...	2,100
Jan. 1922	113,600 ...	4,700 ...	4 200
June 1922	169,000 ...	7,000 ...	7,800

The way this affects the foreign exchange value of the mark is as follows:—The purchasing power of the mark having fallen, owing to the rise of prices in Germany, the British merchant, changing pounds for marks at the old rate, finds he is able to buy *less* goods in Germany than he can elsewhere with the pound. Consequently exports from Germany fall off; there is less demand for Bills of Exchange on Germany to make payment for these exports. In other words, there is less demand to buy marks. As a result the foreign exchange value of the mark falls, until the new rate of exchange between marks and pounds sterling measures the relative *purchasing powers* of the mark and the pound. Therefore, one cause of the slump of the mark is "inflation" of the German currency.

But in Germany at present the internal purchasing power of the mark has not declined to anything like the same extent as its external value or foreign exchange value. Wholesale prices in Germany have risen by about 900 per cent. Retail prices have risen less. On the other hand the number of marks needed to purchase a given quantity of goods (imported from abroad has increased by about 1,600 per cent.

This difference between the internal and external value of the mark is chiefly due to the action of speculators in foreign exchange, buying and selling marks. The German Government, being in financial difficulties and unable to balance its budget, can only meet the periodic demand for reparation payments by creating fresh paper marks, and selling them to speculators in foreign exchange, in order with those marks to buy the francs and sterling in which payment to the Allied Governments has to be made. This rush to sell marks causes a "slump" in their value.

The recent slumping of the mark to 2,300 was largely due to the murder of Rathenau, which caused Germans in panic to sell any marks they had, in order to invest in the more secure franc, dollar, or sterling.

The effects of a continually unsteady foreign exchange are:—

1. Fluctuating values cause great risks to merchants and manufacturers, and so greatly hinder trade and production.

2. The countries, where the price level has not risen to the same extent as their exchanges have fallen have low enough costs of production to enable them to "dump" goods abroad at low prices. This causes disorganisation of production and unemployment in these countries.

3. As a result of (2) capitalists in self-defence, force their Governments to impose tariffs and embargoes to prevent this "dumping," etc.; and this still further hinders trade, makes the problem of the exchanges worse, and so on in a vicious circle.

An instance of the disastrous results of (3) is seen in the present state of the Textile Industry in what used to be the Austro-Hungarian Empire. As a result of the imperialist policies pursued at Versailles, the old textile industry is now distributed among a number of different nations. The Austrian weaving mills are now dependent on the spinning mills of Czecho-Slovakia, Hungary, Poland, and Jugo-Slavia. These latter countries impose restrictions on imports and exports, with the result that the Austrian mills are only able to produce 60 million metres per annum, instead of a possible output of 130 million. At the same time capitalists in Czecho-Slovakia are complaining that owing to inability to export their yarn, the output of their looms is much less than pre-war.

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The position is, therefore, that all over Europe the productivity of industry is much less than pre-war owing to maladjustment between various parts of the economic machine. There is over-production in one place because there is under-production in another, and vice-versa. In this country there is a scarcity of fluid capital for necessary reconstruction work, which would give employment to workers, because an excessive amount of capital has been sunk in shipbuilding plant and is useless. (The world's shipbuilding capacity in 1919 was 114.4 per cent. greater than in 1913, and in 1921 the world's total tonnage was 26.3 per cent. greater than in 1914.)

This maladjustment as a result of the war and post-war boom, and consequent over-production of certain classes of goods and plant, is on a much larger scale than in any pre-war trade depression. Moreover it is prevented from readjusting itself automatically, as it tended to do in pre-war crises, by the disorganisation of trade and production through changing price-levels and fluctuating exchanges everywhere. This evil gets cumulatively greater like the rolling snowball.

Now, it is just possible that Finance Capital, in so far as it comes together in an international consortium, may use its political power to reverse the imperialist policies of competitive rivalry, which have prevailed hitherto, and may put into operation the kind of policy advocated by Mr. Keynes and the *Manchester Guardian*. Such a policy has as its key-notes: reductions of reparations; cancellation of inter-Allied debts; loans to Central Europe and Russia; stabilisation of the exchanges. It may do this if it makes large investments in *trade*, and therefore, requires peace and stable conditions. But at present there seems much more sign of the various financial groups buying up at bankruptcy prices material resources and plant in stricken Central Europe. And this policy of investment in material resources (e.g., oil and coal and iron ore) and in iron and steel production (e.g., French financiers bought up the Skoda Works, Pilsen, in Poland, in 1919), implies political policies of predatory Imperialism. As long as this Imperialist rivalry continues, Stabilisation of the Exchanges will be impossible.

But even should Finance Capital secure a temporary stabilisation of political and economic conditions, this is likely to be no more than temporary. The growing indebtedness of Europe to America spells inter-continental rivalry, with oil as the possible prey. Imperialist rivalry in China will still continue. Moreover, the political action which a Finance Consortium would find it necessary to take in the way of reducing wages, abolishing workers' control, etc., as Stinnes is doing in Germany, would intensify the class struggle over Central Europe. For instance, an attempt to stop inflation in Germany and stabilise her Exchange, would be certain at first to cause a rapid fall in internal prices and a rise in the foreign exchange value of the mark (owing to the action of speculators in buying marks in anticipation of a rise). A rise in the value of the mark from, say, 2,000 to 1,400 would involve trade depression in Germany, unemployment and wage reductions on a gigantic scale.

All that can be said in answer to the question "what are the chances of a revival of capitalist production?" is this:—It is *possible* that there may be a temporary revival of trade and employment in the next few months owing (a) to a revival of the Eastern and South American markets, (b) to an artificial stimulation of production in America by fresh inflation of credit. This will affect our trade as well. In U.S.A. there are large gold reserves, and therefore a large basis for credit inflation. Prices in America have taken a decided upward turn already; Bank Clearings have increased considerably; constructional activity has increased by about 50 per cent. since last year; unemployment has declined. In this country imports of raw materials have increased since May and freights have risen slightly in anticipation of shipment of the Argentine crops.

But such a revival is likely to be only very short-lived (probably not more than 18 months) so long as there is instability and chaos in Europe; and the ensuing depression when it comes is likely to be all the more severe. For instance, I have heard a noted orthodox economist give it as his opinion that the over-investment in shipping and shipbuilding plant in this country is enough to last for 30 years.

Meanwhile, Russia, free from internal conflicts between the sectional interests of rival capitalist groups, free from the disintegrating conflict of class struggle, is able to enforce those wise economic methods necessary for financial stability. And, as Mr. Maynard Keynes himself has suggested, Soviet Russia may be the first of the war-stricken nations to stabilise her exchange!

COMMUNIST "PUSH" REPORTS

Owing to the large number of reports received from Communist agents, we are unable to give the result in this week's issue; we hope to give the result, also print a selected number of reports in a week or two's time.—

CIRCULATION MANAGER.