

1  
What is the real character of the Economic Crisis?

Why is it that up to now no signs of recovery have appeared?  
How is it that the economic systems of different countries have achieved from time to time a delusive equilibrium, an escape from the symptoms of the crisis, but in doing so have only postponed the colossal burden of a regularly accumulating economic deficit?

It is not necessary here to enter into the intricacies of modern trade cycle theory. There can be no doubt that the economic blizzard from which the world has been suffering for the last four years is in its essence an example of the familiar periodic depression, ~~but~~ its distinguishing features however are derived from the peculiar historical situation in which it developed. The general post-war depression ~~of~~ however of which the period ~~1929/1933~~ since 1929 is only the most serious phase had its petticular origin in the war itself and in the peculiar social-political development with which it was associated. It is because of this ultimate background that any natural tendencies to the recovery meet with such impossibly great obstacles.

The economic losses of the war were themselves enormous. The view that modern <sup>war</sup> could, - on economic grounds, - not be carried on for more than three months was essentially correct. If it did go on for as many years this happened only at the cost of permanent social damage. But

2

But only if the disturbances are of purely economic ~~symp-~~ origin is it likely that a natural recovery will take place.

The gigantic effort of the whole community to raise the necessary means for the continuation of the war exceeded by far the capacity of economical efficiency and necessarily produced damages of such an extent that the social fabric could not support the restoration of the economical equilibrium. It is generally believed that the read<sup>to</sup> equilibrium was blocked by the menace of revolution, this is doubtless true but moreover it must be remembered that the social-political causes that prevented the restoration of a new post-war equilibrium were almost as complicated as the national, ideal and real forces that produced and eventually ended the war.

The full extent of the damage caused by the war has only been revealed by the most recent statistical investigations. In spite of technical revolution and American economic marvels industrial production was even at the climax of the cycle in 1929 relatively backward. It was at least a long way behind the point it would have ~~reached~~ had progress taken place at the same rate as for the two generations ~~before~~ which preceded the war. In the two decades since 1914 industrial production ought to have doubled, instead of that after increasing to 60% up to 1929, it has now fallen to below <sup>(prewar</sup> the standard by 1933. Had economic progress been uninterrupted, industrial production would have been in the middle of 1933 the double of what it really ~~was~~.

Neither the feverish but unproductive activity of the war-years, nor the increase of the agricultural production -interrupted at this time by no crisis,- can alter the fact that the war held back agricultural production for ten years, and industrial production, -quite apart from the crisis 1929/1933,- for as much as twenty years.

Post war claims: rentier, worker and peasant

However much we may differ in estimating the damage caused by the war, we must appreciate that in the existing political and social situation it was sufficiently great to prevent for some years to come the establishment of a new economic equilibrium. Three social groups in special could not be disillusioned. If the social structure was to be preserved it was essential to avoid a disillusionment of three social groups:

The rentier who had helped to win the war by his financial aid and without whose further belief in credit and currency the capitalistic world could never be reconstructed.

The workman who had in fact endured the heat and burden of the struggle and who accordingly had been promised better social and material standards at its close.

The peasant, - the only reliable defence against revolution.

In the victorious countries the rentier was the first to be attended to, partly because his sacrifices had helped to win the war but more particularly because a belief on his part in currency and credit was the only guarantee that business could get going again. War economics with

4

all its compulsory restrictions had to give<sup>way</sup> rapidly to free enterprise and free markets if the capitalistic economic system was to function again.

In the defeated countries, - where the ruling classes were overthrown as a consequence of the defeat, - the position of the workers claimed precedence over all others; They had secured themselves of political power and were not inclined to wait for their larger share in the better life.

Nor was the position in the victorious countries essentially different. Premises had been the fuel of the war machine. Now that the war was won there was no getting around the fact that the goods had to be delivered. Lloyd George, who had not only contributed the ammunition but also the slogans to the fight, had promised "homes for heroes". The growth of Democratic sentiment carried all before it in England: before the war there were 8 million voters, shortly after the war there were 28. In this situation, after the strain which the deflationate (?) preventive policy involved, it was impossible to continue any further with a policy which fell at the heaviest upon the workers.

Finally there was the peasant: ~~XXXXXXXXXXXXXXXXXX~~ he with his little piece of land, - in habitual economic opposition to the town, - appeared in the postwar period to be a reliable ally against bolshevism. No doubt the peasant is tied both by tradition and economic interest to conservatism, nevertheless as the example of Bulgaria has shown he too can be disillusioned. Indeed without any particular disillusionment he can develop a taste for breaking up

(events in certain other the big estates as some Eastern-European countries) have shown. We know that revolutions do not necessarily come from the left. So it was even more important to give the peasant sufficient guarantees.

The fact was that nobody thought it was necessary to lower the standard of life after the war. When this was at last realized, it was already too late.

Thus any effort at restoring economic equilibrium was counteracted by the threefold claim:

the fixed interest of the rentier

the wages of the workman

the income of the peasant. All these were expected to be larger than before the war, notwithstanding the destruction caused by the war.

The effort to make postwar fixed interests, wages and agricultural prices reach or even exceed their prewar value was called :v a l e r i s a t i o n of interests, wages and prices. But all these claims to a higher level of consumption were not warranted by material resources available. To preserve the social order by fulfilling these claims was to demand an economic impossibility. When the ~~XXXXXXXXXXXXXXXXXXXX~~ choice lies between the claims of social stability and the narrow path of the economically possible, the former always wins the day. We decide on economic experiments. In the long run this disregard of economic laws only make matters worse; but for the moment the stability of the social structure is saved.

5

The social fabric of the States created by the Peace Treaty was threatened not only by domestic difficulties, but also by the international legacy of the war. The Reparations, War Debts and economic Nationalism would have been obstacles enough in themselves. Nevertheless postwar social and economic dislocation was—in our opinion—the attempt to increase the standard of life in the face of seriously diminished national incomes. Moreover foreign and domestic economies can not be kept apart. The pressure of reparations and war debts forced the world to make efforts as exceptional as did the ill-timed claim for a high standard of life. Both efforts characterize postwar economic life. The breakdown that had to be their consequence was only postponed by extremely dangerous "interventions".

Economic and financial history of these last fifteen years consists in fact of a series of "interventions" and their disastrous consequences.

These interferences with economic life, —so-called "interventions", —were not of course the cause of the crisis. They were only, more or less inadequate, means to postpone catastrophic consequences of this it, and very often merely false, and shortsighted experiments. The war, the greatest intervention was the original cause of the crisis. The attempts to postpone the catastrophic consequences of this brutal disturbance of social and economic equilibrium seemed sensible enough; it was only in the long run that these interventions led to results which really aggravated even the situation caused by the war. We can not possibly realize the economic function of postwar interventions unless we understand how absolutely necessary they were at that time.