In memory of
Hans H. Gerth
Scholar, teacher, friend

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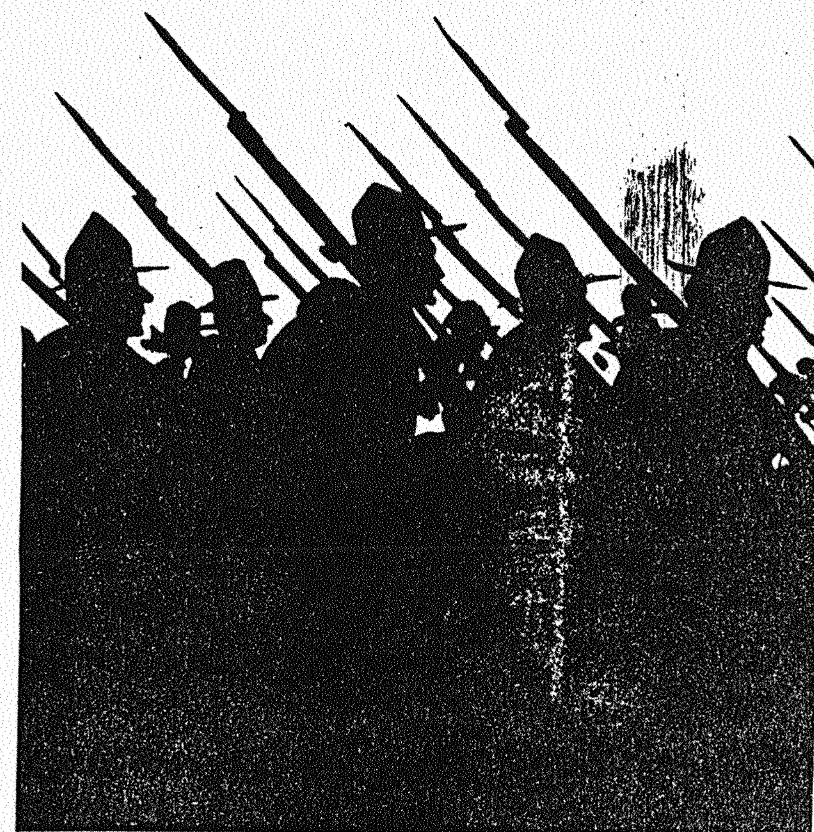
Arms & Empire: Imperial Patterns Before World War II



by Richard Krooth

Acknowledgments

In 1968, my teacher and friend Hans H. Gerth, professor of sociology at the University of Wisconsin, Madison, suggested I write down my thoughts about the patterns of empire before World War II. He generously offered his time and encouragement to help me confront the more traditional and narrow interpretations of economic, political and military events usually written on the subject. With his invaluable aid, I worked out an initial draft of this study of arms and empire. Soon after he returned to West Germany for what were to become his final years of teaching.

Besides Gerth's support, a generous grant from the Louis M. Rabinowitz Foundation, Inc., enabled me to devote my time to finishing the research and writing the final draft. I wish to express my thanks to that foundation, and also to the Brookings Institution for the right to quote from Louis Marlio's first-hand account of *The Aluminum Cartel*.

At various stages of completion, the manuscript was read by professors Richard Appelbaum, William J. Chambliss, Morris Edelson, Richard Flacks, Robert Smith, and Paul Stevenson. To each of them I owe thanks for positive suggestions for improvements. I would also like to thank Peter MacDowell and Lester Radke for their useful comments on the manuscript.

With the aid offered by these colleagues and friends, left to me was the final task of presenting the patterns of empire and war. So, needless to say, I alone am accountable for the facts presented here and the conclusions drawn.

Richard Krooth

Santa Barbara, California
November 15, 1979

This book is among the periodic series available to *Harvest Quarterly* subscribers at the annual subscription rate, and covers issues numbers 8 to 16. ISSN: 0146-5414.

About the Author

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Introduction

Today many scholars and politicians insist that there is no mechanical connection between crises, overseas expansion and war. This may be so. More, the big Powers have now taken fiscal, monetary and political countermeasures to avoid impending crises. Yet these are not totally unlike the techniques of stabilization used in the past. Then and now these Powers have tried to expand or contract business, raise or lower interest rates, erect or destroy tariffs and other trade barriers. Too, they have adjusted their output, their commerce, their world finances. But, yesterday as now, they have not been able to sidestep crises. And the malaise again has appeared on an international plane, giving us cause to look to past crises to better understand the economic chaos that presently engulfs the United States, Western Europe and Japan.

Possibly the world is again in store for a prolonged series of slumps, recessions, and depressions. But are these similar to the cataclysmic events that once led nations to increase their exports of goods and capital, take over territories abroad, create colonies, and eventually go to war with each other? More, is there a connection between a decline in domestic production and employment on one hand and a rise in a nation's overseas operations on the other hand? Does the simultaneous occurrence of inflation and recession at home have anything to do with this expansion abroad? And how, other than by expansion, can the Western Powers and Japan accomplish full employment?

These are basic questions that require answers, if we are to understand anything about the relationship between domestic economic problems and world commerce and investments. The answers, moreover, lead to other, secondary questions. How, for example, can we explain England's entrance into, and possible withdrawal from, the European Common Market? And why has Britain periodically vascillated in tightening her economic alliance with North America, but pursued tighter ties with the Continent?

Why do Common Market officials continue to issue proclamations about solidarity with Africa?

Can one rationally make sense out of repeated U.S. efforts to devalue its dollar and then allow the sale of gold to American citizens? Who says—and who can prove—U.S. exports need to be cheapened and U.S. manufactured imports made more expensive?

Where does one look for the cause of the upvalued mark, the appreciated yen, the whole monetary crisis itself?

Can anyone describe why the United States has gone marching abroad with guns, then aid, and now fine words about humanity?

Do U.S. presidents really want an equal alliance between the American states?

Why are Japanese leaders again speaking of "a new order of things in Asia?"

Who asks Japanese premiers to follow America's lead in the East?

Will China and Japan find a means to wage peace in the Orient or is war in Asia imminent?

What makes U.S. presidents go to China for peace and the Soviet Union for trade?

Is war between capitalist Powers possible today? Or can capitalist and socialist Powers unite for war against another capitalist or socialist nation?

These and similar questions I have *not* tried to answer in the pages that follow. But I have answered other, very important questions about an earlier period in history, leaving the reader the option to accept or reject any historical analogies that may appear or recur. More, I have tried to contrast the kinds of empires that appeared in the past, also presenting

some theories about empire and comparing the patterns of expansion that actually emerged. Whether or not these empires, theories and patterns have any relevance today is, again, a matter for you to decide.

* * *

As for the past, in this study we have placed stress on the classical British empire. For in England the proletarianization of the populace led directly to industrialization and overseas expansion. Expansion then bred an imperial foreign policy in Europe and the world.

Other nations repeated Britian's development. As they grew powerful, the spheres of influence they created collided with each other. And their repeated collisions gradually led to World War I.

Then, with the war over, the Peace Treaty of Versailles bore bitter fruit. Germany was partitioned. It looked as if she was finished as an industrial nation. But the victorious Allied Powers had second thoughts about the danger of revolution in Europe. To prevent the spread of Soviet power and a revolution in Germany, the Allies built Germany strong again.

Yet this became Europe's Achilles heel. A renewed Germany planned to conquer a weakened Europe. So Britain tried to call a halt to German expansion and the British monopolies chose up sides with their former Allies. By now the monopolies from all the leading Powers were determined to capture world resources and markets for themselves. But their selfish drives for profit led to ever new crises. At first they were economic crises, for each nation moved in retreat to tightly-held empire. Then they became political crises, as Germany, Japan and Italy contested the rights taken by the other Powers in the world. And ultimately the major Powers went to war, to win for their own business enterprises and monopolies a secure place to the exclusion of all competitors.

These patterns of empire evolved regardless of the specific will of any single individual caught in the weblike structures of international relations. For we will see that empire was systemic and competitive; that competition and nationalism then powered the changeover from one system of empire to another; that, consequently, the mercantile colonial system was replaced by a system of free trade with the coming of industrialism; that free trade was thereafter replaced by a return to colonial empires with the rise of monopolization in the leading nations; that war between the Powers resolved little in the fight for world domination; and that a new growth of monopolies led to strengthened colonial spheres of influence and renewed warfare.

CHAPTER I

Industry Stops the Human Wave

This chapter discusses events occurring between 1815 and 1914, the century of British world dominance. The setting for Pax Britannica is that it was preceded by more than two and a half centuries of mercantile wars and followed by two decades of U.S. power, World War II, and a new allotment of the world into spheres of influence. More, through this entire period, economic expansion had an expensive partner, militarism. For every time a nation state expanded its frontiers, it called up new military forces which then had to be financed by still more overseas commerce, more investments, and more booty or returns.

Hence, nations needed soldiers, and they came to be recruited for years, sometimes for life—a distinct break from the past levy for a single campaign. Growing economic competition also led to extended political diplomacy and better weaponry. Improving weapons then required new expenses, more complicated manufacture, and arsenals for production and storage. So nation states fortified frontier towns and overseas bases as never before and constructed military roads to enable reserves to assemble more quickly. With the advance of military supply depots and more effective weaponry, battle lines gradually lengthened and nations began military maneuvers to threaten opponents' supply lines. Then with the discovery of coke smelting in the second half of the eighteenth century and the manufacture of inexpensive artillery pieces, guns became more mobile, ammunition columns longer, and the protection of batteries and supply columns with easily dispatched troops more necessary. The quest for overseas territories and spheres of influence, the escalation of arms technology, the ever-rising cost of war, all became inextricably linked: economic expansion and militarism fed into each other and proliferated.[1]

(i) Off the Land, Into the Factory[2]

Within the frame of this general pattern, Britain's expansion from an insular economy to a global empire was without parallel in history. The British surge followed the accumulation by merchants of wealth drawn from foreign societies and by profit-seekers from the labor of English peasants and workers. More, to build an empire, the profit-seekers first separated the English population from the land, made them into an industrial work force, and eventually deprived them of ownership of the tools and instruments of labor.

Nonetheless, for nearly six centuries between 1215 and 1800, the English people were preoccupied with survival on the land. Indeed, English agriculture only gradually changed, for the rights of the farming population were secured under a feudal system of manors. Therein subsistence for internal consumption on the feudal domain long remained the dominant form of output, though over time production of a surplus for sale on the expanding market also began. Later, however, land-accumulating barons stepped forward to sweep many millions of people off the land, while merchants also drew them towards the cities by offering employment in a flourishing commerce. Eventually, then, the green England of farming became the gray England of trade and, still later, the black England of urban industry.

So cities grew. At the time of the Norman Conquest in 1066 England's population was only ten percent concentrated in small towns; but by 1800 England held fast twenty-five percent of the people in cities of 5,000 or more.

After 1505, moreover, Henry VII used his power to favor the commercial classes. Forcing loans from his landed subjects to wage war against France, and using the booty from the French King for making peace, Henry smoothed the flow of wool from English sheep growers to Flemish looms, put his merchant fleet in the Mediterranean, allied with Florence to

allow English merchants to transship to and from the Orient, and stimulated English markets, manufacture, and an ever-increasing demand for sheep pastures—which were torn from the common people and the church. The struggle thus begun was not won till 1689, when the Navigation Acts installed under Cromwell in 1651 were used to guaranty full state support for British shipbuilders, merchants and colonizers.

Meanwhile, great lords sought profits by filling foreign workshops with wool to be woven into finished cloth for export markets. Forcibly driving peasants from the land, the lords transformed great estates from village and farm land into sheep walks. Between 1400 and 1650 alone, they enclosed one-sixtieth of the nation's total land mass, sweeping untold numbers off the soil, razing peasants' homes, and destroying whole villages. The "common lands" essential to village farming were taken, the cottagers and small tenant farmers were ruined. Land rents were raised, work to tend sheep scarce by comparison with labor formerly needed for tilling fields. And no new lands were devoted to the plow.

British rulers between 1558 and 1640 also sold at a small price land worth £4,000,000. By the latter date, in fact, the King of England owned only two percent of the nation's land, while the wealthy squires had become the backbone of the nation owning a full 80 percent.

Then the clever landlords and manufacturers behind Henry VIII proceeded to use the puppet king to order a dissolution of the monasteries and a confiscation of their lands. For a worthy price, the king rewarded his favorites with church lands—⅓rd of the nation's area—to be turned into sheep runs. While forty thousand families thus received the spoils to make room for their sheep, millions of England's people were mercilessly driven from village and farm into frightful beggary.

Seventeenth century enclosures continued more quietly than before, indebted tenants being legally compelled to release more land for landlords' profitable sheep runs. Land extortion continued up through the Napoleonic Wars. True, as wheat agriculture became the dominant cash crop, some sheep walks again returned to grain fields. But the land was never returned to the people. The holders of large enclosed estates and former Crown lands now used their political power to compel the State to subsidize their wheat planting for exports. Even when wheat was imported to feed workers after 1765, additional English soil was brought under the control of large landlords engaged in grain production to feed the rapidly expanding urban population. Grain now in great demand, the price of wheat climbed steadily between 1764 and 1850. And the profits of agriculture led landlords to use unbridled political power for monopolizing every scrap of soil.

Thus, during the 150 year period 1700-1850, the number of private enclosure bills passing parliament increased swiftly from 15 in 1717-27, to 226 in 1728-76, to 1,482 in 1761-96, and to 1,727 in 1797-1850. The more than 4 million acres enclosed under these acts ousted millions of penniless peasants, forcing them to become wage laborers on the land or in the new industrial towns.

Expanding industries meanwhile attracted these workers. A series of industrial discoveries in the 18th and early 19th centuries placed in English owners' hands a means to manufacture wool and (later) cotton. Until the 17th century England's sheep wool had been hand spun, the product then sent to Flanders for weaving. But in that century the spinning wheel was invented, run first by one hand, afterward by the foot of the spinner. Although only one thread at a time could still be spun, James Hargreaves soon produced a machine (1764) where one wheel turned eight spindles, spinning eight threads instead of one. Seven years later, Richard Arkwright appropriated other inventions to draw out the spun threads by means of water power. In 1779 Samuel Crompton combined the previous two inventions so one spinner could spin two hundred threads at a time. With so much thread, weavers now needed Edmund Cartwright's invention of the power loom (1784) to throw the shuttle back and forth automatically, allowing by 1800 one man to weave more cloth than two hundred could do in 1770. And when Eli Whitney invented the cotton gin (1793), English mills also began to weave *cotton* fibers drawn from United States plantations on a grand scale; for one slave could clean with the

gin as much cotton of its seed as three hundred had been able to clean by hand. With James Watt's steam engine (1785), the way was cleared for mass production in owners' factories.

Soon new industrial centers like Liverpool, Manchester, Leeds, and Birmingham drew spinners and weavers to their side. Over-grown industrial villages sprang up in the surrounding country areas. Supplying wool fibers to domestic workers, merchants employed the rural populace, eventually drawing them out of the fields and placing them in spinning and weaving factories. And as more and more people were hurled into industrial villages and towns, the nation's population swelled 2½ times in the central years of Britain's industrial advance from 1750 to 1840.

Formerly self-reliant craftspeople lost employment as the factory system spread. Although they rose in desperation time after time to smash the new mill owners' machinery, they were helpless to save themselves or to prevent the rush of rural populations to the work centers of the North and Midlands. Fiercely competing for employment against English workers, also came the hungry of Scotland and Ireland. The oversupply of workers now allowed factory owners to keep wages low, work intensity high, amenities few.

To meanwhile protect Britain's superiority over foreign rivals in the cloth industry, owners used their government influence to impose severe penalties on the exporters of machinery and the emigration of skilled operatives. Alongside old mill hands, more working people of England were drawn to the cities, turned into a mass of poverty-stricken wretches, driven by factory owners to unceasing toil, and unable to purchase or consume what they produced. Owners' exports of manufactures, imports of luxuries, flourished, calling forth improvements in the means of transport and finance. England was the workshop—and the sweatshop—of the world.

(ii) Not by Trade Alone

By 1800, British merchants had achieved a practical monopoly of the carrying trade between Europe, America, and the Orient. Northern Europe previously was deeply indebted

Macao, Timor, etc. & Straits of Magellan

to the vast commercial monopoly held by merchants from Southern Europe. But England's growing class of traders had long sought a way to evade Portugal's control of Southern sea lanes to the Orient and Spain's monopoly of the Southwestern passage to the East. England's crowned heads had also empowered privateers and seadogs to pillage Spanish bullion fleets carrying New World gold and silver to Southern Europe's treasuries.

Yet, these measures alone did not fully secure British financial independence from the South. And England's commercial classes now sought other ways to break through the Southern sea monopoly. Failing to open a Northwest passage across the tip of the Americas, Britain then turned to acquire gold by developing its manufactures and commerce. So where annual foreign trade was £2,487,000 in 1613, by 1703 it had trebled to £6,644,000, and then multiplied another five times in the following century.

British vessels laden with goods began appearing on coasts the world over, bringing to England a steady stream of treasures from India and the Americas. Meanwhile for security trading interests in charge of parliament's budget spent lavishly on the Navy which became an important instrument of foreign policy, with British defeats of Holland soon undermining the Dutch efforts at manufacturing, ocean carrying, commercial expansion, and colonizing. Britain's naval preeminence also gave to her the benefits of previous European global exploration and made her mistress of trans-Atlantic trade. So not only did England monopolize American colonial commerce till 1776; but she also extended her colonies from two during the reign of Elizabeth to 50 by 1800; and she dominated the Atlantic Ocean and established a practical monopoly of European and American markets for her manufacturers.

To achieve such supremacy Britain had spent the equivalent of 103 years of war against Spain, 33 against Holland, and 83 against France. She also kept the Continent divided by promoting nationalist quarrels. Thus, as the center of Continental economic, political and military dominance shifted from Venice in the 15th century, to Spain in the 16th, Holland in the

17th, and France in the 18th, Britain employed a two-fold policy: to keep the dominating Continental nation too weak to unify the European land mass, but not so weak as to succumb to a new dominating nation.

In the late 18th century, however, Napoleon attempted to turn the Continent into an economic unit under French control to the exclusion of British influence. At the height of his power in 1806, he declared a Continental Blockade, forbidding the subjects of France or any other European Power under French aegis to trade with England or with England's colonies. The act threatened English manufacturers and merchants with ruin, for they relied upon Europe's markets to absorb their surplus products, since England's impoverished workers could never buy with their meager pay what their own hands made. In retaliation to the French Blockade, therefore, British owners forbade all trade with France and her subject allies, forcing people on the Continent to pay exceedingly high prices for the limited supply of English contraband goods that slipped through Napoleon's iron curtain. So great was the dissatisfaction accompanying the Anglo blockade, so short was the supply which produced the enormous prices charged Continental people, that Napoleon's overthrow began—long before Waterloo.

Yet France devised an innovation which would be repeated by later military powers, to the cost of populations of workers. To ensure quick victory, Napoleon had changed the human cannon fodder of war from mercenary to citizen armies. The Revolutionary Government had decreed (August 23, 1793) a *levée en masse* conscripting all citizens into a national army and mobilizing the entire nation's men and material. Within a year of the decree of '93 France boasted half a million men under arms in a still-growing popular army. So the monetary cost of citizen armies fell—at an appalling and escalating human expense as Napoleon called forth millions to die in the name of betrayed European revolution.

But there came a limit to Napoleon's reliance on the biggest battalions. For British technology—her cannon, the fire power of her infantry—at Waterloo stopped the human wave, winning a victory which led step by step to nearly 100 years of English imperial dominance and peace in Europe.

(iii) Pax Britannica Depends on Free Trade — and Vice Versa

After Waterloo, Britain became the emporium to which raw materials flowed and from which manufactured goods streamed. The volume and cheapness of British goods called for larger and larger markets, for production soon outdistanced the limited markets which the old colonial trading policies had established. Now the new industrial monopoly called forth a new form of imperialism, *free trade*.

Underlying economic, social and political conditions had a great bearing on this policy, pushing it forward gradually. For during the seventeenth and the early eighteenth centuries, the mercantilist nations (save Holland) had surrounded themselves with high tariffs or prohibitions on trade, guarding their colonial commerce and excluding all competitors. Despite restrictions, smuggling operations established "free trading" in sugar, tobacco, wool, silk, and other heavily-taxed and prohibited goods. As the American Revolution also broke Britain's monopoly of production and colonial commerce, Adam Smith's *Wealth of Nations* argued that the wealth of all countries would be increased if each specialized and remained free to exchange their unique goods regardless of national boundaries. Practical expression of this theory came in 1786, when France and Britain, inveterate enemies though they were, signed a trade treaty by which the latter admitted French wines and spirits (but not silks) at much lower rates in return for depressed French tariffs on British cottons, pottery and iron. But free trade did not last very long once war began. For nearly 25 years guns substituted for commerce.

Free Trade, But Not Just Yet

The war of 1792-1815 may have ended with England's victory, but still free trade did not immediately begin. England's swollen agricultural production and expanded industries, for example, needed markets that would ensure landlords and factory owners a return. English land barons planned for profits, protecting their home market from foreign goods while extending overseas sales. Under their new Corn Law of 1815, wheat imports were forbidden so long as the domestic price of grain did not exceed 10 shillings a bushel. British sheep magnates also secured their home market by a tax of six pennies a pound imposed on foreign wool. British mill owners defended domestic and colonial markets by tariffs on foreign manufactured goods and on other Powers' colonial raw materials entering England. Thus England's Navigation Laws and preference to colonial products were undisturbed. The bounties paid by England to linen exporters remained fast, and the taxes on exported coal and many manufactured goods unruffled.

At the same time, Russia, Austria, France, Prussia and America also imposed tariffs, prohibitory duties and other forms of protection against English products entering their domestic markets. For sales then England's owners were soon pressured to adopt a new commercial policy, calling now for free trade instead of mercantile protection.

Free trade would simply mean that low price British goods would undersell all competitors in a barrier-free world market. For England's manufacturers were equipped with new techniques their competitors lacked giving them little to fear from foreign manufacturers in the home market or anywhere else.

Free trade then transformed the policies imposed by the Navigation Laws. British manufacturers did away with duties on the imported raw materials their machines required. They also reduced tariffs on foodstuffs needed to feed England's growing working class. Manufacturers and merchants, cabinet ministers and members of Parliament now Philosophical Radicals echoed Adam Smith's free trade policy which would (in the words of one London merchant's petition in 1820) "render the commerce of the world an interchange of mutual advantages and diffuse an increase of wealth and enjoyments among the inhabitants of each state."

Some manufacturers (and especially the cotton mill owners of Lancashire) were eager for free trade, but other classes represented by the Old Tories struggled to retain the mercantilist—protectionist—order. Shipowners clung tightly to the

Navigation Laws, while landed capitalists supported the Corn Laws and other protectionist rules. Colonial interests favored their English market preferences on sugar, lumber, and grain; and government finance ministers promoted any foreign levy that helped keep the national purse replenished. The struggle of these classes against the manufacturers meant that the movement from protection to free trade was both fitful and gradual.

Free Trade at Last

The overbearing pressures of economic life eventually won all imperial schools to the cause of free trade. Between the Philosophical Radicals' demand that colonies be emancipated and free trade initiated and the Old Tories' defense of the existing colonial system stood the Reformers' plan. The Reformers meant to keep the colonies from enacting tariffs and disposing of unoccupied lands, both, they said, the prerogatives of the Empire.[3] But they joined the Radicals in exposing the myth of mercantilism, the monopolization of the colonial trade.

The myth of mercantilism, they said, was that it assumed trade could be carried forward without benefit to both parties. So, for example, the dominant country might restrict the ships of the dependency to the ports of the mercantile Power, thereby compelling the subject nation to trade with less advantage than if it were free to operate as it commercially pleased. The resulting slow upgrade in the dependency's industry and accumulation of wealth would thereafter undermine the profits of trade the dominant nation carried on with it. Thus they concluded, the best customer which a nation could have was a thriving and industrious community, whether it was dependent or independent. "The trade between England and the United States," attested Sir G. C. Lewis in his 1841 compilation of British dependencies, "is probably far more profitable to the mother-country than it would have been if they had remained in a state of dependency upon her."[4]

Towards the establishment of such free trade, mill owners helped win the passage of the Reciprocal Duties Bill in 1823, authorizing the government to sign agreements with foreign nations for the mutual withdrawal of restrictions on merchant trade. Treaties were thereafter negotiated with Prussia, the Netherlands and Denmark; another treaty (1825) was contracted with the German Hansa towns, followed by still another (1826) with France, and one more (1829) with Austria. Through these treaties, the Navigation Acts lost many of their prohibitions on free commerce—the wave of the future.

Over the Corn Laws of 1815, however, a bitter contest began. The great landowning families had isolated themselves from every other class by using the Corn Laws for their own selfish profit. They had designed the Laws so foreign wheat could not enter England and upset their monopoly prices which were established at a level that ensured mass famine during the Napoleonic Wars. And for the following 22 years they had kept the workers in hunger, thereby forcing the factory hands to demand higher subsistence pay from the mill owners. And now the workers and owners united against their mutual oppressors.

Workers seeking lower food costs to issue a better life and manufacturers pursuing the same goal to decrease subsistence wages formed in 1838 the Anti-Corn League to agitate for the repeal of duties on imported grain. The money for League activities came from the owners' purse, the agitational propaganda from free traders opposing colonial wars. Arguing for an end to mercantile wars for markets and a beginning to free trade for wheat and manufactured goods, Cobden insisted: "Our free trade agitation and the peace movement are one and the same cause. The colonial system, with all its dazzling appeals to the passions of people, can never be got rid of except by the indirect process of free trade. The colonial policy of Europe has been the chief cause of wars for the last hundred and fifty years."[5]

But the working class and the manufacturers were less interested in anti-war idealism than in lowering food prices in order to lower the cost of subsistence for workers and thus wages and the price of goods workers produced. Popular opposition to the Corn Laws reached a head in 1845-46, when a second consecutive bad harvest in England coverged with the Irish potato famine. Before the menace of starvation, an inevitable rise in wheat prices, and potential revolution, the industrialists forced through Parliament a repeal of the Corn Laws. Thus, for their own purposes, the workers and owners defeated the grasping landowners.

Some Gain, Some Lose

With the repeal of the Corn Laws the golden age of the manufacturers began. Britain dropped its duties and forced others to do likewise. The industrialists gained by a larger flow of imports and a steadily expanded market for their goods. As the import of wheat from the Levant increased, for example, it provided the means of payment for the rise in the owners' export of Lancashire cottons from a price totalling £141,000 in 1843 to £1,000,000 in 1854. But the workers lost from the repeal of the Corn Laws in the short run. Only a tiny supply of Baltic grain arrived at British ports before the 1870s, thereby allowing the landlords to keep their wheat prices high—at an average of 56 shillings per bushel from 1851-56 as compared to 54 shillings 9 pennies before the Corn Laws were overturned in 1841-45.

Mill owners especially benefitted from open foreign markets and cheaper overseas raw materials and foodstuffs. The imported raw materials suited industrial processing, while the exported manufactured goods were worked-up in heavily-tooled industries—a pattern of labor division Britain imposed on the world. Now colonial produce had to compete with duty-free goods coming from the leading European nations and their colonies. Colonies were also granted so-called "self-government," while England retained real control over their commercial policies. English free trade could thus be initiated, the owners' manufacturing monopoly expanded, and the pound sterling extended as the circulating medium of the world, at the very time the mill owners in charge of Parliament's budget funded the Royal Navy, pushing outward the perimeter of the merchants' empire.

Free Trade Versus Colonies

Hence, between the late 1770s and the mid-1850s, Britain became the world's workshop and warrior. More, a number of

concurrent, interdependent movements led to a tremendous expansion of production at home and trade abroad. Domestic growth of all branches of industry and the stimulus to key industries such as coal mining and iron output were accelerated by the new railroads stretching into every hamlet and town. These commercial links between resources and factories, between factories and markets, brought textiles and machines to waiting ships for transport the world over. Free trade for Britain thus meant a fantastic increase in both exports and imports. And, though British rulers denied it, free trade also meant England would have to find secure markets and raw materials to supply factories at home. *Free trade* thus led towards building a *new colonial empire*, allowing England to follow both policies at the same time.

Indeed, as England became the largest manufacturing nation in the world, its owners imported more industrial raw materials and foodstuffs while exporting more manufactured products. Changes in import composition reflected the need for factory raw materials, and changes in the export trade mirrored the manufacture of highly processed goods.*[7] With an increasing extension of factory methods into the textile and metallurgical industries—especially after Bessemer steel began to enter the market—the export of cotton goods and iron and steel products shot upwards. Meanwhile, woolen and linen textiles, chemicals, leather goods and pottery exports became important too.[8]

The process involved was simple: From 1815-82 English production far outdistanced the limited markets which the old colonial monopolies had established under mercantilism (as we have seen), and owners demanded new outlets, free trade, and unfettered communication and financial links. Hence, the new industrial and commercial monopoly, the factories, railways and ships of Britain, reinforced the tendency towards free

*Between 1801-1849, leading imports followed the mercantile shopping list: tobacco, rice, iron bars, wine, tallow, flax, coffee, spirits. But after this period, the main imports were designed to feed the working class subsistence and the owners' machines raw materials: meat, meat animals, cotton, wool, chemicals, iron ore, iron and steel, leather, silk, paper.

trade. And changing the earlier social relationship where the merchants had subjugated the producers, industry now dominated commerce, demanding wider markets and a policy of free trade as distinguished from tight-knit colonial empire.[9]

The result? England became the unchallenged manufacturing center of the world: she had removed all protective duties on food and raw materials, expanded foreign trade, encouraged the final victory of steam-power over other means of transport on sea and land, and produced goods using steam-energy rather than the manual-power of foreign industries. As Britain's production, exchange, and transportation developed, a liberal foreign policy accomodated them and, backed by the world's largest navy, penetrated the empire economically.[10]

A steel girdle for the world grew from the Birmingham mills: British contractors made the track, English merchants exported the tools, and Anglo banks raised London funds to finance the railroads.[11] Between 1840 and 1870, rail mileage grew on a geometric scale, to say nothing of the expansion ratio before the turn of the century:

Growth of Rail Mileage by Continental[12]
Areas, 1840-1900

	1840	*1870*	*1900*
North America	2,954	56,106	223,454
Europe	1,818	65,192	176,179
Asia		5,086	37,470
South America		1,770	26,450
Africa		1,110	12,499
Austalasia		1,097	14,922

So though textiles remained the largest single export, Britain sent out more iron ware, rails, locomotives, implements—and then the means of production themselves, machines and factories. This reflected the shift of the core of industrial capitalism from Manchester (a textile center) to Birmingham (a steel complex).[13]

Then, as Britain established herself as the global manufactory—underselling all competitors in foreign markets—*formal colonies* were no longer absolutely necessary for Manchester or Birmingham conquests. But though the free traders thought

and spoke as if the entire colonial system was being dismantled, in fact only the form of empire was being changed.

Thus early free traders of the Manchester School and the Parliamentary and financial reformers, echoed the call to end formal colonies. Disraeli spoke in 1852 of "those wretched colonies" as a "millstone round our necks." The British Government was also influenced to withdraw imperial troops from the colonies. But two decades later (1871-81) the new growth of empire demanded a new militarism. And all the while, Britain *continued* to accumulate an informal colonial empire. Thus, in addition to the 48 colonies Britain acquired before 1800, the next century brought England's empire 86 new foreign holdings. But what kind of holdings were these? And what was the motive for their acquisition?

In both "formal" and "informal" empire the same basic relationships can be traced—the romance of exploration, the development of trade, the movement of British capital, the creation of new forms of economic dependence, the pushing forward of the imperial frontiers, and the emergence of new markets. Techniques of control differed from area to area: the tactics were complex, "involving not merely peaceful trade or gunboat diplomacy—to take the two extreme techniques employed—but realistic assessment of the economic value of the territory concerned, the strength and resilience of its social and political structure, the readiness of its rulers to collaborate with the British, and extent to which other European countries were prepared to allow Britain a free hand."[14]

And so Britain could give Canada and Australia, for instance, *political independence*, but keep them as *economic colonies*—suppliers of raw materials to British industrialists and receivers of British goods and capital. India, too, served as a cheap source of raw materials and a market for English manufactures. "Once embarked upon territorial domination of India," two Englishmen explain, "we found that, with the best will in the world, we should never be left in peace until the whole of the vast subcontinent was either under British rule or ruled by native princes under British control. The process of inevitable conquest was very soon resumed, and was practically completed by the Sikh wars and the annexation of the Punjab in 1848."[15]

The territories acquired during the century were added to the previously colonized West Indies, India, Australia, Ceylon, Mauritius and parts of North America. For the old British colonies by location had included:[16]

In Europe
Gibraltar
Malta
Ionian Islands
Heligoland
In America
Lower Canada
Upper Canada
Nova Scotia
New Brunswick
Prince Edward's Island
Newfoundland
In Africa
Cape of Good Hope
Sierra Leone
Mauritius
In Asia
Ceylon
The Indian Possessions under the Directors
In Australia
New South Wales:
Van Diemen's Land
Swan River
Southern Australia
In the West Indies Islands, etc.
Jamaica
Bahama Islands
Barbadoes
St. Vincent
Grenada
Tobago
Atinqua

Montserrat
St. Christopher's
Nevis
The Virgin Isles
Dominica
Demerara
Essequido
Berbice
Trinidad
St. Lucia
Bermuda
Honduras

Added to these in the first half of the 19th century were:

1814 British Guiana
1816 Gambia, Sikkim
1819 Singapore
1821 The Gold Coast
1826 Assam
1833 Falkland Islands
1839 Aden
1840 New Zealand
1841 Hong Kong
1842 Natal, Sind
1846 North Borneo
1849 The Punjab

Between 1850 and 1870 other important acquisitions were made in India—in 1858, one year after the Mutiny, control of India finally passed from the East India Company to the Crown. Acquisitions were also made in:

1852 Burma
1853 Nagpur
1854 Baluchistan
1861 Nigeria
1868 Basutoland
1874 Fiji
1878 Cyprus
1882 Egypt

1884 Somaliland
1887 Zululand
1888 Southern Rhodesia, Sarawak
1890 Kenya, Zanzibar
1891 Northern Rhodesia, Nyasaland
1894 Uganda
1900 Transvaal, Orange Free State, Tonga
1906 Swaziland

Pax Britannica was not a peaceful affair, however. There were only fifteen years of the British century (1815-1914) when she was not engaged in some brutalizing military campaign. The wars, supposedly, were not designed to gain colonial territory but to establish the "stability" needed for free and peaceful trade. Formal empire and open looting were not so important as building a trade empire—yet all these methods were used. Britain, meanwhile, carried on a chain of colonial wars in all parts of the world—the Burmese Wars of 1824-26 and 1852; the Afghan War of 1839; the Maori Wars of 1860-72, and the Kaffir Wars, seven of which had already taken place by 1848. By 1867 the discovery of diamonds in Griqualand West was but a prelude to the adventurous imperial history of South Africa. Thus, as free trade reigned, as the politicians spoke glibly of doing away with colonies, as government troops were temporarily retired from the outposts of empire, and as Dominions granted "self-rule" were being created—indeed, as all these simultaneous actions to dismantle formal empire were taking place—a colonial emporium was gradually welded together under the watchful eye of the British man-of-war and colonial troops.

The late 1870s and 1880s then marked an acceleration of colony gathering. Britain had to change the form of her colonialism, as she began to lose commercial ground to the United States and Germany. Where the United Kingdom held 32 percent of world trade volume in 1840 (by comparison with ten percent held by France, eight percent by the United States and 50 percent by all other countries) by 1880 she controlled only 23 percent (France's share rising to eleven percent, the U.S. share to ten percent, Germany's share from nothing to nine percent, and other countries' share falling to 47 percent).[17]

Germany installed modern machinery in her new factory system and could thereby undersell goods made by older British factories. Also, Germany used tariff protection to keep out British goods, while Britain held onto a far-flung empire and maintained free trade for goods from all nations, including Germany. And while German salesmen and agents extended credit facilities to a point beyond safety to buyers in Latin America, Asia and Africa, in many cases British competitors were unwilling to duplicate these terms and thereby lost markets.[18] Thus Britain had one way out of the competitive tangle: formal colonialism, building an exclusive British market.

Also the result of her prodigious free trade effort was that Britain—once nearly self-sufficient—had become irreparably dependent upon foreign trade for her food supply.[19] Landmen were now separated from the farms, impressed into the urban working class and in need of food they no longer produced. As this class grew with the spread of industrialization, they called for more and more food. This meant more imported stuffs no longer produced at home. The factory system meanwhile bred urbanization, thereby ending Britain's self-sufficiency in resources: The voracious demand of the machine industries required more and more raw materials. And to obtain both foodstuffs and materials at the lowest possible cost, Britain required colonies—colonies where foreign Powers could not enter to grow food, exploit natives working mines or engage in trade.

Thus, after 1875, Britain pushed to expand her empire. She no longer espoused free trade, preferring to gather colonies whose trade Britain could monopolize. By establishing this protective colonial system, Britain could exclude foreign-made goods, especially those from Germany and the United States. Although the West Indies white planters had been advocating a similar policy for many years, it required the parliamentary strength of British manufacturers and merchants to seek colonies in order to market their overproduction of manufactured goods, invest their idle capital, and acquire inexpensive raw materials produced by subsistence workers.

The *most rapid* expansion of empire came in the 1880s, when English goods quickly lost markets to competitors' wares. Thus between 1884 and 1900, Britain acquired 3,700,000 square miles of new colonial territories. By 1914 the British empire covered 12.7 million square miles, of which the United Kingdom represented 121,000 or less than one-hundredth part. The self-governing Dominions represented another 7 million square miles which, added to the colonial or dependent empire of 5.6 million square miles, represented forty-six times the area of the United Kingdom and one-quarter of the planet's land surface. In terms of population, moreover, of the 410 million British subjects, constituting about one-fifth of the people of the globe, 44 million resided in the United Kingdom—a little more than one-tenth of the inhabitants of the empire.

From this empire ruled by the few came total trade of about £180,000,000 a year, bringing to England revenues amounting to approximately 19,500,000 sterling. Such a prosperous chain of colonies Britain held by the beginning of World War I, that the empire was at least three times the area of that of her nearest rival (France) and held more than six times the population. To this empire, British investors sent £4,000 million by 1913. In return, between 1880 and 1910 overseas investment earnings tripled (£57,700,000 in 1880 but £170,000,000 in 1910) and other income from shipping, insurance and services increased by more than one-half (£96,400,000 in 1880 but £146,700,000 in 1910).

Together the sum of trade and earnings abroad was reflected in the accelerated accumulation of British capital: in the 63-year period 1812-75 British wealth increased £5,848 millions, as compared to the total accumulation of £7,924 millions in the following 37-years (1876-1912). The more rapid accumulation of capital came from the large-scale expansion of colonies after 1875 and especially after 1882. Obviously, the colonies where British manufactured goods were exported and raw materials and foodstuffs were obtained offered investment and loan rewards for British capital, about one-half of Britain's

increased wealth from 1875-1912 seeking reinvestment abroad! Without such capital exports, the production of raw materials and foodstuffs for the British market would have fallen, and imperial earnings from overseas operations would have been miniscule.

So an expanded, more rigid colonial system and a vast effusion of imperial capital now supplemented the free trade commerce of earlier years. Capital export was the dividing line between mercantilism and imperialism. For large-scale industrial techniques, the integration of finance with industry, and the monopolization of industry and State policies pushed forward capital exports and the export of capital goods. Britain, Germany and the United States together sent abroad as capital goods 26 percent of all exports in 1800, but 39 percent in 1900 and 46 percent in 1913. True, overall British merchandise exported was less valuable than her goods imported (£12 million excess imports in 1830, £19 million in 1845, £45.5 million in 1860, £90.5 million in 1875, £126.5 million in 1895 and £131.6 million in 1913); but the bill was paid with imperial earnings. And so large were the excess revenues that capital exports, especially in the form of means of production, became the birth mark on the face of the new imperialism, which replaced the old colonial system and harnessed the labor of the peoples of the world.[20]

(iv) England Keeps Continent Powers Balanced (and Quarreling)

While Britain was taking charge of the colonial world, her owners sought to keep European rivals weak. Thus to maintain a free hand in global exploitation the British business classes resisted attempts by any Power to unite the Continent and thereby put itself in a position to try for naval, technological and commercial supremacy. This explains English involvement in the Napoleonic Wars,* her support to the Holy Alliance of

*The British bourgeoisie, consolidated a full century before, viewed the French bourgeois revolution as a rival force—a potential competitor against Britain's own industrial and commercial world hegemony. This was particularly important to the British industrialists, who were going through a high nations and the empire of *haute finance*, and her opposition to German attempts to industrialize and create an empire in Europe and the world.

England Outmaneuvers France

We have seen how Napoleon hoped to establish the Continental System in an effort to undermine British commerce and to accommodate French bourgeois society. For some sectors of the French business classes gained from forcing satellite nations to export raw materials France required and import luxuries France had to sell. This system, introduced in 1806, followed the Jacobins' policy to exclude English manufactured goods from France as well as from newly conquered territories: the decree of 10 Brumaire, an V, banned the importation of British goods into territories under French control. And Napoleon's Berlin Decree (November 1806) forbade all commerce with the British Isles by France, Italy, Switzerland and the Confederation of the Rhine. The Treaty of Tilsit (1807) then forced the Czar to apply this system in Russia. And the Milan Decree (December 1807) made every ship trading with Britain or her colonies liable to seizure. This was a blow to Britain which depended on the Continent for one-third of her own manufactures export and three-quarters of her outflow of colonial produce.

Britain responded by opening new markets in Latin America and the Baltic, as well as by pushing illicit trade through loopholes in Napoleon's iron curtain. Meanwhile, the British Navy blockaded the ports of France, Germany, Russia and Holland, forcing their trade downwards, crushing manufacturers dependent on foreign markets, and forcing industries reliant on colonial materials to invent new substitutes and processes.

Britain's potential loss also pushed her to join Austria, Prussia, Spain and Piedmont in the First Coalition against revolutionary France in 1793.* It helped keep Britain at war against France up to the capture of Paris in 1814. Even in victory at the Congress of Vienna, however, Britain led to keep the Continent divided and the bourgeoisie in check.

point in their own industrial revolution from 1793 to 1815. Any upset at this point would have prevented them from dominating world markets, and so they were determined to see the business classes in France and elsewhere on the Continent kept in a *relative* state of backwardness.

The Holy Alliance Saves Britain Money[22]

Britain at the helm of European power, Austria, Russia and Prussia now agreed to give each other mutual support against the bourgeoisie and their democracy. Continental despotism thereby restored, the Holy Alliance provided the coercive force and ideological impetus for an active policy of peace—peace which was the ideological equivalent of maintaining the *status quo*. This Holy Alliance was then used to justify "international action" against risings in Italy, Germany and elsewhere, putting down minorities as well as bourgeois majorities. And lurking behind this obvious division of the Continent stood victorious Britain.

Hence, the Holy Alliance saved Britain money which was put into strengthening the Navy, lengthening communications networks, and financing colonial conquests. Britain was plundering the world beyond the Continent, expanding her acquisitions of strategic points—Malta, Mauritius, Ceylon, Heligoland, and the Cape as a stopping place on the way to India. The scattered British army engaged in an endless list of colonial conquests, as we have seen, with minor wars and campaigns fought in Nepal, Ceylon, Burma, Afghanistan, China, South Africa, New Zealand and many parts of India. To fight these colonial wars, four out of five line regiments were serving the Crown overseas, and some regiments remained abroad for as long as twenty-five years without returning to England. During this entire period, Britain thereby remained the most pow-

*As the revolution spread on the Continent, in every nation the aspiring business classes confronted the privileged aristocracy which now consolidated its power in the Trade Union of Crowned Heads, rallying to support the French Monarchy. In the year 1791, the Emperor of Austria and the King of Prussia issued their declaration of Pillnitz, inviting the Crowns of Europe to use their power to refurbish the monarchial strength of the King of France.

erful imperial nation and, perforce, she was the leading advocate of peace—that is, the *status quo*—in Europe and war in the colonies.

As Britain built her colonial sphere and as the Holy Alliance of Europe maintained reactionary, general peace, the cost of militarism plummeted. Save for large forces still maintained in Prussia and Russia, most states discarded conscription, slashing the size of their regular armies. The strength of the British army had been 685,000 men in 1815, for instance, but within six years it was down to 100,000 men, half of whom were now "banished" to the colonies. The division of world colonies now became Britain's primary military endeavor,* and private soldiers were sent to remote corners of the Empire, often to be forgotten in the rush of the Industrial Revolution, the new trade and the exuberant prosperity. British sea power had meanwhile become a watchword—the guns were ever ready, yet seldom used against other Great Powers.

Continental Industrialism Becomes Britain's Frankenstein[23]

The 1848 bourgeois revolutions on the Continent then forced Britain to switch her allegiance from the Holy Alliance to the new coalition of business interests and working people. Britain reasoned she could keep the Continent divided by promoting nationalist-type development. With one foot on France and the other on Britain, the House of Rothschild and other substantial banks meanwhile fed into Britain's plan. For between 1846 and 1871 vast sums of capital, once used to finance trade and the Crowned Heads of Europe, were now *also* used to fund the rising bourgeoisie, thereby spreading industrialization to the European Continent.

*The other European Powers also sliced the world into parts—but their parts were smaller than the British ones. This meant that few disagreements over the division of colonial territory could take place between 1815 and the outbreak of the Crimean War in 1854. But there were numerous campaigns in widely separated parts of the world. So while France concentrated on Algeria, the Russian army suppressed the Turks and the Persians, as well as put down an insurrection in Poland. And the U.S. used a volunteer army to supplant small regular units to defeat the Mexicans in the War of 1846-48, to steal one-third of Mexico which was then made into California and Texas.

For the first time this capital sought *to prevent* any war between the European powers, which would necessarily involve a tremendous loss to the financial creditors, whose security was the growing accumulation of industrial machinery itself. These creditors of high finance had every interest in promoting peace, then, and they proceeded to replace the reactionary peace of the Holy Alliance with the peace of the agreeing heads of bourgeois nations. So thereby a Concert of Europe was born, with the main sustaining force—international finance in league with the national banking systems—displacing the principal power behind the Holy Alliance—the feudal domains, the thrones, and spiritual and material power of the Church.

Continental industrialism using this capital ultimately bred nationalism and changed the character of warfare. And Germany especially illustrated these relations, for her unification, her continued existence, and her rise in power depended on industrial power guaranteed by a good army.* The army helped Germany to take the resources of Denmark, Austria and France—there were wars in 1864, 1866 and 1870. Industrialized militarism meant *blitzkrieg* (speed of deployment, powerful destruction) and total war. Military strikes, too, would in the future be directed at total populations and industrial infrastructure, keys to war-making capability. All classes would be involved in war, since military strength came from industrial strength, as Prussian General Karl Von Clausewitz discerned.

*Prussian preparations after Waterloo included a large military force, short-service, well-trained armies, large calvaries, strategic railways for deploying troops in future wars, and a new department of the General Staff to take complete charge of lines of communication. These preparations paid dividends: Within 18 days of the outbreak of the Franco-Prussian War in 1870, for example, Prussia had mobilized 1,183,000 trained men and had assembled three armies totalling 462,000 men on the French frontier. The Krupp factory near Essen was able to re-equip the Prussian army from its 450 acre estate, employing 8,000 men—with many more working at the nearby coal mines and blast furnaces. The factory's output had already exceeded 3,500 guns with a further 2,200 on order for immediate delivery—to defeat France and end all chance of unity on the Continent.

And an arms race was inescapable,* leading Krupp's factory, whose production of arms won the 1870 war, and German industry generally, to be the best in the world—for obvious reasons of military necessity, economic competition and profit. Profit and its social manifestation, national pride, made Germany ready for ruthless competition by using her new railways to link industrial centers and armies with distant battlefronts, connecting the hinterlands of factory power with the human hand holding the gun.

Germany Challenges Britain[24]

Germany, now dominant on the Continent, also developed a global strategy to place herself first in war and in peace. Competition on two fronts bred her Triple Alliance—Germany hoped for a stalemate at least in Europe, which would free her for global profiteering. Austria-Hungary, Italy and Rumania would keep pressure on and expand German influence among the Slavs and open a way to the Near East for Teutonic capital and power.

Germany, its base relatively secure, then built up colonies, consisting of four segments in Africa—East Africa, Southwest Africa, Togo and Kamerun—the Shantung Peninsula in China, and the northeastern part of New Guinea and neighboring islands. From exploration, then exploitation filling private treasuries and feeding German pride, the status of Germany was improving slowly. But a rapid development of markets and rich raw materials on her European doorstep invited war. Even a partial victory would possibly award the granaries of the Slavic steppes and the heavy metals of Eastern France to the ambitious owners of Berlin.

The other members of the Alliance agreed. Austria-Hungary joined the Alliance (1879), fearing Russian interference in her Balkan plan to secure seaports in the Aegean Sea, to

*The arms race inched forward with the conversion of iron to steel, making new weaponry possible; and the concurrent development of gun cotton, dynamite and smokeless powder for gun and rifle ammunition, making wars increasingly violent. Against violence, defense mechanisms also escalated, the "iron clad" warship being a classic example.

subjugate the South-slavs—particularly Serbia—and to develop the Bagdad Railway. Italy joined (1882) for similar reasons, seeking assistance in the conquest of Tunisia and Tripoli, as well as help in resisting the powerful influence of the Pope. Rumania also joined the Alliance (1883), hoping to improve its territorial holdings. And all Alliance members sought to prevent encirclement by hostile Powers bent on preventing members' economic expansion.

Britain Builds a Defense[25]

Britain at first encouraged German growth, hoping to add another competitor to the squabbles on the Continent. Even German militarism (structural patriotism) was a good antidote for revolutionaries at home and threatened Russian expansion westward. But when Germany embarked on her aggressive *Weltpolitik*, challenging England's naval supremacy, then Britain attempted to foster an anti-German alliance in Europe. In the quarter century, 1890-1915, Britain successfully enticed a number of countries to join her. Since France and Russia were already aligned against Germany, Britain anxiously curried their favor—undermining unity on the Continent and temporarily fulfilling the plan of *haute finance* to position Britain and Germany to watch jealously one another's attempts to re-divide the world.

✓ i.e., a way of sustaining peace & status quo

Yet, out of the loose Concert of Europe sustained by high finance, two hostile power blocs grew up—the German-led Triple Alliance and now its checkmate, the British-directed Triple Entente. The Entente was a coalition forged between France, Russia and Britain, as a defense of their own interests. France had long feared German ascendancy in wealth, population and military organization, to say nothing of her greatest horror—isolation in the sea of the formidable Triple Alliance. Russia joined the Entente (1891) because she feared German aggression once William II refused to renew the Reinsurance Treaty (1887) when it expired in 1890; the excuse given was the Austro-Russian conflict of interest in the Balkans and the need of French capital for building the Trans-Siberian and other railways, to say nothing of her monetary requirements to develop her military enterprises. So the Franco-Russian Alliance (1894) was forged as a defense against the Central Powers in the Triple Alliance.

The Entente put down petty rivalries. Thus, England's disagreement with France over the Sudan, Morocco and Egypt was terminated by the *Entente Cordiale* (1904), while her rivalry with Russia in Persia, Afghanistan, Tibet and the Straits was ended by the Treaty of 1907 and the Anglo-Russian Entente (also 1907). The Low Countries then joined Britain, and in 1902 England entered into the Anglo-Japanese Alliance to cover their respective spheres of Asian interests. Even Italy joined the Entente (1915), completing a geographical formation—an iron ring encircling Germany. Unification of the Continent by German negotiations was now impossible; Britain had divided the Continent, and *haute finance* had lost control over some City financiers as well as the Berliner banks and thus German rearmament.

So the empire of high finance—which spoke of peace to protect the assets it financed for 4½ decades—seeded the way towards war: for *haute finance* could no longer keep the Concert of Europe alive, and in its stead arose the two competing camps of imperialists, as we see. Germany, now realizing the defeat of her diplomatic machinations, vociferously complained of her "encirclement" by her enemies and the German people were persuaded that their country was indeed threatened by this British-engineered iron ring isolating Germany from her neighbors. To satisfy Germany's expanding desire for markets, for raw materials from colonies, for a world shipping empire, for investments overseas, for an Empire comparable to the British emporium, war was inevitable. But, it was geographically fact, with Germany surrounded by hostile nations, she could only move south and eastward, drawing Turkey into the Triple Alliance (1914) in order to nullify Russia's aspirations in the Straits, to terminate British control in Egypt and Cyprus, and crush Pan-Slavism. Bulgaria also signed an alliance with Austria (1915), declared war to conquer Serbia, and helped forge a central bloc of unimpeded control from Berlin

to Constantinople and to Bagdad. Germany was breaking out of her isolation; destination, world dominance.

(v) The Profit Quest Allows No Peace

Throughout Europe and the United States, national trusts and cartels also pressed towards foreign markets and colonies in order to find cheap raw materials for their factories, inexpensive foodstuffs for their workers' consumption and markets to dump their manufactures. So expansion and concentration of business, industry and banking were among the forces behind global trade and colonial politics.

It was also a period of vast technological inventions and discoveries, which created entirely new industries, fundamentally transformed old ones, and which imposed on industries—often protected by high customs duties—great stresses in the competitive international market.[26] As production increased faster than the market expanded, however, crises appeared, production was slowed, millions were left without work. In the crises of 1873 and 1900, for example, cartels were formed to limit output and maintain prices. Attempts were also made to cartelize foreign markets and divide trading areas.

Such divisions proceeded by degrees. At first, during the early 1860s and 1870s, before very many great combines evolved, farmers from assorted nations struggled to divide world markets. Throughout Europe, increased competition from American foodstuffs depressed prices and European farmers expressed anti-American sentiments at several international congresses. Besides voicing their negative feelings, they also sought bigger markets for their produce by planning to create vast agricultural markets which would exclude United States farm output.[27]

Efforts to build common food areas between industrializing nations soured, however, once factory monopolies and cartels took charge of Europe's economic foreign policies. For national cartels instead sought international agreement to limit excess manufacturing production, to divide world markets for factory goods, and to set selling prices for manufactures. Those favoring a protectionist trade in these goods blocked custom unions in foodstuffs.[28]

New domestic pressures from the rising class of industrialists and financiers also compelled each nation to undertake a new form of imperialism—appropriating many pieces of world territory where manufactures could be sold and resources found. For machines had to be fed raw materials; hence industrial nations must control the sources of crude produce. And workers running the machines then produced a great supply of finished products; hence industrial nations must control the markets in less industrialized countries. Finally, the owners' domestic accumulation of wealth increased more rapidly than it could be invested at home; hence businessmen tended to invest capital in economically less developed countries and to demand that their governments act to ensure the safety of these investments. World division followed.

In the space of a few decades, Africa was explored and partitioned. Native peoples and early settlers were conquered, as the Great Powers growled at each other in a constant struggle to secure rich and strategic areas.

Imperialism touched Asia, too. China was compelled to grant valuable concessions and spheres of influence. Japan escaped the same fate only because she was able to transform herself into a nation whose economy and military machine closely resembled those of the European Powers themselves. Then Japan in turn launched an imperialistic program, defeated China in a quarrel over Korea, and ousted Russia from southern Manchuria.

In Europe meanwhile the declining might of the Ottoman Empire led to hot rivalry among the would-be heirs to the Turkish lands. Russia sought to exercise a big-brotherly interest among the Balkan Slavs, scheming to also gain control over the Straits. Great Britain felt it to be to her interest to maintain the *status quo*. But Austria-Hungary sought to extend her influence in the Balkans where her imperialistic policy clashed with that of Russia as well as with the plans of the Serbs to create a greater Serbia. Germany, the ally of Austria, also had

plans to develop the resources of the Near and Middle East.[29] And so a military clash was unavoidable.

This collision course could not be averted, for chief among the forces behind world partition was the selfish, nationalist drive for maximum profits—often distinguished as its "civilizing mission," thereby minimizing its expectation of material advantages. So each nationalist imperialism proclaimed the need for carrying its particular brand of culture to the brown or black or yellow brothers and sisters of Africa and Asia in order to rescue them from their "deplorable barbarism." But, in truth, imperialism was largely born of the hunt for profit, covered by the false love of pride and power. For nationalist imperialism was, one historian says, "vastly intensified by the search, on the part of the bankers and company promoters, for profitable investments abroad. With the usual selfishness of monied men the investors demanded that their ventures be protected by the armed forces of the home government. Such action was resented not only by the exploited country but also by the suspicious and jealous European rivals.

"Since each power looked on war as a legitimate tool of policy, it desired to be as strong as possible on both land and sea. Hence constantly increasing armies and navies; and, by the same token, growing expenditures, involving in their turn heavy and heavier taxation and a national debt assuming fabulous proportions."[30]

Japan soon proved an apt pupil of Western militarism, then equalled its teachers in its drive to win colonies. The former landlords *(daimyo)* and their *samurai*, now turned industrialists and financiers, hoped to make Japan a first class world power by controlling adjacent territories' natural resources. To also protect their growing wealth from Western intruders, the owning classes sought control over all territories which foreigners could use as stepping stones to Japan. So while they assiduously avoided taking foreign loans which could lead to Japan's political subservience to Westerners, they methodically moved to conquer and dominate Korea, Taiwan and China. Thus, in the late nineteenth century, Japan inflicted defeats on China in order to gain possession of Korea and the island of Formosa.

Still not satisfied with their holdings at the start of the twentieth century, Japanese rulers fought a war with Russia, won the struggle, and displaced Russia's dominating influence in Manchuria and North China. Japan's military empire was thus growing.[31]

The United States also jumped into the imperial tangle. While she was a weak industrial power, however, she demanded freedom for all vessels on the high seas—a weapon against Britain when the English man-of-war ruled the waves. This American policy, the policy of a weak trading nation, was accompanied by U.S. moves for strategic and resource territories in the Mediterranean, the Caribbean, the Americas and the Pacific:[32]

1815 U.S. declares war on Algeria, forces the Dey to terms granting absolute immunity to U.S. ships sailing in the Mediterranean

1821 Pacific station established

1822 Monroe Doctrine warns Europe against imposing new colonialism on American continents

1826 Hawaii-U.S. Treaty

1839 Commodore Charles Wilkes visits Tutuila, Samoas, a future U.S. base (Pago Pago)

1846 Two years after British force China to open her doors to unlimited British trade, the U.S. imposes a similar treaty

1853 U.S. reasserts Monroe Doctrine *vis-à-vis* Cuba

1853 Commodore Matthew Calbraith Perry blasts Japan open to U.S. trade in order, he said, "to anticipate the designs of that unconscious government, the British, whose cupidity was limited only by its capacity to satisfy it."

1853 Perry also uses the Loo Choos as his squadron base, raises the American flag at Port Lloyd on Peel Island in the Bonins, and urges that he be ordered to seize these islands to set up bases for controlling trade with Japan

1854 Perry on Formosa, suggesting that a U.S. protectorate be established

1854 U.S. steamship tries to invade Spanish Cuba, and England, France and the U.S. issue the Ostend Circular, recommending that the U.S. buy Cuba or—if Spain refuses to sell it—"wresting it from Spain if we possess the power."

1859 U.S. takes Midway and minor Pacific islands

1865 Secretary of State Seward claims Mexico within U.S. sphere of influence

1867 Seward implements his vision of U.S. rule in the Pacific by pushing for the purchase of Alaska from Russia

1869 President Grant enters negotiations for a peaceable annexation of San Domingo by the U.S., and for a long lease of the bay and peninsula of Samana, Cuba as a naval station

1875 U.S.-Hawaii treaty pledges the Hawaiian government not to alienate any port or territory in the kingdom to any other Power—making Hawaii an economic colony

1870s-80s U.S. acquires parts of the Samoas in deals with Britain and Germany

1887 A new treaty gives the U.S. exclusive use of Pearl Harbor as a coaling and repair station

1889 U.S. Senate and House of Representatives pass a resolution in secret session, declaring against any European control of the Panama Canal

1891 U.S. sailors in Valparaiso Chile take on a Chilean mob, infringing on Chile's independence

1895 U.S. reasserts Monroe Doctrine *vis-à-vis* Britain's attempt to conquer Venezuela, thereby bringing Venezuela into the U.S. sphere of influence

1897 U.S. prepares to invade Cuba to push Spain out in the name of preventing the "extermination" of the Cuban people, said President McKinley to the U.S. Congress

1898 U.S. conquers Cuba from Spain, the Philippines from Spain, Captain Sampson said, as a "Fourth of July present" to the U.S. people; U.S. conquers Porto

Rico; U.S acquires by a peace protocol with Spain the "relinquishment of Spanish sovereignty" over Cuba, Porto Rico, and one of the Landrones islands; U.S. annexes Guam; U.S. raises the American flag over Honolulu in the Hawaiian Islands

1899 U.S. military governor takes charge of Cuba; Spanish possessions of Island of Guam, Porto Rico and the Philippine Islands formally ceded to U.S.; Spain cedes to Germany the rest of the Landrones and Caroline Islands; U.S. Senate passes resolution making the Philippines a protectorate, following massive U.S. military invasions; U.S., England and Germany divide Samoas

1900 U.S. joins her military forces to those of the Japanese, Russians, British and French in putting down the Boxer Rebellion in China

1900 U.S. proposes Nicaragua Canal Treaty, for U.S. control of a new inter-oceanic canal from the Atlantic to the Pacific; England refuses to accept terms.

Throughout the nineteenth century, then, the United States sought to expand its empire. Viewing England as the United States' most dangerous rival, the U.S. hoped to make the Pacific an American lake, controlling the commerce of the East by establishing Astoria on the West Coast (1811), plying the Canton trade at a profit of 700 percent, and generally drawing possessions together as parts of a great Pacific Empire that connected the Eastern seaboard with Oregon and California outward towards the Philippines, Japan, China.

The empire was growing. "Today," said Senator Hoar at Washington's celebration of its hundredth anniversary, "the United States is by far the richest country in the world. Its wealth exceeds that of the United Kingdom, which is the next in rank, by about $22,000,000,000. In 1800, our population was 5,308,483; now it is 76,304,799. The sixteen states have grown to forty-five, and our territory has expanded from 909,050 square miles to 3,846,595 square miles." But this was a gross understatement, for excluded were the neo-colonial territories

mentioned above, additional foreign zones being coveted to make the United States richer still.

Other U.S. explorations, for example, sought new lands and resources in the Caribbean and the Philippines, and as far north as the Arctic. Here U.S. Commander Parry described the potential of resources which the United States might take over: "It would not at all be strange if in a region of the most striking contrasts . . . some materials were found which would make possible some yet unknown necessity of our future civilization"—a prophesy come true in the 1970s search for black gold.[33]

Yet the United States was still a weak industrial power, demanding free trade across the high seas, bringing China and Japan into the world market by pursuing this policy (John Quincy Adams said) "for our good, not their own."

United States financiers also dreamed of their liberation from British bankers in charge of Latin American commerce. Speaking of the United States in 1916, one political economist asserted: "We are still very far from financial independence, and the hope to see the world's financial center shift from London to New York is still very much a dream—far from realization. Not a dream, however, but quite within reach is the opportunity to replace European capital by American capital in the industrial development of those countries which are within our sphere of influence—South America, Central America, and Mexico."[34]

Germany too joined the struggle for territory in the Pacific and elsewhere. She attempted to lay hold of Europe, the Balkans, and the Turkish Empire—a major figure in formulating British foreign policy, William Tyrrell, noting the political implications of German trade. "Almost every country has discovered," said he, "that there was a political and sinister side to the apparently innocent commercial and industrial enterprise of Germany in its territories and that the introduction of German capital and applied sciences was intended to be made the basis of economic vassalage and ultimately of political servitude to Germany."[35] And it was so: Germany proceeded to take a predominating influence over national economy in Italy, Russia, Switzerland, Belgium, Bulgaria, Rumania, and, above all, Turkey by 1914.

Germany also sought more colonies in Asia, the Pacific and Africa—as the following table makes clear:

German Colonies, 1906[36]

Colony	*Square Kilometers*	*Population*	*White Settlers*
East Africa	995,000	7,000,000	2,465
Southwest Africa	835,100	200,000	6,372
Cameroon	495,600	3,500,000	896
New Guinea	240,000	300,000	529
Togo	87,200	1,000,000	243
Caroline, Pelew & Marianne Islands	2,076	41,000	173
Marshall Islands	400	15,000	83
Samoa	2,572	33,000	454
Kiauchau	501	30,000	1,225

In Africa, China, the Pacific Islands, the rest of Asia and Europe, all territory was divided among the big Powers; excluded were only "a few tiny and remote communities in such places as the mountainous interior of New Guinea or the Upper Amazon, which retained an insulated autonomy. . . ."[37]

The same was true in the Near East and, later, in the Americas, where these Powers struggled to maintain control of the land mass as well as trade. "By 1914," two historians conclude, "the habitable portions of the globe were parcelled out among the great nations of the world." Yet the spoils were unequal. Russia wanted Constantinople, the Straits, and the Balkan peninsula so she might not be closed up in the Black Sea. Austria-Hungary sought some seaports on the Aegean Sea, since she feared losing her Adriatic seaports to Italy. Germany was eager to acquire Asia Minor for its natural wealth and as an outlet to the Far East. Italy desired Northern Africa, Asia Minor, and the eastern coast of the Adriatic Sea in particular.[38] Japan wanted China. And the U.S. the world's trade!

At first this struggle was an economic one. The new imperialism was basically a struggle for markets, for raw materials and for fields of investment—competition between Germany and Great Britain being keenest in the decade before World War I.[39]

Then the economic struggle took military form. Germany tried to convince the world that she sought no territory through conquest, blaming Britain for war imperialism. England, chief German undersecretary of state for foreign affairs, Dr. Alfred Zimmerman, said, was "fighting to encompass the destruction of Germany and the reduction of Germans to a tributary and secondary nation."[40] Left unsaid, of course, was Germany's identical plan *vis-à-vis* England, to say nothing of comparable schemes by other Powers.

(vi) When Spheres Collide

The world was soon *completely* divided into colonies and spheres of influence. The continents were *entirely* parcelled out among the great Powers. The desire for land to occupy, a main motive of nineteenth century colonial annexations, left scarcely any vacant areas—no noman's land—which would-be emigrants could conquer.[41] For every Power was engaged in a mad scramble to build up a colonial empire by carving out new domains in Africa, Asia and Oceania.[42]

The partition of world areas led to re-partitions and hot conflicts. Surveying the world landscape, V.I. Lenin noted that ". . . the characteristic feature of this period under review is the final partition of the globe—final, not in the sense that a *repartition* is impossible; on the contrary, repartitions are possible and inevitable—but in the sense that the colonial policy of the capitalist countries has *completed* the seizure of the unoccupied territories on our planet. For the first time the world is completely divided up, so that in the future only re-division is possible, i.e., territories can only pass from one 'owner' to another, instead of passing as ownerless territory to an 'owner.' "[43]

As each Power tried to enlarge its territory, collisions were almost inevitable. The clash between Germany and Britain in Turkey and the Middle East, as well as the fight between Russia and Austria-Hungary over the Balkans led to World War I, a war for the repartition of the world; for colonies.

On her account, Germany had to have colonies, especially after the war began. For the *economic union* of the four Central Powers—Germany, Austria, Hungary and Turkey—even if Asia Minor and their Balkan Allies were thrown in as well, would in no way compensate Germany for the loss of her colonies. There were many reasons. First, Germany wanted the other Central Powers subordinate to herself; but the Osmanlis, Bulgars, Magyars, Poles and Austrians were unyielding. Then, even in the Central Powers' unity, it would take a long time for the Bulgarian or Turkish peasants to apply intensive land cultivation needed to feed Germany's growing population. Asia Minor, moreover, could not furnish copper, copra, India-rubber or palm oil industrial Germany required. And Germany and her allies could only provide for themselves as far as the production of the products of temperate and subtropical zones was concerned. The all-important tropical products, the Central Powers could not supply; and Germany feared the Entente and above all England would monopolize certain colonial products. A "great Germany," so the argument went, necessarily implies an overseas possession where she can be absolute mistress and feel herself really at home; only then could she defy the "savage hate" of her enemies, especially England, the "vampire of Europe."

All the Great Powers were vampires now. The political economy of each demanded world expansion, self-sufficiency to feed and supply the growing populace being irreconcilable with the monopoly England and France held over resources from their colonies—most of the colonies in the world. Thus, where the population of Europe had in the course of the nineteenth century increased by 81 percent between 1889 and 1914-15, the Entente Powers sold Germany colonial products which were received second-hand from either London or Paris. And now England and France wanted Germany's colonies as well. So, one German nationalist explained: "If England and France should succeed in securing a monopoly by taking possession of German colonies and destroying Turkey, Germany would find every door closed to her by customs dues and preferential tariffs; and the situation would be intolerable. No [German] naval power would suffice without colonies. Whatever the value of the coast of Flanders might be for strengthening the maritime powers of Germany, the restoration of her Colonial Empire is from this point of view of more importance still."[44]

Just as England and France coveted German colonies and Austrian and Turkish territory and rights, Germany wanted the colonies of Belgium, Britain and France. The Tzarist monarchy in Russia was also anxious to seize Galacia, Persia, Mongolia and Turkish territories. And when the Germans moved west against industrial heartlands, the rest of Europe felt compelled to defend their empires.

The escalation of arms indeed seemed the only way toward victories in battles which were decided as much by factory workers as soldiers on the line. More and better guns and technology were used until the military machines stood wheel to wheel along many miles of front. The escalation of technological warfare increased all around—in the air and on the land, airplanes and tanks marking the military accomplishments of an age of bank finance, mass taxation, oil fuel and imperial conquest.[45]

(vii) Downpayment on Profit: $208 Billion; 8 Million Dead

The European nations had long prepared for war upon one another, a crescendo of political, economic and social grievances being presented to the people on extremely narrow, nationalist lines. The several states also called on private bankers and industrialists to produce weapons for profit, inducing them to resurrect old technologies and perfect new ones. Nations soon increased their military expenditures as an extension of intense, trustified economic competition. For the armed power of the state capitalist trust, Bukharin said "is the weapon to be used in its economic struggle. The growth of armaments, creating as it does a demand for the products of the metallurgical industry, raises substantially the importance of heavy industry, particularly the importance of 'cannon kings' *à la* Krupp."

Despite the importance of profitable military contracts awarded to the trusts, however, the arms industry did not cause the wars that required government orders of munitions. For the ammunition industry was by no means a branch of production existing for itself; rather, armaments were an indispensable attribute of State power, an attribute that had a very definite role in the struggle among nationally-oriented State capitalist trusts. "Capitalist society is unthinkable without wars," Bukharin surmised. "That is why in our times, when economic conflicts have reached an unusual degree of intensity, we are witnessing a mass orgy of armaments. Thus the rule of finance capital implies both imperialism and militarism. In this sense, militarism is no less a typical historic phenomenon than finance capital itself."[46]

Armed to the teeth, State faced State in the struggle for raw materials, markets and colonies. The cost of the army and navy escalated as never before, major nations doubling their military expenditures between the mid-1870s and 1908. Where England's government expenditure on arms was 38 percent of all spending in 1875, by 1907-08 it was nearly 49 percent. For France the rise in military spending was 29 percent of government outlays in 1875, but 37 percent in 1908. The figures for Austria-Hungary were 22 percent (1873) and nearly 23 percent (1908). For Russia the percentages were 34.6 (1877) and 35.6 (1908): for Italy 19.1 (1874) and 28.7 (1907-08); for Japan 17.2 (1875) and 25.1 (1908); for Germany 28.5 (1881-82) and 28.3 (1908); and for the United States 33.5 (1875) and 56.9 (1907-08).[47] Government arsenals were growing, demanding more tax funds and soldiers for war preparation.

Million of ordinary working people were schooled to kill in the name of narrow nationalist goals that most benefitted a handful of monopolists. Russia had now created the greatest standing army, 12,000,000 strong by comparison with Germany's 11,000,000. Together the Allies recruited 39,900,000 combatants, almost twice as many as the Central Powers' 21,650,000.[48] Nonetheless, Germany remained confident with the best organized and equipped standing army. Her General Staff toasted quietly "Der Tag."

Preparations for war were followed by hot engagements, forcing more goods and services into arms production. Among the Allied Powers, of necessity the State marshalled workers' tax funds for both military and related spending, one supplementing the other in subsidies to owners. Expenditures by the U.S. federal government, for example, increased from $521 million (3 percent of the workers' output in 1900) to $12,697 million (22 percent of the workers' output in 1918). Similarly, State expenditures in Britain rose from £182 million (10 percent of the workers' output) to £2,696 million (68 percent of such output in 1918). For France the figures were 3,747 million francs (14 percent of the workers' product in 1900) and 54,537 million francs (50 percent of the product in 1918). Besides foregoing a large share of what they produced, the workers were forced to increase production for war (24 times in the U.S. and almost 15-fold in both Britain and France) and to pay a like amount in taxes to cover State expenditures for military goods purchased from the monopolies![49]

The process had come full circle, the large firms that started the arms race and the war drawing lush profits from the government purchases of armaments.

* * *

For the people at home and the men and women at the front lines, however, the war was a brutal, dehumanizing morass. "During the war," political economist Frederick J. Libby observed, "Governments spoke through the newspapers to the people, the Press gave up its function of criticizing, even of reporting, and correspondents became in reality ambassadors to the people, helping to carry out national policies."[50]

The antagonists thereby drew the people into blind patriotism—"my country right-or wrong-ism"—and brought them to the factory gates, science being applied to make bigger and better guns, moralists being consigned to the background. Yesterday (as today) militarists thought about the unthinkable, and put it into practice. "How," one scientist pondered, "are we to answer the reproach that science has made war tenfold more terrible than ever? Is there a crumb of comfort in the fact that

Sir Arthur Thomas

a new thrust evokes a parry, as when a counteractive is found for a poison-gas. Only a crumb of comfort, however, for a still subtler poison is then invented, a still bigger gun, a still more powerful explosive. But if this line of thought is pursued, it leads to the suggestion that the increased deadliness of the weapons will eventually make war impossible. The weapons may become too sharp to be handled with safety. The engines of war may become so inthinkably terrible that they will be consigned to the scrap heap by the common consent of the nations, and other solutions will evolve."[51]

But it did not happen this way, for special interests controlled the State, the nations armed with ever more terrible weapons, and they went to war to decide how the world would be parcelled out. The people were forced to pay in many ways meanwhile: in labor-output, taxes, debt, human fiber and lives.

* * *

The net cost of the First Great War was upwards of $208,503,000,000. If one must have a calculation of who paid the most, the people of the British Empire bore the brunt of this bill—some 45 percent of the total, the German people paying the next highest share (22.5 percent), followed by the Americans (17.2 percent), the French (13.4 percent), the Russians (7.6 percent), the Italians (7.2 percent) and the Austro-Hungarians (6.2 percent).[52]

These military costs were financed in three principal ways: first through taxes; then by the creation of a national indebtedness, by borrowing from their own people; and finally through a process of bank finance, borrowing abroad as had been the practice for the previous century and a half.

The tax burden, we have seen, was on the workers' output. In addition, more than half the cost of the war (some $120,675,000,000) was borrowed and had to be repaid by the working people. Hence, the overall increase in the future tax burden in the warring nations was nearly seven-fold: $21,186 million before the war, but $141,861 million after. Taxpayers in England and the British Empire shouldered the greatest part of this growing debt, absorbing 29 percent; while the U.S. tax-

bearers absorbed 19 percent, and so on down the line of war combatants: the Italians 12 percent; the Belgians 2.4 percent; the Rumanians 1.6 percent; the Portuguese 1.3 percent; the Japanese .2 percent; the Greeks .3 percent; and the Serbians .4 percent. Only the Russians avoided future debts to bankers: the pre-war State debt of $4,541 million had reached $24,564 millions by the close of the conflict; but revolution in 1917 wiped the debt away.[53]

For the capitalist nations, however, this increase in State debt represented the degree to which the people would be permanently saddled by the financiers. The nations that increased their internal debt the most rapidly as a share of the capitalist world total were Great Britain (rising from 16 percent of the total in 1914 to 26 percent after the war) and the United States (increasing from 5.6 percent to 17 percent during this period). In order to liquidate this debt, these nations increased the pressure on taxpayers within their boundaries—the cost of war hanging on long after the guns ceased to roar.

While they were not asked to decide upon war or even allowed to compel the owners to pay the monetary bill, the people paid in another way: battle casualties took nearly nine millions. Again, to describe the suffering in terms of nations of people, the Germans lost the most (2,140,000 or 24 percent), followed by the Russians (1,700,000 or 19 percent), the French (1,384,000 or 15 percent), the Austro-Hungarians (943,000 or 10.5 percent), the British (930,000 or 10.3 percent), the Italians (468,000 or 5.2 percent), the Turks (450,000 or 5 percent), the North Americans (150,000 or 1.7 percent), and so on down the line.[54]

By any calculation, then, the downpayment on the monopolies' quest for profit came from the vast majority of ordinary citizens. Mass disillusionment with war thus spread in Europe by 1916. Revolution overthrew Tzarism in 1917. And by 1918 all central Europe saw war weary multitudes on the march. Then came Armistice in 1918. But it was not based on the libertarian democratic principles U.S. President Wilson embodied in Fourteen Points of Utopia. It was rather a Treaty of Vengeance.

CHAPTER II

Versailles Bears Bitter Fruit

"The economic rivalry between England and Germany will outlive the peace," one far-seeing nationalist said during the war. Thus, he continued, "Germany must find some independent method of obtaining raw materials for her industries and food for her industrial population."

Germany did not wait long to find a route to rebuild her imperialism. For Britain's Lloyd George was alive to the revolutionary movement of workers seeking to overthrow the existing order in its political, social and economic aspects—from one end of Europe to the other. "The greatest danger that I see in the present situation," Lloyd George told his Versailles colleagues, "is that Germany may throw in her lot with Bolshevism and place her resources, her brains, her vast organizing power at the disposal of the revolutionary fanatics whose dream it is to conquer the world for Bolshevism."

Britain thus led, and the United States followed, a three-point program seeking (i) to confine Germany to Europe, (ii) to keep Germany at odds with militarized France and, (iii) to weaken, undermine and overthrow the Soviet Union by also fortifying Germany at Russia's expense.

The peace conference was used to instrument the program. Both the United States and Britain threatened to withhold scarce raw materials from industrial Germany to force her military party to give way at the peace table.[55] France's aged Prime Minister Clemenceau balked, hoping to transfer to France all territory to the Rhine. But Britain was adamant: revolution threatened Europe, Germany must not be totally dismembered but strengthened as a major Continental Power!

Hence, Versailles bore bitter fruit in the name of "security," and large chunks of Eastern Europe were bulkanized. Britain and the United States made sure that the Hapsburg Monarchy was broken up. Germany and Russia were stripped of their "alien" fringes. From the western lands (Finland, Latvia, Estonia, Lithuania, Poland, Bessarabia) torn by the Central Powers from war-weakened Russia, the Allied Powers created a *cordon sanitaire*—stretching across Europe almost from the Arctic to the Black Sea. This was one way to "contain" the new Soviet Russia. For the units of the *cordon* were either given a nominal independence or (as in the case of Bessarabia) turned over to a state like Roumania, all of them obedient to France or Britain. Even the Ukraine was slated to come under French rule, while areas around the Caspian Sea, as well as the rich oil deposits of the Caucasus, were designated for British domination—plans undermined by the Bolsheviks' publication of the secret agreements made by the Allies during the war.[56]

Meanwhile, steps were taken to restore Germany as an industrial and military power in mid-Europe as a counter-weight to Soviet power in the East and revolution in the West. The Allies supported the counter-revolution against the rise of the discontented in 1918. With the Versailles peace came support for the trinity of Social-Democratic bureaucrats, the General Staff that perpetrated World War I, and, above all, the monopolists and cartelists. This trinity of power defeated the German revolution, crushing the Left at home and preparing a counter-revolution for Russia as well. The uneasy alliance making up the trinity also saved German monopoly capitalism, sheltering the economic system behind the super-liberal Weimar Republic. Under the *façade* of the Republic, the economy was consolidated, the German populace was exploited in the quickly-centralized monopoly industries, and German warmaking industries were again nourished.

The Soviet Union was in no position to stop the recreation of German power. Fully occupied in beating back counter-revolution at home and armies of Allied intervention, Russia turned

to build socialism in one country—holding little interest in European unification of capitalist and socialist nations.

But Germany again attempted to consolidate the Continent under her rule. Britain through the 1920s had protected German interests and, with the Americans, had poured financial aid into industries and governments of the Reich. So strong had German industry become within a decade of the Treaty of Peace that Germany again threatened the empires that had renewed her vigor: Britain and the United States of America.[57] Thus, we must understand how, after World War I, Germany carefully prepared to build a nation and bloc of unbounded power, to draw Italy to her side, to join Japan in an East-West military alliance and to spread their forces not just on the European and Asian continents, but on three others as well.

(l) Germany Has Wounds to Lick[58]

Germany's defeat cost her heavily: more than two million dead, 14.6 percent of her arable land, 74.5 percent of her iron ore, 26 percent of her coal production, 68 percent of her zinc ore, and much more in resources. The Peace Treaty demanded that the coal-iron steel complex of Germany be dismantled. Not only did Germany cede to France the province of Alsace—a leading textile center with promising potash mines—but also the Lorraine, a fabulous reservoir of iron ore deposits required to maintain Germany as an industrial power. The Saar Basin, a rich coal center, was also slated for French administration for some 15 years, and a portion of Upper Silesia was partitioned in 1921, resulting in a further loss of German coal supplies.

Moreover, in order to restore the devastated areas in France and Belgium, Germany was obliged to deliver for a period of ten years some 7 million tons of coal annually to France and altogether 8½ million tons annually to Belgium. Italy too was to receive German coal, the quantity to rise on a scale from 4½ million tons in 1919-20 to 8½ million tons in each of the eight years from 1921-22 to 1928-29. Finally, the German coal available for home production was planned for reduction from the pre-war level of 139 million tons to some 48 million tons.

These provisions undermined much of Germany's heavy industry. In 1913, for example, some 75 percent of her iron came from the Lorraine; and 80 percent of her coal came from Upper Silesia, the Saar and the Ruhr. With these coal supplies committed and her iron resources lost, Germany could not produce her pre-war level of iron and steel.

Yet German dispossession did not end here. The Allies took from Germany all her merchant vessels of more than 1,600 gross tons in existence and in process of being built, half her vessels between 1,000 and 1,600 tons, and one quarter of those under 1,000 tons. Almost all of Germany's sea-going vessels were lost, forcing her to depend upon foreign national carriers to deliver raw materials and food to her shores, and pick up German manufactures.

External transport disruption found its complement in the destruction of Germany's internal communications system.

The Dawes Plan had turned German railroads into a collection agency to pay funds to Allied nations. The Allies' Reparations Commission owned the bonds of this proposed railway company. And the return on these securities bled 660 million gold marks a year from German shippers, sellers and consumers. These bonds effectively undermined the imperial traffic within Germany, adversely shaping her role in European transport.

Furthermore, the German breadbasket lying in part of West Prussia and Posen was ceded to Poland under the terms of the Peace, losing her a full 14.3 percent of her arable land, 12 percent of her livestock, and 15 percent of her agricultural products. Poland also gained a part of Upper Silesia, a region comparable to the Ruhr, producing some 23 percent of total German coal and also turning out steel and other metals.

German patents, trademarks and franchises held abroad were also appropriated at either nominal prices or without full compensation. The estimated value of overseas German investments was some $3 billion; practially all of them, ten percent of German wealth, lost. The U.S.-created Office of Alien Property Custodian took charge of some 4,500 German chemical patents worth several millions of American dollars; then

sold them at a uniform price of $50 each to a group of industrialists in a "dummy" corporation, The Chemical Foundation. This is only one typical example of the appropriation of overseas assets. For Germany lost practically everything located abroad, while, for war finances, France relinquished and sold one-half of her overseas properties, and Britain lost and marketed a quarter of her foreign investments.

What, then, was the sum total of Germany's loss? The Versailles Treaty deprived Germany of:

one-eighth of her territory
about 13 percent of her people
74½ percent of her iron ore
45 percent of her coal
72 percent of her zinc ore
57 percent of her lead ore
10 percent of her manufacturing plants
25 percent of her rubber supply
19 percent of her coke
26.6 percent of her blast furnaces
19.2 percent of her raw iron and steel
15.8 percent of her rolling mills
68.5 percent of her zinc foundaries
5,000 locomotives
10,000 box cars
her whole merchant marine, save 400,000 tons
her commercial treaties
her concessions and special rights in China, Morocco, Liberia and Egypt.

The German loss of territory and colonies included:

Alsace-Lorraine, which was awarded to France
Eupen, Malmedy and Moresnet, which went to Belgium by plebiscite
Northern Schleswig which was incorporated in Denmark by plebescite
Upper Silesia, which went to Czechoslovakia and Poland by plebiscite
Posen and Western Prussia, which became Poland

Danzig, which was organized as a free city under the League of Nations
Memel, which went to the Allies and was later transferred to Lithuania in 1923
Kiao-chau, which was awarded to Japan
And Germany's special economic interests and privileges in China, Siam, Liberia, Morocco, Egypt, the Ottoman Empire, Bulgaria, Austria and Hungary.

German colonies were apportioned as mandates of the League of Nations among Great Britain, France, Belgium, the Union of South Africa, Australia, New Zealand and Japan—mandates disguising the process of world re-division. There were three types of mandatory properties, "A," "B," and "C."

This system of partition promised *Class "A" Mandates* eventual political independence. For these areas had reached, the victorious Powers said, a high stage of development and were to have "administrative advice" until they could exist unaided. Former Turkish lands fell into this category, the old Ottoman Empire being destroyed as it lost all European territory (save Istanbul), Syria and old Mesopotamia.

France took the mandate over Syria. Despite a sharp criticism of her rule by the 1926 Permanent Mandate Commission, France maintained a severe regime in Syria till the outbreak of World War II. (Syria was only later divided into Syria proper and Lebanon, and given so-called political independence in 1936, independence not realized until the Second World War made France a German colony.)

Like French rule in Syria, the British Class "A" Mandate in Palestine was a hypocritical one. Britain, which had promised the Holy Land to both the Arabs and the Jews as a reward for their loyalty during the war, suffered the embarrassment of being unable to fulfill either promise. It was particularly awkward because she decided to hold on, herself, to this strategic position in the Mediterranean, a prime defense post near the Suez Canal, Mediterranean ports and the Gulf of Aquaba. Palestine served as the last link in the strategic chain from Iraq

to the Mediterranean, as well as a base for a possible overland route to Egypt. This explains England's 1937 proposal to solve the Arab-Jewish quarrel by dividing Palestine into three parts, with England retaining the central area to include Jerusalem—imperialism cares not for religious or ethnic rights.

The British mandate in Iraq provided a classic example of colonialism. Here Britain engaged in a series of maneuvers to exploit the oil of that nation without any interference from the League of Nations. After she relinquished her mandatory authority, she cleverly requested that Iraq be admitted to the League (granted in October, 1932), and finally made that country into an English protectorate.

The *Class "B" Mandates*, areas formerly ruled by Germany, were to remain colonies subject to trade and investments of all the Great Powers. They were to be "cared for" by the mandatory Powers with a greater amount of supervision than the "A" Mandates. Despite alleged supervision by the League, Powers other than Britain or France could make few inroads into either raw materials or markets of these zones. For Class "B" Mandates were closely controlled as follows: the Cameroon was split by France (5/6ths) and Great Britain (1/6th); Togoland was also split by France (2/3rds) and Great Britain (1/3rd); Great Britain took East Africa (Tanganyika); and Belgium appropriated Ruanda-Urundi.

The *Class "C" Mandates*—German colonies in Southwest Africa and assorted Pacific Islands*—continued as formal colonies not open to investments or commerce of all imperial Powers. They were assigned to neighboring mandatory nations, a process rationalized on the basis of their sparse population, size, and remoteness from centers of so-called "civilization." Therefore, they were governed as integral parts of the Old Empires. For example, Nauru's phosphate deposits were awarded to Great Britain, while South West Africa's diamonds were given to the British-controlled Union of South Africa.

*See the table at page 36 of Chapter I.

In sum, these German colonies were parcelled out in the following fashion:

Southwest Africa	to	Union of South Africa
Western Samoa	to	New Zealand
Nauru	to	Great Britain, Australia, and New Zealand
German Pacific Islands south of Equator	to	Australia
German Pacific Islands north of Equator	to	Japan

Since the Union of South Africa, Australia, and New Zealand were transparently in Britain's sphere of influence, the Class "C" Mandates were actually split between England and Japan.

Hence, Germany's colonies passed to the other Powers, mainly into British and French hands. The Mandate System apparently abolished colonialism in a small portion of the world; but in fact it strengthened colonialism by tying former German colonies tightly to the French, British, Japanese and Belgian empires. Although Germany still required colonies to service her machines with raw materials and feed her workers, she now had to depend on the colonies of other imperial Powers.

With the world re-divided in this fashion, the Treaties of Peace terminating the "war to end wars" sowed the seeds of future conflict. The Treaties were conceived in hatred, vengeance, hypocrisy, and force, and beclouded by the idealism of Wilson's Fourteen Points. The Allied secret treaties to divide German territories and colonies simply superseded Wilson's Utopian plan. So, as one contemporary political economist exclaimed: "The current conception of peace is still that of an interval between inevitable wars, not that of a new and lasting state of human society." What, then, did the peace of Versailles signify?

(ii) Britain Fails to Shackle Germany

The war was over and Germany's territory, assets, and colonies were divided among the Allies. But this redivision did not—could not—last. Germany could not be confined to Europe, nor deprived of French resources and U.S. high finance. As crises recurred and Deutschland was pinched economically, therefore, Germany would again view Britain and America as primary enemies, stalk across Europe to absorb resources, and take colonies away from the other Powers by military means. Why the sequence of events? Because Germany struggled to break three fetters placed on her by peace.

One: Versailles Confined Germany to Europe

Britain's economic war aims fitted into four intertwined categories: First, to undermine German plans for launching a post-war economic offensive and thereby gaining ascendancy in competitive markets; second, to protect British industries supplanting German ones in both Britain and foreign markets; third, to tighten Britain's empire trade, pool empire resources, and strive to become economically independent of the Central Powers; and, fourth, to keep the European Continent divided by allowing Germany to remain powerful for operations *within* Europe, but weak for commerce with British colonies and Dominions.[59] Clearly, Britain saw Germany her primary enemy in the struggle for empire. So, "Putting it fairly," Australian Prime Minister Hughes deftly surmised, "the struggle between the two races"—the British and the Germans—"is for economic domination or supremacy."

Once again in history, the other nations of Western Europe were only pawns on the Anglo-German chessboard. Even France, having acquired considerable military power during the war and as a result of the victory, could now be checked on the European land mass by a British balance-of-power policy which made Germany strong. And the Continent divided, Britain then schemed to displace German economic power and keep Germany confined to Europe.

Indeed, even before the big guns ceased to roar, in February, 1916, a secret British War Office memorandum recommedned that British traders should be encouraged to establish themselves in former German markets during the reduction of German trade. "By checking German shipping and German imports of raw materials during the period immediately subsequent to the declaration of peace," this memo begins, "by establishment on British territory of manufactures of such commodities as anniline and potash of which Germany up to the present has held the monopoly and by the formation of syndicates, cartels and trusts to compete with similar German organizations, much may be done to assist British trade to retain the advantages it has gained. The British Empire can supply everything which is needed for trade or manufacture, and if properly organized should have nothing to fear from the competition of Germany, Austria-Hungary, Bulgaria and Turkey which Germany is seeking to unite in a central European economic alliance."[60]

The Central Powers had thereby planned to create a mass market to absorb their excess goods. Although efforts to form a Central European Economic Union had failed in the years preceding the war, when the conflict began and Western markets closed for German goods, new efforts to build an economic alliance were made. While each economic class looked to its own pocketbook—and peasants, industrialists, workers and traders held divergent views—the fear of outside, Allied, Powers drove many classes together to plan for a common trade zone, a tariff union to parallel the powerful German/Austro-Hungarian military alliance.[61]

The defeat of the Central Powers meant such a union could not *now* be created. But what would stop the future formation of a Central European Customs Union? What would prevent such a union from abolishing duties for its members and legalizing the formation of cartels? Prevention of future attempts to challenge Britain thus depended on Anglo-American European involvement and cooperation, conditions which did not last beyond the point of aggravating Germany's desires and readiness for renewed conflict.

Two: Versailles Forced an Economic Division of the Continent

Germany defeated, rivalry developed between British, French and American trusts to usurp positions formerly held by German capital in Europe and abroad. Yet the losses in-

flicted on Germany did not affect the *center* of her monopoly power. The basic industries and the combines with controlling influence were left intact. And with the inflow of British and U.S. capital, the fundamental industries were modernized, made technically efficient, and allowed to resume production competitive with France and the other Continental nations.

Britain was meanwhile behind resurgent Germany. By confining Germany to Europe and preventing her from forming an independent common market, Britain also hoped to regenerate her European trade—trade she had relied upon even before Napoleon attempted to create the Continental System at the close of the eighteenth century. Indeed, of British exports Western Europe absorbed 33 percent in the 1790s, 38.7 percent in 1900, 33.8 percent in 1913, and (after Britain rebuilt Germany and the latter again challenged the former) 26.4 percent in 1938.[62]

Britain's motive was transparently to reconstruct Germany, the hub of Western Europe's manufacturing and commerce, in order to renew a strong demand for British products such as coal for German steel mills and textiles.[63] In fact, the need for German and European markets was growing as a rising proportion of Britain's output of these items was exported.* But this was not all.

Germany's re-industrialization would also serve to keep Germany and France at odds, since the two countries would always cast longing eyes at the Lorraine ores and the Ruhr coal, neither controlling both areas. Germany would continue to depend on French iron and farm products, and sell to her manufactured goods. Meanwhile, Germany would remain able to export both resources (coal and pig iron) and manufactured products (steel, steel goods, and textiles). France would receive these German goods in raw or manufactured form and send to Germany Lorraine ores.

Why the division of ore and coal? Because England planned

*British exports of coal, for example, were 11 percent of all production in 1875, 15 percent in 1890, and 21 percent in 1907. Similarly, English exports of pig iron were 15 percent of all output in 1875, 14 percent in 1890, but 20 percent in 1907.[64]

Germany's continued possession of the Ruhr so that Franc would not become industrially strong. Britain thus advocate a light war-indemnity penalty on Germany, on the basis th they were "needlessly humiliating even when they were n onerous; and when they are onerous they are sure—sooner o later—to be broken." This British Board of Trade's recom mendation on indemnities—the work product of Philip Ashle and John Maynard Keynes—called for reparations to be i resources and not in money. Such indemnities should be claime only for certain specific objects—merchant shipping losse the materials needed to repair the invaded territories, and als the supply of certain important raw materials of industry onl available from the Central Powers (as potash)—rather than f the whole or part of the entire cost of the war. £150 millio was therefore recommended as the limit of indebtedness o enemy nationals in allied states (e.g., German companies i Britain).[65]

Though Germany momentarily lost her place as a wor industrial power, it was not given to France. Independentl neither Germany nor France could expand to the full exte of their growing industrial capacity. And the basic disagre ments between them necessarily advanced from the econom to the political and, finally, to the military arena, a progressi ensured by the peace treaties.[66]

Germany clearly was deprived of her ability to produ steel on the pre-war scale as her iron ore resources and h coal supplies were greatly reduced. France obtained immedia possession of the Lorraine iron resources; but she was unab to work them with her existing facilities. So after military ho tilities were suspended, the whole pig iron and steel indust was practically closed down.

True, the Treaty said that twice the pre-war amount of Ge man coal would go to the French and Belgian iron districts: t make steel Lorraine could have three tons of coke in place o four tons of coal. But the reciprocal rights of Germany t secure iron ore from the Lorraine was not granted in the Trea Germany therefore emerged from the war with a steel capaci potentially equal to her pre-war output, but with no iron o

essential as a raw material. The iron ore it had used was now smelted by France on a much reduced scale in the Lorraine. France, however, lacked enough coal. Before the war France had imported one-third of her coal and one-half of her coke. But now that was insufficient, as once France resumed control of the Lorraine (which she lost almost a half century before) she found that the German-built iron plants in the region consumed three-times as much coal as that area produced. France was thereby forced to seek foreign coal. English coal was too far away; Saar coal did not yield a good coking fuel; and only imported German coal would do the job. And France lacked markets as well as coal. She could still only produce pig iron—not steel. And Germany was the basic market for French pig iron, as in Germany it could be turned into steel through the use of huge quantities of power produced from abundant supplies of German coal—the very coal France lacked.

The obvious solution was to permit France to produce steel and to take up the former German steel markets. To accomplish this, however, France required the ownership of Ruhr coal, a move which would have reduced industrial Germany to an agrarian nation. Since this ownership was not awarded by the Treaty of Versailles (with good British reasons), by one means or another Germany would be forced to obtain French Lorraine iron resources; and with France and Germany at each other's assets, Britain successfully kept the Continent divided.

Three: *Versailles Forced Germany and Europe to Depend on United States High Finance*

Germany's dependence on and envy of French resources resembled her reliance on the U.S. empire of high finance. Germany was now a poor nation, the United States a rich one. More, the defeat of Germany and the successful October Revolution in Russia changed the world's economic boundaries. The terms of Allied peace allegedly gifted subject nations in Europe the right of self-determination, so that Central and Eastern Europeans that took this right literally tried to make the revolution at the expense of the borders of Austro-Hungary and Russia—even before the ink had dried on the formal treaties of peace. Hence, Russia was stripped of land for five new states. Seven nations emerged from the Austrian-Hungarian empire. And twenty-seven customs areas appeared where be- fore there were twenty. So many new geographic entities had emerged from the ashes of war that regions that once prided themselves economic autarchies were undermined. Importan urban manufacturing centers were cut away from rural re sources. Railroad lines and canals, once servicing the interna workings of one nation of Eastern Europe, now led to som other nation's capitol or financial center. To protect themselves by building up national self-sufficiency again—or for the firs time in the case of the new nations—the government of each tried to secure home industries with tariffs and to subsidiz domestic production with tax revenues. Nonetheless, nationa production remained small scale, profits stayed low, unem ployment was high, famine and epidemic were frequent. By contrast, only the U.S. had accumulated wealth from the wa and its aftermath, amounting to $186.3 billion (38.8 percent o the world total) in 1912, but $320.8 billion (59.5 percent of th total) in 1922! Britain's share had slipped only slightly (16.5 t 16.4 percent); Italy's share remained the same (4.8 percent France's share had edged upwards (11.9 to 12.5 percent); bu Germany's share was undone from $77.8 billion (16.2 percen in 1912 to $35.7 billion (6.6 percent) in 1922![67] So, hat in hand Germany led a file of Eastern Central European borrowers t Wall Street.

After 1922, U.S. lending to Europe also rose. So large wa the production of U.S. goods that exporters pushed loans t finance new sales. For among the seven mightiest capitali Powers, the U.S. produced some 51.4 percent of all output i 1911-14, but 63.2 percent in 1924-26![68] And in fact, now th whole system of capitalist production, trade and prosperity i Europe became based on U.S. bank capital. For if the Amer ican empire of high finance refused loans to Germany for wa reparations to be paid to France and Britain, then these nation in turn could not buy from U.S. manufacturers and farmer and the whole system would crumble.

Consequently, European production was only gradually re

built to specification of financiers like the J.P. Morgans and Rockefellers, who literally controlled world exchanges and global commerce. Finance, production, commerce and peace were now obviously a whole—without the first the entire sys- tem would lead directly towards new conflicts and perhaps war. And even with U.S. finance, war was inevitable so long as Anglo-Saxon dominance over the Continent continued. Al- though Britain and the United States had carefully planned to use the League of Nations to construct some kind of interna- tional currency and credit to regenerate trade in the 1920s, they had failed dismally by the 1930s: world markets withered away, owners' production closed down, unemployment esca- lated, and economic autarchy—protecting home markets and building exclusive tight-knit empires abroad—haunted the globe.[69]

How now could Germany rebuild and compete in a world dominated by Anglo-Saxon money, politics, and military power? The unilateral disarmament of the defeated nation had clearly meant the new German struggle could not immediately take a military form, so Germany would need other means. Moreover, the composition of the League of Nations under British dom- inance also meant the Continent would temporarily remain a pawn. But Germany saw the door of economy was left ajar, and in the 1920s she again threatened to outdistance the United Kingdom in the ability to produce. By 1924-28, in fact, Ger- many was already making some 12.7 percent of the total prod- uct of the Big Seven Powers—a figure desperately close to Britain's share of 13.2 percent. So within Europe these two super-powers once again moved into heavy competition for markets. Bloc alignments and, finally, competitive military strength were just around the corner.

CHAPTER III

Conditions for Conflict Still Exist

Even before World War I ended, the economic struggle for empire was renewed. The eternal optimism of the British imperialists was exceeded only by their involved schemes for expansion. Britain hoped to keep the United States and German interests out of the British Dominions. But at the Imperial War Cabinet meetings in March and April 1917, the Dominions showed themselves unwilling to yield an inch of their political autonomy for the cause of imperial federation. They remained lukewarm to Britain's proposals for national ore and metal trading companies to be set up in each Dominion with an international company for overall supervision. This was a plan to exclude foreign, particularly United States and German, interests from controlling Britain's far-flung mineral resources, on the ground that this would somehow detract from the Dominions' "local autonomy." Opposing such hypocrisy, the Dominions were equally unwilling to promise not to restore trade relations with Germany after the war ended.[70]

The United States was meanwhile alive to the British intrigue. President Wilson suspected the British of harboring the most sinister economic war aims, viewing the resolutions of the 1916 Paris economic conference as a blueprint for Entente, chiefly British, world economic domination. But even Wilson was not without his nationalist bias, initiating during the early months of the war a policy by which his administration would aid American businessmen in replacing German and British trade in the Western hemisphere.[71] Cleverly, U.S. businessmen hung on to this goal after the war, as their agriculture and industry demanded foreign markets again.

When the war was over, new struggles suddenly appeared on the European horizon. For the titanic conflict had severed all trade with the enemy and the narrow peace had created 7,000 long miles of new frontiers that soon surrounded themselves with tariff walls. Russia had left the capitalist marketplace, while the traditional markets once held by the industrialized Western nations were filled from domestic workshops and factories, and imports from others. True, Belgium and northern France devoted their factory systems to restoring capital equipment destroyed in the war; but even their boom of 1919-20 was modulated by the lack of markets. So capitalist nations soon tried to restore the exchange of goods by laying the foundation for the exchange of currencies on a fixed basis, calling up international financial conferences in 1920 and 1922. Next these nations determined that trade could not be restored if the industries of trading partners were not uplifted; so U.S. and British capital was loaned and invested in Austria (1922), then Hungary (1924), Italy, Czechoslovakia, Roumania and Bulgaria (1925), and Germany itself (1920s). With trading partners and means of steady exchange of currencies, the United States and Britain thought world commerce could be restored.

But it never was. Anglo-Saxon capital merely put weak nations on steady economic feet, refreshing their ability to produce for the same markets U.S. and English exporters hoped to win. Brave hopes for unfettered trade were the only products of the League of Nations, the International Chamber of Commerce, and the International Labor Office. They could speak firmly of equal application of trade barriers and tariff clauses, commercial settlements and taxation procedures; but they had no power to prevent nations from trying to accomplish self-sufficiency behind walls that blocked out foreign goods.

More hopes were expressed in 1927 at the World Economic Conference: tariffs and duties should be lowered to encourage free trade and stimulate production worldwide. But, again, few were listening, so only a handful of tariff schedules were lowered. There were more important matters to think about. For now the territorial and political changes wrought by the war and sanctioned by the peace treaties—changes which were held to provide some measure of security against the recurrence of war—were so strongly resented by the people at whose expense they were made that renewed warfare became increasingly likely. This was particularly true in Germany where, in the 20s, Professor Hermann Kantorowitz was insisting in *The Spirit of British Policy and the Myth of Encirclement of Germany*, "the spectre of encirclement has grown into a terrible reality; today an ill-equipped Germany sees herself surrounded by powerful antagonists who continue to fear us and whom, for this very reason, we must fear. For in this age of government by the people the decisive and almost the only cause of war is the fear of war. Who is to protect us from it?"[72]

The fact was, however, that the popular governments that did exist were themselves confined within the frame of parliamentary debate, economic reforms, and protection of national interests at the expense of the interests of capitalist enterprises in other nations. Save in the Soviet Union no attempt was made to nationalize the means of production and place these means under popular control. Economic development therefore was little more than advancement from pre-capitalist production to capitalist ownership, large-scale employment of wage workers, and production for sale on the market—first by protecting the home market, then by exports at competitors' expense. The owners' fears of losing markets was soon relayed in parliamentary measures for more stringent protective laws, more bilateral agreements between nations for their own two-way trade, and military preparations in case their commerce was intervened by others.

So indeed there was no protection from war, given the division of territory, peoples, resources, wealth, commerce, foreign loans and investments, shipping, and thus continued profits, set up at Versailles. In several regions of Europe, alien rule was now maintained over large minorities of people who belonged ethnically to other states. The existing political and geographic boundaries held these minorities in subjugation, in the name of national security in case of war. This was arrogantly claimed to promote the political and territorial safety of

France and the nations allied with her against attack from the outside. But there were other factors which appeared to make war inevitable—national monopolies and cartels breaking down, world commercial redivision accompanying overproduction, tariffs and dumping, and a return to tight-knit empires following world crises and political antagonisms.[73]

(i) National Monopolies Create International Pressures

War may have cleared the social ledger of previous antagonisms between former national monopolies, and the Versailles Treaty may have provided the basis for a new power equation between nations. But that Treaty also demanded national self-sufficiency, creating the very conditions which led to World War I. The competitive struggle of self-sufficient national monopolies for domestic and foreign markets was now likely to lead to the dumping of goods, to cartel agreements to prevent losses, and—once these cartels broke up—to the military extension of the marketplace.

These, then, were the logical measures following the Treaty—at least they were the probable steps said Mr. Louis Marlio, director of the world aluminum cartel:

> The industrial handicap in European countries has been accentuated by prohibitive custom barriers and other nationalistic economic priorities. The difficulties in this connection were enhanced between the two wars by the provisions of the Treaty of Versailles, which increased by 50 percent the number of independent European countries. Each of the newer countries was seeking to buttress its political independence by attempting to achieve economic self-sufficiency. The political uncertainty in which Europe lived throughout the period between the two wars strengthened the powerful tendency toward economic nationalism. In short, nearly every country sought to develop within its own territory the key industries which were considered essential to their national defense as well as to their economic well-being.
>
> In the existing situation there was a tendency in each of the European countries for small scale independent producers to be replaced by one or a few large companies. Even so, the domestic market was usually not large enough to permit the realisation of the full advantage of large scale enterprise. With still larger plants, unit costs could be reduced. Hence there was a tendency to expand the size of establishments and "dump" a portion of the product in foreign countries for whatever price might be obtained. In the main, international competition occurred in areas which did not produce the commodities in question. Cut-throat competition naturally created in due course a strong demand for price agreements which would prevent outright losses in competitive international markets and stabilize the situation. By such a procedure it appeared possible to reduce the prices in the producing countries. The final consideration was an important factor in determining the policies of governments toward cartel organizations.[74*]

The last step, however, never took place, as the monopolies used the State to protect domestic markets from foreign products and thereby kept prices at higher levels within these markets. For these measures the ordinary people paid the bill, both in higher prices for most commodities they consumed and in State tax collections for programs benefitting the monopolies.

In their quest for super-profit, the monopolies jacked up their domestic prices at the same moment they formed international cartels to divide the markets of the world. French economist M.C.J. Gignoux argued in *L'après-guerre et la politique commerciale* (Paris, 1924), p. 192, that giant producers should be making agreements "which, in the allocation of markets, achieve great results with little difficulty. . . . [This] might prove no less useful in the distribution of production, and would bring it about more effectively than agreements between States."

Cartels, it was believed, would force nations into political agreements, a point stressed for the heavy chemical industry by M. Duchemin, the President of the Union des Industries chemiques:

> If, disregarding frontiers, similar industries get in touch and conclude mutual agreements for the rationing of their products, in conformity with national and international requirements, taking into account the new situations which have arisen, if they succeed, first by national agreements and then by international agreements, in diminishing general expenses, improving output and eliminating second-rate factories or factories whose geographical situation is unsuitable; if they cooperate in organizing their sales: they will obtain a dimunition of cost prices and greater regularity in production, two results which would be a source of satisfaction

to all and which would engender a mentality favourable to a long reign of peace.

In short, the first step is not to conclude inter-State agreements, but agreements between the industries themselves which would render the subsequent conclusion of inter-State agreements possible.[75]

Soon a long list of industrialists and politicians echoed this "need" for international cartels to regulate production and sale. M. M. Metzner's study of *Kartelle und Kartellpolitik* (Berlin, 1926), pp. 100-101, lists a wide assortment of high-placed personalities favoring cartels: Herr Stressman, the German Chancellor of Foreign Affairs; Herr Trendelenberg, the German Secretary of State; Herr Deutsch, the President of the giant German electrical trust, Allgemeine Elektritzitatsgesellschaft; M. Loucheur, an important French Deputy; M. Caillaux, a French Senator; Mr. W. Leaf, the President of the International Chamber of Commerce; Sir Eric Geddes, former President of the Federation of British Industries; and Mr. Hodges, former Secretary of the Miners' Federation of Great Britain.

With so much political support behind monopoly needs to divide markets, regulate output and set prices, cartels extended their activities with renewed vigor over a growing field. There was an even larger expansion of firms with outlets and production facilities in many nations, especially in the latest technology of automobiles, chemicals and chemical engineering, led by such monopolies as Courtaulds, Unilever, and I.C.I. of Britain, G.E.C. of the United States, E.M.I. from the Continent, and Ford and General Motors from Detroit. Meanwhile, cartels grew in number and power. There were about 100 global cartels in 1910, but by 1931, 321, mostly in three key industries accounting for two-thirds of all global cartel arrangements. For there were 50 cartels in the ferrous metal industries (16 percent of all cartels), 51 in chemicals (another 16 percent of the total), and 80 in transport and communication industries (25 per cent of the total).[76] These and other cartels controlled a substantial portion of world production, as the following table shows:

*Permission to quote from Louis Marlio, *The Aluminum Cartel* (The Brookings Institution, 1947), pp. 7-8. Copyright by the Brookings Institution.

	Year	Per Cent of World Output		Year	Per Cent[77] of World Output
Rubber	1940	97	Sugar	1937	85
Phosphates	1937	92	Tin	1939	83
Diamonds	1939	+90	Artificial Silk	1929	70
Copper	1939	+90	Synthetic Nitrogen	1932	67
Cement	1937	92	European Lumber	1926	75
Potash	1939	91	European Steel	1929	32}*
Bottle Glass	1932	91	European Steel	1936	45}*
Electric Lamps	1939	90			

(ii) The Rise and Fall of Cartels

The cause? The contradiction between the increasing ability to produce and the decreasing ability of the marketplace to absorb led to the periodic formation of cartels for limiting production, dividing territorial markets, taking fees and setting prices. These cartels were formed, moreover, not suddenly, but only after a prolonged period of competition between giant firms dominating the market.

Often competitive monopolies had been compelled to increase their investment in new capital in order to expand production, thereby lowering their unit fixed costs and thus the price of their goods. But when all competing monopolies from various nations followed the same course, over-production perennially appeared. The only way to capture wider markets then was price-cutting. And each big company vigorously slashed prices to absorb competitors' markets and to protect their own sales.

There were limits to price-slashing, however. For each monopoly was economically compelled to operate under a common set of assumptions about profitability. Plants and equipment (blast furnaces for example) in which monopoly capital was invested would have to be put out or idled if the market could not absorb sufficient products (like iron ore). The cost of fixed capital no longer in use would then have to be spread over the remaining goods which still could be sold on the market. Market prices would therefore have to be raised to cover costs.

*70 percent of world exports.

But this would price the goods out of the market. And, even if the market price was slashed to meet monopoly competitors, fixed costs could not be covered and losses would lead towards bankruptcy. The monopolies concurred therefore that they could jointly protect their profits by limiting output and forcing prices to rise—"primarily in the interests of the members of the cartel itself," one economist said.

Big companies retained the advantages, first in the competitive markets, then in the formation and destruction of cartels, thereby in profit-taking and loss-cutting.

Monopoly groups, for example, could install new machinery to expand output when the market increased, and they could cut production and fire workers when the market declined. By contrast, smaller and older firms often could not expand output when the market rose or cut output and fire workers when the market fell away. They had to maintain production to cover their fixed costs of machines and their skilled, irreplaceable employees. So clearly big firms were better able to decrease production in times of market glut, absorb the loss resulting from the increased unit cost of machine output, and cut labor costs to the bone.

The monopolies were also better able to prevent losses by creating cartels to divide the remaining markets between themselves, to set prices and to control output and profits. While both old and new giant firms benefitted from these cartels, generally speaking only the new firms with unlimited amounts of finance were able to break them by increasing plant capacity, thereby enlarging the volume of output on demand. This allowed the new firms to minimize their losses in a way that was impossible for old firms with limited financial resources and machines whose capacity was also limited.

For example, many old firms simply could not double production, as the new firms could in the face of falling market prices. As shown in the table, p. 69, the old firm could not protect its profit margin.[78] Here the old firm sells 10 units each at a price of $200 and a unit cost of $100, leaving a $100 profit. When the price falls to $140, however, the same 10 units still

have a unit cost of $100 leaving a $40 profit. By contrast, the new firm's output and sales have meanwhile risen from 10 to 20 units, thereby cutting the unit cost of production from $100 to $50. Thus when prices plummet from $200 to $140 profits fall more slowly—from $100 to $90.

Eventually, the new firm outlasts the crisis. But the old firm has suffered a falling profit return on capital and has difficulty staying above water. When it finally folds, the new firm easily absorbs its market—10 units—and raises the price monopoly-style. Here is the new firm's motive for breaking the cartel, ensuring the demise of all cartels.

	Before Price Fall		*After Price Fall*	
	Old Firm	*New Firm*	*Old Firm*	*New Firm*
Selling Price (Each unit)	$200	$200	$140	$140
Less: Fixed Costs (Each unit)				
Total Costs ÷ Units Made	$\frac{\$1000}{10} = 100$	$\frac{\$1000}{10} = 100$	$\frac{\$1000}{10} = 100$	$\frac{\$1000}{20} = 50$
Profits Before Other Costs (Each unit)	100	100	40	90

Thus, as the unit costs of fixed capital rose in the face of falling market prices, cartels were periodically destroyed by the largest, most resilient companies. This destruction was simply a product of the economic conditions of the times, as each and every firm sought an advantage at the expense of all others. So as times changed, as the market expanded or contracted, cartels were created or annihilated.

When the market was extensive cartels were not needed to limit output and set prices. Thus, early after World War I, industry could not fill the markets available. Though Britain conquered many of Germany's old markets, there was still plenty of room for Teutonic sales expansion. Thus as Europe was rehabilitated and integrated into the market by 1928, German exports rose 34 percent above exports in 1913. Under such conditions, cartels were largely confined to operations *within* industrialized nations—limiting production and allocating markets to members. And the only known international cartels in operation were the potash producers of Germany and France, the copper and diamond syndicates, and—covering the whole of Europe—the rails and pipes cartel, the wire combination, and the incandescent lamp cartel. Most of the so-called international combines were still loose associations which did not stop their members from individual market manipulations. Before 1929 then, only the Swedish-North American match combine and the German-Dutch margarine trust rigidly controlled output, sales and prices of all members.[79]

World-wide depression made a difference in the pace at which cartels were both formed and destroyed in the 1930s. In such heavy industries as chemicals, steel and transportation, new cartels were formed; cartel adjustments were periodically made to the output quotas, market areas and prices of individual firms; but very frequently the largest producer with the greatest fixed capital investment (the new firm in our example above) saw an opportunity for extra profits by violating its conditions. Individual firms felt themselves free to expand their operations in spite of cartel quotas (the new firm after the price fall in the example) and the penalties for a breach of cartel provisions. Therefore, owners reasoned, "The question to be considered is not loyalty to the agreement, but simply the mathematical calculation whether the reduced cost of production anticipated from increased output does or does not exceed the amount of the convention [i.e. the cartel] penalty."[80] If costs were less, production, sales and profits were increased—all in violation of the cartel agreement.

So the point was reached time and again where the cartel penalty was exceeded by the extra profit margin between lower costs and lower prices. Then prices were further lowered in violation of the cartel provisions and the volume of production was increased, forcing unit costs to fall, profits to rise:

	Price per Unit × Sales in Units (i)	Cost per Unit × Sales in Units (ii)	Profit [(i) Less (ii)]
Before Breaking Cartel	$7 × 10 = 70	$3 × 10 = 30	$40
After Breaking Cartel	$6 × 20 = 120	$2 × 20 = 40	$80
Net difference from breaking cartel			40
Less Cartel Penalty			−30
Profit from Breaking Cartel			$10

Since the market of the violator was often extended into the territory of the other cartel members, a new price war ensued between the former cartel participants, this struggle to sell surplus goods soon leading to a redivision of world markets.

(iii) Profits Down, Tariffs Up

Once the world market was saturated, cartels fell apart—sales and profit-rates tumbled. The monopolies now tried increasing production-volume, hoping to lower unit costs of fixed capital, reduce prices and maintain their share of the market, and, in turn, keep surplus-margins from falling.

Firms increasing their investment in plant and machinery in relation to their payment of wages forced other firms to take similar measures—over and over again. But the more they invested in plants to employ workers to produce more goods that could not be sold, the deeper the market crisis grew.

The national average rate of profit was bound to fall as investments in technology rose more quickly than payments for wage workers in this or that time period. For now the proceeds from the sale of commodities on a failing market had to cover added fixed charges, cutting into the owners' surplus. Maintenance and the expansion of factories soon absorbed an increasing portion of sales revenues, then, with the total investment in means of production as a share of workers' output increasing in Italy, Japan and the United Kingdom, but decreasing in Germany and the United States—nations where overproduction was the greatest and cartels to stop excess investment and output were most numerous and most resilient:

Investment as Percent of Workers' Output[81]

	United States	Germany	United Kingdom	Italy	Japan
1910-14	18.0	n.a.	5.4	15.1	17.3[b]
1920-29	17.3	13.8[a]	8.7	16.0	18.8[c]
1930-38	12.5	12.2[e]	9.1	16.1	27.1[d]

(a) 1925-29. (b) 1919. (c) 1930. (d) 1938. (e) 1930-37.

As more and more of the social product was devoted to th *maintenance* of the means of production, less and less wa available for surplus to *expand* factories, especially in the United States where maintenance costs rose from 8.6 to 10.8 percent of the workers' output between the 1890s and the 1930s while output devoted to new factories and machines fell from 11.6 to 1.5 percent.[82] This maintenance of the means of production left less surplus for the extension of operations, while the rising portion of output going to workers depleted the share awarded owners. In the United States, for example, owners divided income as follows:

Percentage Distribution of Income[83]

	Workers' Compensation	Owners' Income	Total
1909-18	56.2	43.8	100
1919-28	61.7	38.3	100
1929-38	64.9	35.1	100

Of course, the workers bitterly fought for this *relative* increase in the share of their output, the owners yielding to workers for their extended needs, and enduring a relative decrease in the amount of surplus-taking.[84]

However, other forces worked in the opposite direction. For example, the growth of investments in machines relative to wages paid (i.e., the rising organic composition of capital) increased the productivity of labor. Since this increase was not wholly paid out in wages, owners gained a larger surplus value.[85] Also, as the major capitalist nations industrialized more, they drew an increasing proportion of people out of the production of agricultural goods and impressed them into manufacturing or other commercial occupations, expanding the capitalist base of production. An increasing part of the popu-

lace took the role of wage workers owning no productive property. This forced wages down as the supply of workers periodically outdistanced owners' demand, owners extracting a larger sum of *total surplus values* from this growing working class.[86] Owners also increased the speed of sales, allowing them to get their capital back faster. Fast-return allowed the owners to re-invest in new means of production to produce still more goods, which, once sold, realized again surplus and invested capital. At each turnover of capital, then, owners took the surplus values the workers embodied in the products; the more rapid this turnover, the greater were the *total surplus values* taken by the owners in any given time period.[87] This increase in the mass of surplus, then, tended to increase the yearly, monthly, daily, or hourly return on invested capital.

In sum, all three of the forces mentioned here mitigated any fall in the average rate of profit. In the United States these forces cumulatively pushed the rate of profit from the zero figure experienced in the Great Depression to over five percent on capital by 1940:

	Machine Costs Plus Labor Costs Plus Sales Costs ($s millions)	Net Profit (Loss) After Taxes ($s millions)	Rate[88] of Profit (Percent)
1931	105,725	(880)	—0—
1935	106,599	4,778	4.5
1940	135,955	6,947	5.1
1945	231,417	10,518	4.5

Meanwhile, the largest companies moved to enlarge their margin of surplus by expanding output sold in protected and new markets. This temporarily prevented the formation of international cartels to divide markets. So before the global sales area was sliced away by the world-wide depression which began in 1929, the capitalist world competed fiercely. Cartels which did exist were loose-knit and vulnerable to any production/sales expansion by individual firms seeking wider markets, profits and control. For the means of transport had long since opened world markets to many sellers, so that by the beginning of the 1920s international economic relations were still based to an overwhelming extent, and indeed almost exclusively, upon all-round competition.[89]

Keen competition then led to gyrating allocations of world commerce:

World Volume of International Trade;[90]
Share of Principal Capitalist Nations, 1900-38

	Total Imports & Exports ($s Billions)	*Percentage Share of: United Kingdom*	*United States*	*Germany*	*France*
1900	20.1	21	11	12	8
1913	40.4	17	15	12	7
1929	69.0	14	14	10	6
1938	47.0	16	11	8	5

While the United Kingdom, Germany and France lost a substantial share of their place in world trade before the Great Depression, United States commerce gained. By 1929 the United Kingdom no longer held overwhelming commercial leadership and she now assumed an equal place with the United States. Only a tight-knit empire, the product of capitalist crisis and economic autarchy, allowed Britain to resume her world commercial leadership by 1938. But such "leadership" could only take place amidst the degeneration of production (overproduction), the end of free trade (tariffs and tight-knit empires), and the beginning of price-slashing in foreign markets ("dumping").

(iv) Owners Can't Sell But Try Harder: Erect "No Dumping" Signs

Throughout the world in the 1930s, production increased more rapidly than demand: workers, businesses and governments lacked cash, credit or desire to purchase everything produced. Prices began to fall and profit margins began to shrivel. To stop this fall in profits, wages were lowered, work intensity was increased, and hours of labor were lengthened in 1930 and the first half of the following year: "Wages were reduced by

up to ten percent in some European countries and up to 20 percent in the United States, and it was thought that in this way sufficient profit margins would be re-established and business would again move upward. . . ."[91] Owners tried these tactics, too, before the 1929 Great Crash; however, reducing the wages of the working class while maintaining steady production did not resolve the problem, but shrank the market more. Workers with even less money purchased fewer goods. Industrialists too hesitated to purchase new machines since goods could not be sold to the workers—the end force determining if owners could recover profits in the far future.

Owners then dumped so-called "excess" production abroad, often at lower prices than those charged in the tariff-protected home markets. They instrumented their economic foreign policy—to sell but not to buy—through a combination of domestic tariffs and foreign dumping.

In the years following the Armistice governments designed an uninterrupted series of all kinds of tariff provisions to protect home markets for national producers and to exclude goods made by foreigners. This put upon the League of Nations' International Bureau for the Publication of Customs Tariffs an arduous task, keeping exporters informed of the changing markets for their goods. "At times," said M.J. Brunet, Bureau President, "the number and increase of new tariff systems was such that the Bureau almost feared it might no longer be able to cope with its task!"[92]

In order to then protect the home market for themselves, the monopolists had to sway the great majority of the people to the philosophy of self-sufficiency. They succeeded. For now all the major classes found some virtue in tariff protection. In the leading capitalist Powers, support for tariffs was overwhelming.

Save in Denmark and the Netherlands, for instance, the rural population advocated tariff security. True enough, U.S. farmers slowly began to realize that their exports to Europe were being undermined by a protectionist policy of the government. But almost everywhere else, the farmers supported the political parties in power, thereby submitting to the influence of industries which desired to reserve the home markets for themselves and to capture the widest foreign commerce.

Monopolists and farmers then roped the working classes into the protectionist program. Despite brave protest resolutions against protectionism (stressing international solidarity of workers as opposed to narrow nationalism) which were passed at international socialist and trade union congresses, the labor parties turned to nationalist opposition of imports of goods made by foreign workers and even the immigration of unemployed proletarians from countries where the standard of living was lower. Labor parties reasoned that foreign goods would undercut the production of domestic ones, causing unemployment and lower wages; similarly, they believed, foreign workers would increase competition for home jobs and drive wages down.

Together the monopolists, farmers and workers teamed up with the bankers. The latter were not blocked by tariffs to trade; for they sent capital over tariff walls to needy borrowers and investors. But they also benefitted by the division of the world into tighter trade zones, where they could finance many sets of national competitors. And so they too supported tariffs in their own interests.

Only small sections of the population—manufacturers depending on foreign orders, individuals on fixed incomes, and civil servants—attempted to stem the tide of protectionism. But they were overcome by the other classes.[93]

Innumerable amendments to tariff schedules resulted, each special class seeking protection for itself, joining the near united front to support legislation. "The tariff," said Customs Tariff Bureau President Brunet, "instead of being regarded as a whole, is subject to attack by these numerous interests, all of which put forward claims for increased protection for themselves."[94]

Despite the tariff barriers protecting home markets, the national monopolies remained dissatisfied with the domestic purchasing capacity for their goods, especially as their total fixed investments increased. Now monopolies sought to spread

these costs over a greater number of units of output, hoping thereby to recover their investment plus take a larger unpaid surplus from the workers' production. Foreign sales were the answer. But how could foreign price competition be met? First in a protected home market they could sell their goods at higher than foreign prices. Then they could increase the total volume of output and dump some of it abroad. This the monopolies did, allocating fixed costs to a larger number of units of output. Thereby the cost of each item produced fell, even when foreign prices received were less than the average unit cost of production.[95] For, one expert explained, "Export products sold at dumping prices are not necessarily sold at a loss to the exporters, even if sold at a price less than the average cost of production of the exporter's total output. Since it is a common tendency, especially for large manufacturing industries, for unit costs to decrease as output increases, the decrease in unit costs for the *entire* output resulting from the increase in output made possible by the export dumping may more than offset any partial loss resulting from the excess of unit costs over export price."[96]

The Economics of Monopoly Dumping

	Before Exports (10 units produced)	*After Exports (20 units produced) Home Market*	*After Exports (20 units produced) Export Market*
Prices (per unit)	$40	$40	$3
Less costs (per unit):			
All Fixed Costs ÷ Units Made	$= \frac{\$100}{10} = 10$	$\frac{\$100}{20} = 5$	$= 5$
Variable Costs	3	3	3
Profit	27	32	
Less Export Loss		−5	−5
Net Profit		28	

Fixed costs are thereby spread over a greater volume and number of units of output. This lowers the unit fixed cost of domestic sales, thereby increasing the super-profit on each item sold at a monopoly price in the protected home market. A portion of this super-profit offsets any loss due to overseas dumping at prices below the unit cost of production.

There are two important points stressed in the above table:

First, profit after dumping is greater than before exports;
Second, variable costs (such as wages and raw materials) were $3 before exports, but $6 after exports began—the increase of $3 being covered by the dumping price of $3.

Thus, dumping operations pay as long as export prices equal the *increase* in total costs of producing exports. That is, "export increases the output capacity, and, by the fuller utilization of permanent plant, lowers the general average of costs of production; it is, moreover, profitable as long as the export prices, even if they do not reach this average, exceed the increased working [i.e., variable] costs occasioned by the production of the exported material." Also, ". . . the lowering of the average cost of production not infrequently leads to a reduction of the home price, even though the latter still has to bear the whole burden of overhead costs."[97] By lowering the domestic price, a larger share of the home market can thus be conquered—itself made possible by dumping in the 1930s.

Then dumping brought on another tactic of competitors. For as dumping became a common practice among giant firms, each year's crop of new tariff legislation closed down more and more markets. Where America's Hawley-Smoot Act of 1930 sealed off U.S. markets so European countries could never pay their Wall Street debts, England's overthrow of a century of free trade came in 1932 when a 20 percent tariff was put upon imports of foreign manufactures (with up to 33 percent on some and ten percent on most semi-manufactures and foodstuffs). Germany pushed tariffs on rye to three times their price. France uplifted its wheat duty two times on foreign grain, also imposing a general increase on imports of manufactures—11 percent tariff in the 1920s, but 17 percent by 1933—, with the overall average rate of duties more than doubling from 4½ percent to 10½ percent during this time period.

Meanwhile, a new flight to tight-knit empire had begun, closing down still more markets. And the lesser Powers looked askance at the twisted commerce of the world. They had little choice than to follow the big Powers' lead. Italy and Spain thus cut off U.S. goods from their markets in 1930. Switzerland did the same by boycott. Agricultural tariffs also competed fiercely: German rates bested Italian ones; Italian rates outflanked French ones; Dutch, Swiss and Danish rates were high enough to block out foreign grains, but not so high as to protect inefficient farmers at home. The trade-off of favors between nations was now charted in a way that encouraged imports from nations which cut their rates in return, making bilateral trade the wave of the future.

Small wonder many business groups that were losing markets wondered aloud the net result. Thus, for example, the Comité de Laine and the French Silk Federation, both cartel-like organizations, voiced a developing reaction against protectionism:

> It would be desirable—and here the intervention of an organization like the League of Nations might be most useful—that Nations not only in Europe but throughout the world should consent to abandon the rigid protectionist attitude which seems to have been the general rule in recent years. It is not by working behind insurmountable Customs barriers that industry makes progress. A continued defensive has never proved to be a solution. Industries do of course require protection, but it should be carefully thought out—adequate but moderate. Excessive protection fosters inertia and leads to ruin. The stimulus of foreign competition is indispensable to any industry if it is to prosper.[98]

But moderate protectionism never developed; instead owners constructed tight-knit empires to shore up diminishing markets and declining rates of monopoly profit.

(v) Big Companies Choose Up Sides

At the root of the economic malaise was overproduction. The monopolies could turn out more in a day than the market could absorb in a week or a month. Then, as big companies tried to capture the same markets, the victory of one was the loss of another. This is why so many companies that lost—and all monopolies eventually fell in the losing category—demanded tariff protection, bilateral trade, State export subsidies and the like. Whole empires were enclosed with preferential trade rights to keep foreign goods out. And the big companies led the pack in demanding home and foreign markets for themselves. Social thinkers offered the justification that now the era of competition within each nation had passed and was being rapidly superseded in the international sphere, adding, the "Great War finally demonstrated the inefficiency of the method and its inadequacy for the production of goods and services at prices to suit consumers." Giant firms, monopolies in their own right on a national and world level, now ran the world economy. "What," the socially-concerned pondered, "is going to be our attitude to the new state of affairs?"[99]

All the leading capitalist nations puzzled over this question as it became evident that overproduction was general: Herman Levy, an expert on monopoly growth, was already writing in 1927, "we find ourselves at a time which seems to demand more urgently than ever before that international industry should of its own initiative do something to cure the ills from which it is suffering, because those ills—according to the 'Survey of Overseas Markets'—are undoubtedly due to the excessive producing capacities of the world's industries."[100]

The League of Nations took up the problem:

> One of the most disturbing characteristics of certain industries lies in the excess of productive capacity over actual requirements. It is necessarily difficult to determine whether such excess is likely to be permanent, and whether a policy of conservation or of scrapping [of industrial capacity] should be pursued. Excess capacity may equally well be due to an increase of plant, or to a falling-off in demand or to a combination of these two causes. In the case of the iron and steel industry, shipbuilding, and cotton industry, and the manufacture of certain chemicals and dyestuffs, the growth of plant in one part of the world or another has been the main cause of present difficulties.[101]

Levy suggested the crisis could be fought if monopolies ruled all industries, eliminated the inefficient, increased the investment of fixed capital in the most efficient, and then limited production by agreement—theorizing:

> War industries, States (newly founded since 1918) which all do their utmost to be self-sufficient, the strong protectionist spirit..., all these have worked together to the excessive enlargement of industrial power, while the world demand and purchasing power have remained in a relatively backward state. The movement towards concentration may be regarded as the means, or one of the means, of bringing about a new organization of industry, keeping only the best works equipped for production and so lowering costs and prices.[102]

The monopolies soon brought their plan into effect: rule over output levels at home and abroad stopped overproduction, and control over colonies checked the potential power of colonial people to raise raw materials prices by playing one raw material buyer against another.

Colonies had to trade with the domineering Power now, and they were often enclosed with the mother country within a single tariff wall which forced added payments from all outside traders desiring entry. Nations inside the trade zone meanwhile paid no tariffs or paid reduced tariffs for intramural trade. Although the proportion of tariff reduction granted by different colonial Powers varied before 1930, it was often cut down some two-fifths or less on regular trade tariff rates. In the British dominions, for example, it ranged from one-fifth to one-half. Percentage reduction of tariffs by the Powers to colonies and neo-colonies was greatest for the United States and Japan, followed by Portugal, France, Italy, Spain, the British dominions, and finally the British crown colonies.

Often, in addition to tariff reductions, formal colonialism or informal neo-mercantilism was practiced. Called "assimilation," a single tariff wall surrounded both the colonies and the dominating Power. But this did not always mean that colonial products entered the imperial country without any tariff charge, since minor charges and tariffs of 20 or even 50 percent were common.

Finally, there were a whole series of methods to keep colonies and spheres of influence in the zone of one or another imperial Power. Among these were various minor duties and fees charged colonial products, while outside resources of other Powers had to pay higher sums. To the same effect, imperial nations used discriminatory classifications of goods, administrative discretion in valuation, enforcement of merchandise marks acts and similar devices.[103] The goal of each imperial nation was thus a common one: to exclude goods coming from outside the dominant Power's sphere of influence; to construct an exclusive commercial empire for the dominant nation.

It followed that tariff zones or common markets solely benefitted the monopolies operating from each imperial nation. It was mercantilism with its wig off, one scholar insisting that "Under modern neo-mercantilism assimilation and preference work almost exclusively to the benefit of the mother country. Metropolitan tariffs are designed primarily to protect the home market; assimilation under such tariffs protects the colonial market for home products. The products of the colonies, however, generally different from those of the home country, gain practically nothing from assimilation." Similarly, he said preference ordinarily helps the colonies little, for the colonial products, chiefly otherwise unobtainable raw materials and staples and sometimes distinctive foodstuffs, are usually admitted to the mother country free or with a low duty. "Differentials may exist, however, in competitive cases, as in tobacco and sugar (for example, Philippine sugar entering the United States), or where duties are levied on the commodities for revenue purposes, as in the case of tea and coffee. The Imperial Marketing Board [was] established to secure for the British dominions and colonies some of the advantages sought through preference by stimulating a 'consciousness of empire' which it is hoped will result in a greater purchase of empire products by empire inhabitants."[104] So the monopolies producing manufactured goods easily found a secure market in their colonies, and the colonies were tied to the markets of their patron nation—a system ensuring the world-wide division of labor.

(vi) Monopolies Rope the World

Both before and after World War I, some two-thirds of the globe's inhabitants produced foodstuffs and raw materials and another one-quarter worked in industry. (The remaining 8-9 percent were found in the area that became the U.S.S.R.) War altered little—master nations controlling the division of world labor merely changed seats.[105]

As capitalist industrialization quickened, two-thirds of the world's workers suffered a corresponding exploitation as they were hurried to produce food for industrial workers and raw materials for owners' machines. And, exploitation also grew within imperialist countries, as expanding industrial production sometimes drew an increasing proportion of the swelling populations into the class of wage workers:

Increase in Workers and Population, 1920-1940/41[106]

	Population Increase	*Workers Increase (Decrease)*
Great Britain	4,400,000	4,826,000
Germany	10,600,000	7,580,000
USA	26,400,000	20,778,000
Japan	15,400,000	8,642,000
Italy	5,000,000	5,977,000
France	600,000	(240,000)

The growing proletariat in fact had an expanding diet produced by colonized peoples, the industrial working class also benefitting from the imperialism imposed by owners on the colonized. Owners simply cheated colonial workers of added surplus values embodied in foods, but never paid for in wages. A similar surplus became part of the value of the raw materials and minerals colonial workers drew from the earth to service the multiplying owners' machines in Europe, Japan and the United States. The owners gave the industrial workers a crumb, varying consumption, from their imperial table, hoping to keep their support for the ever more rigid division of labor required for owners' profits.

The work speedup, involving the exploitation of workers producing resources of colonial countries, jumped in the interwar period, as colonial peoples were driven mercilessly to aid the owners. And in colonial areas population increased less rapidly than the production of raw materials as the speedup went on:

Population and Raw Material Production[107]
(1925 as a percentage of the level in 1913)

Continental Groups	Population	Raw Material Production[d]
Eastern and Central Europe[a]	103	102
Rest of Europe	105	106/8
North America[b]	119	126
Caribbean[c]	107	169/71
South America	122	134/5
Africa	107	138/9
Asia[a]	105	116/24
Oceania	116	121/4

(a) Excludes USSR.
(b) Alaska, Canada, Greenland, Labrador, Newfoundland, USA.
(c) Mexico to Panama inclusive, plus all the islands in the Caribbean Sea.
(d) The two figures shown for production result from different methods of calculation: one weighted by 1913 prices, the other by using 1924 prices. Some 56 commodities were used to calculate these increases in raw material production, and most of these were either foodstuffs or essential raw materials required by the industrialized nations to fortify production at home or in the non-industrialized world.

The result? From the Caribbean, South America, Africa, Asia, and Oceania came all rubber, about 73 percent of all colonial produce, some 54-60 percent of all oil seeds, almost 50 percent of all textiles, about 34-5 percent of all cereals and other foodstuffs, 24-8 percent of all fertilizers and chemicals, and 17 percent of all cereals alone. If similar resources from Eastern and Central Europe are added, as well as those hidden in the North American figure that derived from Canada, Alaska and Greenland, a growing portion of these raw materials and foodstuffs obviously came from outside Western and Maritime Europe and the United States. Only in fuels and wood pulp did the imperial nations produce more than half world production:

World Production of Raw Materials,[108]
Foodstuffs and Rudimentary Manufactures
(In Percentage of Aggregate Production)

Product Group	Year	Eastern/Central Europe[d]	Rest Europe[e]	North America	Total Colonies[f]	Caribbean	South America	Africa	Asia	Oceania
All Raw Materials, Foods, etc.[a]:	1913	17.7	16.5	26.8	29.8	1.5	3.9	2.1	20.7	1.6
	1925	15.2	15.0	28.7	32.6	2.2	4.4	2.5	21.9	1.6
Raw Materials, excl. Foods[b]:	1913	12.8	21.3	35.9	24.7	1.0	5.2	2.4	13.9	2.2
	1925	10.0	17.8	38.7	30.0	1.5	5.1	2.9	18.3	2.2
Cereals:	1913	18.7	14.0	33.1	16.9	1.1	4.3	2.3	8.1	1.1
	1925	16.7	14.3	37.0	16.7	0.7	5.6	2.5	6.7	1.2
Cereals and Foodstuffs	1913	21.5	12.7	19.7	33.8	1.9	2.9	2.0	26.0	1.0
	1925	19.6	12.6	20.1	34.8	2.8	3.8	2.2	24.8	1.2
Colonial Produce[c]:	1913	5.4	4.1	15.0	72.6	8.4	29.6	3.4	31.0	0.2
	1925	3.7	4.8	15.7	73.7	6.9	28.7	9.2	28.7	0.2
Oil seeds, etc.:	1913	2.4	16.8	20.1	54.4	0.3	5.4	9.2	38.4	1.1
	1925	1.8	13.9	17.8	60.3	0.3	9.9	10.8	37.7	1.6
Textiles:	1913	3.1	7.3	30.2	49.3	0.5	6.0	5.1	30.1	7.6
	1925	4.4	10.1	31.4	47.4	0.4	4.7	5.1	30.4	6.8
Wood Pulp:	1913	23.2	29.0	47.0	0.8	0.0	0.0	0.0	0.8	0.0
	1925	15.4	27.9	52.9	3.8	0.0	0.0	0.0	3.8	0.0
Rubber:	1913	0.0	0.0	0.0	100.0	0.0	39.5	15.8	44.7	0.0
	1925	0.0	0.0	0.0	100.0	0.0	7.1	1.4	91.5	0.0
Fuels:	1913	16.7	27.4	45.0	7.1	0.8	0.1	0.6	4.6	1.0
	1925	13.6	21.4	50.8	12.0	2.8	0.9	0.8	6.6	0.9
Metals:	1913	18.3	29.3	42.5	5.2	0.5	0.4	0.1	3.4	0.8
	1925	14.4	24.6	50.8	8.4	0.6	1.6	0.7	4.5	1.0
Fertilizers & Chemicals:	1913	25.9	30.1	15.9	27.7	0.0	23.7	1.6	2.0	0.4
	1925	24.7	31.1	19.6	24.4	0.0	17.1	1.7	3.5	2.1

(a) Includes tobacco and hops, and all other items listed.
(b) Excludes cereals and other foodstuffs.
(c) Includes tobacco and hops.
(d) Excludes USSR.
(e) Includes Western and Maritime Europe.
(f) Includes Caribbean, South America, Africa, Asia and Oceania. Excludes colonial and subject areas in North American group, i.e., Canada, Alaska, etc.

So soon as these raw materials and resources were imported by industrial nations, just so soon were they embodied in the production processes turning out ever-new rounds of manufactures. And then some of these manufactures were exported, though on a declining scale of all output of each nation as world trade was cut off by depression, tariffs, and a return to tight-knit empire:

Per Cent of All Manufactures Exported[109]

	1913	1929	1937
United Kingdom	45	37	21
Germany	31	27	15
France	26	25	12
Italy, Belgium, Netherlands and Sweden	18	23	21

The resulting division of world labor—production of resources in the colonies, manufacture in the capitalist nations—was reflected in the patterns of global trade. For each Power drew more and more resources from the colonial world, raising the colonies' share of world exports from 29 percent in 1913 to 35 percent in 1925. With more earned from these exports, the imperial companies operating in the colonies then imported more, so that the colonies' proportion of world imports rose from 26 percent in 1913 to 29 percent in 1929. And of all imperial Powers during this period, North America excelled in imports (12½ percent of the world total in 1913, but over 16 percent by 1925) and exports (16 percent in 1913 but 21 percent in 1925). Then came the collapse in world markets and production, the rounds of protective tariffs and barriers, and the quest for tightly-controlled colonial empires of raw materials and exclusive markets. So, from the boom of 1929 to the worst depression year 1932, to the peak of the next boom in 1937, world output (especially foods and manufactures) rose more than global trade, as many workers were pressured to turn out more goods, though foreign markets were limited.[110]*

Meanwhile, the division of labor between colonial and industrial workers was tightened. By 1929 the colonies had become an essential industrial link: 56 percent of the volume of

*On a world index of 1929 = 100, here are the quantities. For foodstuffs: First trade (1932 = 89, 1937 = 93.5); production (1932 = 100, 1937 = 108). For raw materials: trade (1932 = 81.5, 1937 = 108); production (1932 = 74, 1937 = 116). For manufactures: trade (1932 = 59.5, 1937 = 87); production (1932 = 70, 1937 = 120).

international trade was composed of crude goods drawn in large part from the colonial world (23 percent foodstuffs, 33 percent raw materials) and used by the industrial nations to manufacture goods comprising 37 percent of world trade volume. So although the imperialists insistently were denying it, one sage said in 1932, "The principal driving force of international exchange is found at present in the demand of the advanced industrial countries for imported foodstuffs and raw materials. . . ."[111] And then, as world economic crises recurred, the leading Powers pushed outward their spheres of resource control, overthrowing free commerce.

(vii) U.S. Bankers Lose Their Nerve, and then Their Shirts

Europe was rehabilitated in the 1920s by an inflow of U.S. capital to update industry. Stabilized and sure of itself economically, Europe looked forward to unbounded prosperity. Then catastrophe struck. And waves of economic paralysis followed. Millions of unemployed workers became the latest product of capitalism, so that the hard core or unemployed handed down from the post-war era were now only a drop in the vast pool of joblessness.

But what were the causes of crises and unemployment?

Up till the Great Crash of 1929, the trade of the capitalist world largely went on in the design set up by World War I—the continuation of New York bankers' loans to a bankrupt Germany enabled Germany to pay reparations to England, France and other Powers, in order to further fund these nations to purchase U.S.-made goods. This system of triangular commerce did not work smoothly, however, and the hesitation of U.S. bankers to continue their lending operations precipitated a series of world crises which, in turn, transformed the pre-1930 loose-knit empires into rigid spheres of influence. So when U.S. bankers sneezed, Europe was infected with pneumonia and took a new medicine.

Early Germany had hoped to reindustrialize with U.S. bank capital. For there was no other way Germany could repay the $6,500 million war reparation put upon her in 1921 and also expand her industrial base. True, astronomical inflation reached the point in 1923 where a million depreciated marks equalled one old one, so as to repudiate government debts. But still the means of production left to Germany after Versailles were in- adequate to produce sufficient goods to pay for imports, let alone pay reparations. And since the U.S. insisted on repay- ment of war-time loans to her Allies and made these Allies dependent on reparations from Germany to pay America, only Wall Street could oil the system with money.

In fact German borrowing totalled $3,643 million from 1924-30, while reparations paid came to $2,453 million, leaving a balance of $1,190 million for German reconstruction.[112] In terms of marks 25 billion were borrowed and 11 billion paid in reparations from September 1924 till the Hoover moritorium on future payments in July 1931. So clearly, German produc- tion and commerce—as well as industrial health in Europe as a whole—began to turn on continuing rounds of U.S. bankers' loans and finance. But what would happen if these loans sud- denly dried up?

History provides the answer. In 1928 U.S. lending to Ger- many slowed, as American investors began feeding the stock exchange boom at home. Then came the 1929 stock market crash, keeping U.S. investors busy shoring up their domestic affairs. They withdrew from Europe, thereby spreading depression and crises to the world. For since the greater part of credits to Germany had come from the U.S. (some $2 billion or more in foreign loans to German banks alone by 1929), withholding American finance curtailed buying power every- where. Thus the payments' circle had been broken, aggravating Europe's economic crisis with a major financial collapse.

From Germany and Austria to Japan there was a scramble to increase exports and reduce imports in the hope of restoring solvency. Great Britain, as the greatest free market, now found the surpluses of other countries dumped upon it at the same time as British exports were being shut out of world markets by rising tariffs and prohibitions. Yet every nation was without markets. Monopolies unable to sell then idled their plants, threw millions out of work. Unemployment rose in one country after another—to unprecedented heights. And to pay foreign

ers for goods, mighty England, storehouse of the bullion of the world, exhausted its reserves and was forced off the gold standard.[113]

Now the payments' circle and production could not be re- established so long as the nations controlling and lending the means of exchange would not let borrowers and debtors pay their bills in trade. The two centers of finance, London and New York, required payments to be made in gold, sterling or dollars, or other hard currencies. But the debtors had no means to acquire these currencies so long as Britain and America protected their domestic markets with tariffs and other barriers to foreign goods. High U.S. protection walls kept out imports that might otherwise have earned dollars needed to pay Amer- ican lenders. And Britain too errected barriers to foreign goods, after receiving second hand the German and Austrian financial collapse in 1931, going off the gold standard, thereby promot- ing its own exports, and marching forward the war of tariffs.

Meanwhile, the U.S. and French treasuries hoarded more and more bullion, further drying up the means of payment, thereby dropping the market, cutting off production that could not be sold, and throwing from jobs workers who were pro- ducing the surfeit filling up warehouses. Every nation now en- vied the gold hoarders, seeking reserves for themselves in the image of mercantilists two centuries before. But there was a difference: Industrialized nations had millions to throw into the pool of joblessness, as each tried to cut imports and expand exports, as each justified such measures as protecting domestic output and employment, resulting in even more tightly con- trolled spheres of influence. Now Germany could not export to pay reparations and returns on foreign investments. And other nations that might have benefitted had to cut their im- ports from the U.S., Britain and so forth. The bottom was falling out of world trade, global production and planetary credit.

Picture the devastation. Between 1929 and 1938 the exports of capitalist nations declined by some $18,811 million, while imports plummetted $20,533 million.[114] Not surprisingly, the trade of individual nations fell on a scale previously unknown, as the capitalists of all states strove to be sellers in world markets but not buyers. Most imperial Powers lost more than half of both exports and imports in the ten-year period 1929-38, realloting the share of markets that each of them previously controlled:

	Decline of Trade, 1929-38 In Millions of Dollars				*Competitive Trade[115] Position: Loss (−) or Gain (+) in Percent of Total Trade 1929-38*	
	Exports		*Imports*			
	1929	*1939*	*1929*	*1938*	*Exports*	*Imports*
U.S.	5,157	1,806	4,339	1,151	−3	−3.5
U.K.	3,549	1,359	5,407	2,478	+6	+2.3
Germany	3,212	1,250	3,203	1,296	−1	−0.3
France	1,966	517	2,282	785	−3	−1.2
Italy	801	323	1,140	346	0	−1.0
Netherlands	800	337	1,106	460	0	+0.3
Japan	970	447	995	444	+0.7	0
Belgo-Lux.	884	429	988	453	0	+0.5
Others[a]	4,437	1,945	5,284	2,232	+0.5	+0.5

(a) Industrial nations less USSR.

Clearly, the United States, France, Italy and Germany were displaced in the market by the other Powers and mainly Britain.

The industrial nations as a group meanwhile lost a small share of total capitalist world markets. Thus in the export trade, the industrial nations controlled 54½ percent of these markets in 1929, but only 50 percent in 1938. Again, in the import trade, these nations held 57 percent in 1929 but 53½ percent in 1938.[116]

The fantastic decline in world commerce and the decreased share of that trade which the industrial Powers controlled then adversely affected the colonial and other subject nations. For the watchword of the industrial states had become *To Sell But Not To Buy*. Accordingly, all of them either moved from an excess of imports in 1929 to an excess of exports in 1938; or decreased their excess of imports over exports between these dates. By following this trade policy, the Powers either decreased their purchases from colonial nations, or decreased the prices which they paid to these nations for their raw materials and produce.

Here is why the selling price of the exports from colonies and other nations of Europe fell:[117]

- For the lesser European Powers, exports decreased from $4,437 million in 1929 to $1,945 million in 1939.
- For the colonies and other subject nations, exports fell from $9,863 million in 1929 to $4,415 million in 1938.

For all these nations export earnings were thus cut in half in the decade. With half as much earned, then, there was half as much to spend, meaning all these nations had to cut their imports more than half:[118]

- For the lesser European Powers, imports were decreased from $5,280 million in 1929 to $2,232 million in 1938.
- For the colonies and other subject nations, imports were decreased from $9,582 million in 1929 to $4,148 million in 1938.

So, with the big Powers leaning towards the policy *To Sell But Not To Buy*, a like discipline was forced upon the rest of the capitalist-controlled world—although the imperial nations naïvely attempted to force the nations within their empires *To Buy But Not To Sell*! But without earnings of some sort, the other nations of Europe and the colonies could not buy goods produced by the Great Powers. No wonder capitalist world trade continued its decline.

CHAPTER IV

A New Flight to Tight-Knit Empire

The leading imperial Powers kept trying to preserve their trade and their resources by more and more control over their already tightly-knit spheres of influence. This involved a return to trade empires, controlling an area where other Powers could not compete with the mother country.

(I) A Lovely English Garden

Britain excelled in creating such a trade zone—the Sterling Area it was named—in order to block the entrance of commodities from competitor nations. This allowed Britain to capture an increasing proportion of the declining monetary amount of global commerce, meanwhile intensifying intra-Commonwealth trade:

British Commonwealth Trade, 1928-38[119]

Year	*Percent of British Exports Going to Commonwealth*	*Percent of British Imports Coming From Commonwealth*
1928	41.4	29.7
1935	44.1	36.8
1938	45.8	39.7

Recall that as Britain lost her industrial ability to produce low-cost and low-priced commodities in competition with the other imperial Powers in the late 19th century, she had turned to tight-knit empire. The Great Depression in the decade 1929-39 then forced Britain to take additional measures to protect her markets from foreign manufacturers and producers. In order to secure her domestic market, for example, Britain passed the Import Duties Act of 1932, which imposed a duty of ten percent on the invoice price of all goods (save those on a "free list" which largely covered raw materials) coming from non-empire nations. In another step to protect British markets, an Import Duties Advisory Committee was established. It recommended 12 to 33 percent duties for imported manufactures, luxuries, and iron and steel products, the government also subsidizing British producers competing against lower-priced imports. Similar protective measures were taken for British agriculture, involving subsidies to domestic producers as well as limitations on imports.

Tariff protection and subsidies were only partial measures. They protected British producers from foreign competition in the domestic market, but did not help British producers in foreign markets. A defensive device, the Sterling Area, was designed to accomplish this. After its creation, lower-priced manufactured goods of other imperial Powers were prevented entrance to traditional British markets. The government took measures to tie the currencies of colonial and other dependent nations to the pound sterling so that investments in products made in England could be recovered by the sale of goods in, say, Australia. This meant that sterling could be exchanged for a relatively fixed amount of the currencies of dependent nations, or *vice-versa*!

In addition, a system of preferential treatment for trade was established between Britain and her dependencies, tying the trade of the following nations to Britain: Australia, Denmark, Egypt, Eire, Estonia, Finland, Iraq, Latvia, New Zealand, Norway, Palestine, Portugal, Sweden, Thailand, and the Union of South Africa. The Ottawa Conference in 1932 also strengthened the trade ties between Great Britain, the Dominions (except Eire), Southern Rhodesia and India, by a series of agreements lasting until World War II. These preferential trade agreements added 3.3 percent of total Commonwealth imports from Britain, and an additional 8.8 percent of total Commonwealth exports going to Britain from 1928 to 1938. In short, the imperial trade zone which Britain created tied the commerce of the subject nations even closer to her apron strings and provided English industrialists and traders a handy dumping ground free from the competition of other imperial Powers, less agile at creating comparable zones.[120]

(ii) France Eats African Dates

France too intensified her intra-imperial commerce. She had imported 11 percent of all her goods from the French colonies in the years 1908-12, but raised imports to 28.5 percent in the period 1936-38. Moreover, she increased her exports going to the colonies from 13 percent of the total in the years 1908-12 to 33 percent in the period 1936-38.[121] In fact, she increased her intra-empire trade most in the early 1930s in response to the depression-return of all imperial nations to tight-knit empires.

There were two aspects to Gallic empire trade. *One*: French colonies in Africa were hard-hit by the economic crisis of 1929-34, the price of tropical produce dropping 60 to 70 percent. This depression devastated the economies of areas dependent upon one crop, and to save these foodstuffs and resources for a "self-sufficient" France—metropolitan workers and industries living off colonial produced foods and raw materials—France established a system of imperial preference reducing or eliminating tariffs on colonial products.

Two: France rolled out the welcome mat for colonial products: World-wide economic competition was intensified by the devaluation of the principal currencies—the pound in 1931, the dollar in 1933—which permitted products to be dumped in the franc zone since France refused to devalue her currency (stablilized in 1928 at a fifth of its 1914 value) until 1935. France instituted a quota system for the importation of foreign products into the home market in order to protect products of the colonies.* This strengthened the economic links between France and its colonies. Moreover, France which had not yet set up currency exchange control, was in this way enabled to restrict the outflow of currency, but this tightening of the commercial

*French quotas and quantitative restrictions on imports were applied to nearly half of the items on her tariff list between 1931-34, so as to slice in half many of the quantities previously imported. Such restrictions were needed less when France discarded the gold standard (1936).

relations between the home country and the colonies brought about a gradual return to the old colonial treaty system.[122] Thus, the franc zone furnished an increasing part of total French imports:

Franc Zone: Percentage Share of Total[123] French Imports, 1929-38

1929	12.4
1930	12.7
1931	14.9
1932	20.9
1933	23.7
1934	25.3
1935	25.8
1936	24.4
1937	27.1
1938	30.0 est.

(iii) Germans Learn Polish

While Britain and France established tight-knit trading zones, Germany, a debtor nation, was unable to follow suit. Vanquished in war, she was deprived of colonies, a merchant fleet and overseas investments, the lack of which cost her owning class some $500 million yearly. Their foreign investments were also reduced to about one-tenth of the pre-war figure of nearly $7 billion. Also, when it is considered that the adverse commodity trade balance offset by those overseas investment receipts averaged approximately $370,000,000 for the five-year period 1909-1913; that Germany had to import an even larger percentage of her raw materials and foodstuffs after the war on account of the cessions of territory; and that these favorable 'invisible' credit items were almost entirely lacking after 1918, it is not hard to see why recourse was had to the only other alternative: foreign borrowing.[124]

However, when the United States bankers cut off Germany's borrowing, she tried to pay for imports with exports of a larger scale than she had achieved in the previous century. In this adventure, Germany had no choice. She had become a country of large scale industry, incapable of deriving from

her soil the necessary products to feed her ever-increasing population. And in order to exist Germany had to pay with exports of manufactured articles for the necessary imports of foodstuffs and materials required for her industry. If this kind of payment was not made, Germany's entire economy found itself in danger. For if Germany did not export enough to pay for these imports, it was necessary either to pay for the imports with the aid of precious gold reserves and foreign exchange owned by the *Reichsbank* (which, in such eventuality, was in danger of being drained), or else to restrict imports. In the latter case, however, there was a double calamity: undernourishment of the working class; stoppage of industry which would be unable to carry on without certain foreign raw materials.

For Germany therefore it was imperative that by her exports of manufactured goods she procured the resources which would permit her (i) to pay the interest on her foreign debt, (ii) to pay for imports of foodstuffs, and (iii) to pay for imports of raw materials. If these payments were not made, Germany literally exposed herself to international bankruptcy, poverty and the cessation of her industries.[125]

In the post-war years, then, German industrialists aimed to export high-technology commodities to high-price points and to reduce costs of production by the importation of cheap raw materials and foodstuffs. And temporarily they reached both goals.

From 1913 to 1937, a rising proportion of German exports were industrial products and an increasing percent of these were finished goods:

	Industrial Products as a percent of all German Exports	*Finished Goods[126] as a percent of all Exported Industrial Products*
1913	88.0	63.9
1929	93.5	70.0
1933	95.4	75.1
1937	98.5	79.5

These highly manufactured commodities offered the largest spread between the cost of operations and the selling price, allowing Germany to finance her imports and bringing big profits to exporters.

The import of cheap raw materials and foodstuffs also became increasingly essential to owners' profits. The cost of factory operations was largely determined by the price of raw materials which *directly* entered into the final products. Moreover, this cost was also set by the price of foodstuffs which *indirectly* entered into the cost of the final product through wages and salaries paid to the working classes, and which these classes then used to purchase imported foods. As in other imperial systems, foodstuffs and raw materials were the two dominant imports during the period 1913 to 1937, constituting 73.1 percent of imports in 1913, 69.1 percent in 1929, 71.3 percent in 1933 and 73.9 percent in 1937.[127] For industrial Germany had pulled so many people off the land that the nation could not exist without these imports—imports that now had to be purchased with growing exports.

Yet, with each new crisis in the market, with tariffs cutting off German exports, it became progressively harder for Germany to reach a level of exports necessary to pay for needed imports. Britain was stealing German markets, even in Europe, forcing nations that had a favorable trade balance with England to take coal and other Anglo products to even out the account. Britain would not continue as the largest purchaser of Danish bacon, for example, unless Denmark bought more Scottish coal, thereby cutting off the Danish market for the coal mongers of the Ruhr. All over Europe, the same pattern was repeated, so by 1939 some nineteen countries in Europe had carefully constructed quota and licensing barriers that kept out certain foreign goods that either competed with domestic productions or made inroads into the secure trade another country held through bilateral contracts. So Germany built a defense, then led the attack, with quotas on imports favoring some foreign sellers at the expense of others; a lower rate was charged on the favored items, a higher rate on those in disfavor. Then Germany used the favors granted sellers on her market to exact comparable gratuities in their markets, first by demanding that nations with a favorable trade balance take German-made goods

and resources (e.g., German coal sold in Mediterranean nations as the expense of English sales), then by outright barter exchange (e.g., German coal for Eastern European lumber and grains; German fertilizer for Egyptian cotton). But still this was not enough to pay for imports. For indeed what could Germany do, after the worldwide depression set in: her 1929 trade was cut to one-third by 1933, and had not recovered to even half the 1929 level by 1937?

The conundrum facing German exporters and importers was expressed in the trade balance. For it was simple to calculate that, if 1929 trade ranged in 13,000 million of marks and 1933 trade was in the 4,000 million category, while 1937 commerce had not risen beyond the 5,000 million point, then Germany could not recover her markets in a crisis-ridden world. It was also clear that German imports had to be paid with German exports, so that the nation could maintain a small favorable balance and thereby keep out of debt-hegemony to some other Power. True, the rise of the National Socialist government of Hitler meant repudiation of World War I reparations; but still no one would trade with Germany unless she paid her current bills, meaning the nation had to export to import. And this Germany did: 1929 exports were 13,483 million reichsmarks to pay for 13,447 million reichsmarks of imports and leave a 36 million reichsmarks balance; for 1933 the figures were exports 4,871 million, imports 4,204 million, and a balance of 667 million; and for 1937 the amounts were 5,911 million in exports, 5,468 million in imports, and a favorable balance of 443 million.[128]

Even to accomplish such modest trade results—in the wake of the worldwide increase in customs barriers, quota restrictions, competitive devaluations, bilateral trade agreements, tightening empires, and now the political boycott of German goods—Teutonic barter trade had to become more important than all other forms of commerce. How else could Germany surmount the twenty-eight nationalist regimes that had put into operation quota and licensing barriers to trade? What other means could Germany use to take on Britain, the vampire of the markets of Europe and the resources of the largest colonial system then existing? Since there was no other means, Germany's National Socialists did what Britain had done in her colonies and what France had accomplished in her sphere of imperial influence: They created a restrictive colonial arrangement with subjugated areas. That is, Germany won the raw materials vital to her industries by paying for these resources in marks that could not be spent anywhere but in Germany or for German-made resources and goods. England had done the same thing with the sterling balances of her colonies and Dominions, while France excelled in the same direction by forcing her territories and colonies to spend their franc-earnings from exports on French manufactures and produce. So Germany was doing nothing new, only taking up the tactics her chief European competitors had long utilized—at Germany's expense!

Yet trade was not enough to win German colonies; and the German system of bilateral trade would never secure to the industrialists of the Ruhr the assorted resources and markets they demanded. For, the German owning class discerned, there were only two ways to sell their goods at a profit now: by making arms at home and by using them for conquest abroad.

To finance some of her armaments bilateral trade was a godsend. Thereby, nations that sold Germany key materials could be locked into the purchase of German manufactures. So, for example, the granaries of the Slavic steppes and the produce of south-eastern Europe could be brought to Berlin and paid for with the surfeit of textiles and other manufactures German industry produced on a massive scale. Likewise, marks earned by trading partners in eastern and central Europe were placed in special accounts that could be withdrawn only at big discounts, so the "partners" could gain their full selling price of produce only by buying in Germany. That is to say, Germany created satellites of her own, isolated them from the exporters of other competitor nations, drew their resources to foster German armaments, dumped German goods on their markets, and tried on a small scale to copy the British and French systems of empire.

Just so long as German barter trade developed between

1933-39, so long too did plans for armaments reach the assembly line. "Production of munitions and other arms far surpassed all the sacrifices which had been asked of citizens of any nation at any epoch," Hitler's financial wizard of the Reichsbank, Herr Schacht, proclaimed in a moment of grandeur.[129]

From 1933-37 alone German rearmament expenditures had amounted to 31.1 billion reichsmarks. These expenditures had meanwhile increased by some 9.6 billion between the two periods, 1933-34 and 1936-37.[130] And even before the war began, the Nazis granted some 90 billion reichsmarks in military contracts. War expenditures brought up this total to at least 117 billion reichsmarks—military goods actually produced.[131]

Now the German working masses could be put to work again. Where once foreign trade accounted for 41.6 percent of the nation's income in 1913, it had never recovered after World War I, reaching 36 percent in 1928 but scaling down to 14.6 percent by 1938. Naturally, as foreign trade went down, unemployment had gone up. And as unemployment rose, the National Socialists—the fascists—spoke of full employment, the rights of Germany to transcontinental resources and markets, and the blockade England, the rest of Europe and the United States had erected against Germany's industrial state. The *industriestaat* could not live in a world controlled by Anglo-Saxon power, they insisted. And once in political power they proved that full-employment was possible, if the workers would quiet their demands for more benefits and accept a speedup on the job. The job was arms-making in preparation for a war the German owning class decided was inexorable, so Germany could make her mark on history. But it turned out that the class that made, paid for, and used the arms did so for a profit received by another class.

To pay for State spending on armaments, the German workers obviously had produced goods for exports to cover imports of crucial materials and foodstuffs. Moreover, these workers financed government spending, so the tax burden on the people increased from 6.6 billion marks in 1932-33 to 9.6 billion marks in 1934-35.[132] And a huge government debt was issued, draining away the workers' output and placing the interest and repayment obligations on future generations.

Just as the people paid for patriotic production, the industrialists took the profits. Their government contracts stimulated employment and consumption as well as further production, commercial activity and owners' profits again—reversing the falling rate of profit.

Company Profits as a Percentage of[133] Invested Capital

	1929-30	4.81
Before	1930-31	4.19
Hitler	1931-32	−8.71
	1932-33	−2.68
Hitler	1933-34	−0.10
Assumes	1934-35	3.54
Power	1935-36	4.27
	1936-37	4.80

State consumption—the militarization of the nation—assumed central importance in Germany's political economy now.

The second aspect of militarization was territorial expansion. With colonies, the German Imperial Colonial League reasoned, it would no longer be necessary to pay with foreign exchange for imported raw materials and foodstuffs, as Germany currency could then be used. In addition, since the trade zones of the other imperial Powers had virtually cut off German commerce, Germany required colonies to establish her own monetary area. "To Germany, therefore, colonies seemed to be inseparable from economic recovery," one on-the-spot correspondent wrote home. "They could achieve one important result, provided they were the right kind of colonies. They would provide a market which would receive German exports on preferential terms, while they would supply raw materials, etc., in return. Moreover, the colonial currencies would be maintained at a fixed parity with German currency, irrespective of changes that might occur in foreign currencies. . . . Germany, in short, would have her own 'Ottawa Agreement' (with fixed currencies) and would gain in precisely the same manner as protectionist Britain gained by that agreement. Finally, with

nearly 70 million people she would provide a sufficiently large market for colonial products."[134]

Since Western Europe was already taken, Germany had looked for so-called complementary areas in Eastern Europe. Rather than export capital to colonies under the control of other Powers, she had signed trade agreements with nations like Roumania and Hungary.

But this did not satisfy the *Weltschmerz* of monopolists and global traders who were now in the saddle in the *Reichstag*. They schemed to take by military means the colonial resources and markets they could not acquire by marketplace dealings. And it followed that once Germany armed herself to the teeth, she withdrew from the League of Nations, occupied the Rhineland and prepared for conquest. Germany went to war and on the heels of her goose-stepping army, colonial protectorates were established, transforming Continental Europe into a huge German colony.

(iv) No Rust on Samurai Swords

Like Germany, Japan marched along the military road to empire at the prodding of owners. Though she took a somewhat different course, the causes and the end results were entirely the same.

An insufficient supply of domestic raw materials and inadequate production of foodstuffs for a rapidly expanding industrial society motivated Japan's overseas expansion, designed to obtain these necessities and find wider and wider overseas markets for her manufactures. With these resources and markets, the production of manufacturing industries of Japan increased more than five-fold between 1914 and 1926.

Further increases in domestic output put Japan at loggerheads with China, however. For China, including Manchuria, was an immensely valuable source of raw materials and was the obvious market for Japanese goods. Peace or war in Asia and the Pacific countries depended upon how Japan would deal with China and Manchuria: it was "essentially connected with the necessity of the development of industrialism in Japan."[135]

Most of Japan's imports were either raw materials and fuels or cereals and sugar,* the largest portion of which came from Asia and East Asia, the United States furnishing the next largest share.** So Japan was clearly more dependent on importing raw materials and foodstuffs from Asia than from the United States, Europe or any other area of the world. If Japan expanded her imports of key resources, then, she would certainly turn to Asian lands, particularly Manchuria. Thus, by 1915 she had already begun to make Manchuria a protectorate on the model of the French and British protectorates in the Indies.[138]

Japanese imperial expansion did not end here, however, since the nation's further industrialization hinged on the acquisition of new markets and resources. The land in Japan was geographically limited for food production, so staple produce was in short supply. Industrialization also required Japanese access to raw materials on the Asian mainland, in Manchuria and the Yangtze, in India and the East Indies. Japan's market requirements, moreover, included the raw silk trade in the United States, the textile and hardware commerce throughout the East and Africa, especially in China and India.

But into the latter two nations, Japan's entrance could only lead to conflicts. For in these two most populous Asian nations economic nationalism was growing. And clearly the types of goods manufactured by the Japanese were sure to be excluded by protective measures—for these goods could be made, and not always less efficiently, by the nations in question. "Thus," one reporter was predicting, "Japan will find herself in a position similar to that of Great Britain, obliged to rely upon the export of services and high grade goods and other methods of avoiding tariff barriers, or to control markets such as Manchuria by political force."[139]

In the 20s, however, Japanese businessmen still thought economic expansion—building up a great export trade and acquiring economic concessions abroad through diplomacy—cost less and gained more profit than military colonial expansion involving high taxes. This seemed particularly true in China, the chief field for Japanese expansion.[140]

Nonetheless, one important wing of the big business community, the Mitsui *zaibatsu*, favored outright military expansion in Manchuria and Mongolia. The Mitsui hawks maintained the largest Japanese monopoly over petroleum, iron and coal—all resources found abundantly in these sections of China. So carefully the Mitsui used its political arm, the Seiyukai party, to lay out its program for military imperialism, the president of the Seiyukai, General Tanaka Giichi, summarizing these policies in a memorial given to the Emperior in 1927.[141] This memorial distinguishes the Seiyukai program from that of the Minseito party, which was controlled by the Mitsubishi *zaibatsu* and promoted the policy of free, peaceful trade.

First the memorial said that the Western Powers had won the upper hand in controlling Japan's armaments through the Nine-Power Treaty of 1922, thereby making it impossible for Japan to conquer China and to absorb China's resources or wealth. The Minseito party had fallen into this English and United States trap by continuing to advocate free trade, when it was clear that Japan could not enter China on this basis. "And yet the Minseito party made the Nine-Power Treaty the important thing and emphasized our TRADE rather than our RIGHTS in China," Tanaka fulminated: "This is a mistaken policy—a policy of national suicide."

For Tanaka the differences in foreign policy by Minseito and Seiyukai—Japan's two major parties in the Diet—had to be considered in the light of Japan's place in the world. England, he said, could afford to talk about trade relations between nations, because she held India and Australia to supply

*Composition of Japanese imports (in percentage):[136]

	1929	*1937*
Raw materials and Fuels	55	53
Cereals and Sugar	12	7
	67	60

**Percentage share of Japanese imports from:[137]

	1928	*1938*
Asia (including China)	43	41
United States	28	34
Europe	17	13
Other	12	12
	100	100

herself with foodstuffs and other materials. America could also speak deftly of free trade, because South America and Canada supplied U.S. needs. What strength these Powers did not use in their other spheres of influence they could devote to developing trade with China, to further enrich themselves. Japan was not so lucky, Tanaka bemoaned. For the Japanese population was growing, and her food and raw material supply was too small to accommodate them. Through trade alone, Japan could never defeat England and America in China to get what she had to have to live.

And what if the people of China began to produce more goods and displace Japanese wares sold in China? "When we remember that the Chinese are our sole customers, we must beware lest one day China becomes unified and her industries become prosperous," Tanaka calculated. For in the outlook of this learned military politician, Japan was being hemmed in by the other Powers: "Americans and Europeans will compete with us; our trade in China will be wrecked."

His solution was equally clear: The Minseito proposal for trade under the Nine-Power Treaty in Manchuria was a suicide policy for Japan; Japan therefore had to march into China to secure its rights and privileges, to prevent the penetration of European Powers and forestall China's own industrial development.[142]

With Manchuria and Mongolia under its belt, Tanaka thought Japan would have the resources for industrialization, national defense, and empire. Extensive Japanese surveys had been made of China's resources since the close of the 19th century, allowing Tanaka to cite the precise figures and the savings in foreign exchange that would come with conquest. "The iron deposits in Manchuria and Mongolia," said he, "are estimated at 1,200,000,000 tons and coal deposits 2,500,000,000 tons," stressing, "We shall save the expense of 120,000,000 yen which we pay for the importation of steel each year."

Moreover: "Another important commodity which we lack is petroleum. It is essential to the existence of a nation. Fortunately there lie in the Fusham Coal Mines 5,200,000 tons of shale oil from every hundred catties of which six catties of crude may be extracted."

Such petroleum and iron, Tanaka said, would be the basis of Japan's national wealth and national defense, drawing an analogy: "That Manchuria and Mongolia are the heart and liver of our empire is a truthful saying."[143]

Tanaka was good to his word once elected to the premiership. Though he laid secret plans to move abroad by arms, his efforts were premature: he was forced to choose in July 1929 between resigning or allowing the Mitsubishi *zaibatsu's* Minseito party to expose his plans to use the Kwantung Japanese Army to seize the Manchurian city of Mukden, as well thereafter to take over a large section of southern Manchuria. For since economic crisis had just set in in Japan, it was obvious that if Tanaka's plan were known publicly, millions would have opposed the heavy cost in lives and taxes. So Tanaka stepped down, only to be replaced by a new premier and cabinet representing the Mitsubishi, their Minseito party, and this party's policy of peaceful, economic expansion.

What was the Mitsubishi's motive? It aimed to enlarge its income and Japan's empire by expanding trade and using the Minseito party to do so. For the goods the Mitsubishi made were less dependent on foreign raw materials and foodstuffs than those turned out by Mitsui. In fact, Mitsubishi produced transport equipment and owned extensive means of transportation, while also making or growing wheat, alcohol, beer, sugar, glassware, artificial silk and a wide variety of other items of consumption. These items were then sold in Japan and abroad under the banner of free trade.

Thus two leading *zaibatsu* controlling two major parties handed back and forth control over Cabinets and Diets, trying to sculpt their different imperial policies.[144] The balance tipped when keen global competition for markets and high-rising quota and tariff barriers blocked a portion of Japan's foreign commerce. And once the Great Depression began Japan's international account went haywire, exports dropping 30 plus percent in value, agriculture and industry tottering.[145] To avoid starvation, Japanese peasants dependent on the foreign market now had only two alternatives: either sell a daughter to one of the brokers touring the land on behalf of the teahouses, cafés and brothels, or clamor for new markets corralled by the military.[146] They chose the latter, then joined and supported the army and called for Japan to "honor its military commitments" in Manchuria.

The businessmen also came to this stand by half-steps as the depression bit deeper into the countryside, the rice price fell, the raw silk market vanished, and hundreds of ultranationalist cliques littered the villages, demanding: "Down with the two-party government and capitalism!" They had guns from the army and they were ready to use them. The Imperial Way Faction, an army clique, vented its frustrations by murdering capitalists and party leaders alike in the years 1934-36. Small wonder the businessmen feared the rural half of the population as well as the entire army would slip the bit, and to prevent this, tied themselves to another army faction, the Control School clique. The Control School soon gained the upper hand, eliminated the anti-capitalist Imperial Way Faction, and united army leaders, *zaibatsu*, and a scheming Emperor.[147]

As the army tightened its grip on the State machinery and the Control Faction became firmly entrenched, preparations were rushed forward to put the Japanese economy on a wartime footing. The proportion of the State budget devoted to armed services rose to nearly 50 percent, and increased orders for munitions stimulated the development of heavy industry.[148]

The *zaibatsu* became hopelessly dependent upon the army's expansionist program now. For Japanese businesses operated with the foreign provision of:[149]

96 percent of all coal consumed
100 percent of all raw cotton
100 percent of all bauxite
100 percent of all wood
100 percent of all crude rubber
100 percent of all phosphate rock
85.6 percent of all iron ore
90.8 percent of all crude oil
67.5 percent of all raw hides

Moreover, in order to feed the Japanese working class and even the peasants, Japan imported 64 percent of her soybeans, 67.2 percent of her salt, and 96 percent of her sugar. The conquest of foreign resources, then, had become imperative for the continuation of capitalist production.

Overseas conquest also became increasingly necessary as Japan's population rose. By 1929 more than 60,000,000 Japanese, far more than could be supported by a simple agricultural economy, crowded the land. Some 1,000,000 persons were born each year, and to maintain them in the narrow islands, foreign foods and markets were essential. Moreover, the people feared that the orgy of protectionism and other threats to their export trade would continue. And by the early 30s many Japanese believed only the resumption of its old programs of colonial expansion could win the supplies and the markets to make Japan self-sufficient and invulnerable as a world power.[150]

To justify these actions, throughout the 30s rulers focused the attention of the Japanese public on the Asiatic colonial possessions of Britain and the other European Powers. Japanese leaders coveting these rich territories began to speak of freeing colonial Asiatics from oppression by white races:

"Asia for the Asiatics"
"East Asia for the East Asiatics"
"Pan-Asia"
"The East Asia Co-Prosperity Sphere"
"A New Order in East Asia"

Experience taught Far Eastern peoples the lie of this new line of propaganda, but the Japanese accepted it completely and came to believe they were the champions of downtrodden Asians![151]

Not surprisingly, the *zaibatsu* and the army in step moved toward establishment of an exclusive East Asian sphere of influence, both by diplomacy and fire power. Foreign Minister Herota boasted that Japan bore "the entire burden of responsibility" for the peace of East Asia. So on April 17, 1933, as Japanese armies moved in Manchuria, the infamous Amau Statement proclaimed the Japanese "Monroe Doctrine" for

East Asia and warned foreign nations against giving any kind of military, technological or financial aid to China:

> We oppose . . . any attempt on the part of China to avail herself of the influence of any other country in order to resist Japan. We also oppose any action taken by China, calculated to play one power against another. Any joint operations undertaken by foreign powers even in the name of technical or financial assistance at this particular moment after the Manchuria and Shanghai Incidents are bound to acquire political significance. Undertakings of such nature, if carried through to the end, must give rise to complications that might eventually necessitate international control or division of China, which would be the greatest possible misfortune for China and at the same time would have the most serious repercussion upon Japan and East Asia. Japan therefore must object to such undertakings as a matter of principle, although she will not find it necessary to interfere with any foreign country negotiating individually with China on questions of finance or trade, as long as such negotiations benefit China and are not detrimental to the maintenance of peace in East Asia.
>
> However, supplying China with war planes, building aerodromes in China and detailing military advisers to China or contracting a loan to provide funds for political uses, would obviously tend to alienate the friendly relations between Japan and China and other countries and to disturb peace and order in East Asia. Japan will oppose such projects.[152]

Japanese expansion had found its first victim. The army and the *zaibatsu* marched over the body of the Chinese people and turned Manchuria into a puppet state called Manchukuo in early 1932. They brought under their control a vast area rich in resources and peoplepower (some 30,000,000 Chinese), maintaining steadily the fiction that there had been no war, and calling the conquest of this extensive area the Manchurian Incident. Japan's occupation army meanwhile multiplied from 64,900 to 164,100 men between 1931 and 1935.[153] Yet Britain and America kept it secret!

As the Manchurian effort escalated, the Japanese military budget increased from 31% to 47% of the total government expenditures from 1931 to 1936. The industrial power backing this war effort was reflected in an 80 percent increase in production between 1929 and 1939. In this period, heavy industry multiplied its output over five times and light industry production went up 20%.[154] Army staff directed these productive advances, *zaibatsu* profitted. The General Staff meanwhile pondered in their study, *How Our Industries Will Develop in War Time* (Tokyo 1933), "How can we achieve victory in the coming war? This question can be answered correctly only if we bear in mind that the war of the future will be a war between the industries manufacturing the technical means of warfare. Needless to say, it is absolutely impossible to create a war industry on the eve of war. Our present production facilities do not altogether satisfy the requirements of wartime."[155] Considering this warning, owners increased industrial production almost one half between 1934-36 and 1940.[156] But still the Western Powers kept quiet.

Generals saw this industrial hinterland as essential to defeat Japan's primary enemy: the United States. Imperial Russia had been Japan's main foe in 1907, but the ruin of the Czarist regime, the birth of the Soviet Union, the powerful increase of American influence in the Far East, and the Japanese exclusion movement within the United States put America at the top of the list of Japan's enemies, followed by the USSR and China.[157]

Japan's military machine rolled first against the weakest of her three principal enemies: China. This led to a hot encounter with her second most powerful enemy: the USSR.

To threaten from the rear Soviet interference with her operations in China, Japan aligned herself with Germany in the Anti-Comintern Pact (November, 1936). But in 1939 the Nazis rejected this scrap of paper, signing a non-aggression pact with the Soviet Union. The first view of this pact as a betrayal and block to any alliance with Germany, gave way in Japan as Germany showed her strength in the *Blitzkrieg* victories in Europe.[158] By the summer of 1940, the Japanese rulers predicted German mastery in Europe. Reflectively, one member of the General Staff described the quest for imperial booty which lay behind the resulting Axis alliance:

> Underlying the conclusion of the Tripartite Pact lurked a fear of "missing the bus," on the part of the High Command, which was dazzled by the brilliant military successes of the German

Army at the outset of World War II. An atmosphere of great worry prevailed lest Japan lose her chance if she maintained a cautious policy "with her hands in her pockets," while Germany was stripping the world of its choice treasures. Within the High Command, the feeling rapidly gained sway that Japan should derive great advantage from the Tripartite Pact by carving out her own sphere of influence in East Asia.[159]

The Japanese thereby hoped the Axis Pact would defeat Nippon's major enemy in the East: the United States. (Article Two provides that "Germany and Italy recognize and respect the leadership of Japan in the establishment of a new order in Greater East Asia.") For military projections showed the United States power bridled by division of its forces between Atlantic and Pacific—Germany and Italy occupying the U.S. in European theaters, Japan drawing American firepower in Southern Pacific Asia.

So now Japan struggled to achieve a successful termination of the China war in order to pour her full strength into southern aggression. As the United States then increased aid to Japan's Asian enemies and as diplomatic maneuvers broke down, Japan and the U.S. took up weapons, both seeking Asian properties, resources, and control.

Japan also relied on Germany to hold off their mutual enemies, hoping this would buy sufficient time to bring China to her knees and build an invulnerable economic and military empire. She relied on the vast expanse of the Pacific and Indian Oceans to protect this new found sphere which contained enormous natural resources and hundreds of millions of people.[160] Japan planted its flag in the Pacific colonies and spheres of influence of the European powers bowled over by the German and Italian armies. And on Japan's map were thrusts against the main Far Eastern bases of the Americans, the British and the Dutch: the Philippines, Guam, Hong Kong, British Malaya, Burma, Java, Sumatra, the Celebes, Borneo, the Bismarck Islands, Dutch Timor, and most other Pacific territory. After this southern campaign was underway, the Japanese army with navy support planned to extirpate American and British

influence in China and to hasten the surrender of the Chiang regime by exerting greater military and diplomatic pressure on Chungking. Plans for diverting Japanese forces were prepared to counter potential Soviet probes into Manchuria, the army of the rising sun scheming global conquests as well.[161]

Despite military victories, however, Japan's underlying industrial strength was no match for her major capitalist enemy: the United States. And Japan went down swinging, cornered into smaller spheres of military influence, bombed into submission, and starved into desperation.[162]

(v) Nicely, Nicely Imperialism — U.S.A.

While Japan and Germany built military empires and Great Britain and France fortified their economic spheres of influence, the United States expanded her world power as a trader and investor. Yet the United States did not hold a *formal* colonial empire: the greater portion of her subjects lived in the continental U.S.A. rather than in outlying areas (.06 percent of all U.S. subjects lived outside of the continental zone in 1880, by 1900 11 percent, and some four decades later this percentage had only reached 14).[163] The American empire, then, differed from the European regimes in which the majority of imperial subjects lived outside the mother country. American imperial policy, too, remained flexible: it was the Open Door in Samoa and the Panama Canal Zone; preferential tariffs in the Philippines, the Virgin Islands and Guam; and free trade or tariff reprisals as the situation demanded in other areas.[164] Whatever policy was used, trade and investments stood at the center of the stage, the U.S. holding by 1929 some 14 percent of the *volume* of international trade, 12½ percent of the *value* of world imports and 19 percent of the *value* of world exports.[165] In spite of Depression decreases (by 1938 America held only nine percent of world imports and 14 percent of world exports), the United States remained a major trading nation in the world.[166]

How did the United States global trade develop? World War I brought a demand for American commodities as well as a lack of money to buy them, the demand for commodities engendering a demand for American credit as well. As the American export merchants were shuttled aside and manufacturers began to deal directly with foreign buyers, finance capital replaced merchant capital as the major component of international credit. For American manufacturers increasingly relied on their banks to provide the necessary financial information and credits for exporting. The larger banks responded by opening branches in overseas financial centers to provide on-the-spot information. Some banks also strengthened their correspondent relationships abroad. Still others formed special ("Edge Act") corporations to broaden their international financial dealings. The bankers' foreign department, one financier says, "had moved out of its infancy."[167]

All these factors together made the U.S. a world trader, with the economic ability to produce manufactured goods joined to the demand for such goods from abroad. The government accomodatingly permitted banks to expand overseas and to provide finance for trade, thus pushing the United States into global commercial dealings.

As happened in other nations, American exports changed in composition as the concentration and centralization of manufacturing capital upped the output of processed and machine-worked goods. In 1880 almost 85 percent of American exports had been raw materials, crude and manufactured foodstuffs, but by 1915 they comprised 58 percent and by 1940 less than 18 percent. This transformation accelerated during World War I, when the demand and ability to produce U.S. manufactured products jumped. Between 1910 and 1920 the export of semi-finished wares increased 3½ times and that of finished goods increased six times, and this trend continued. By World War II, the U.S. could meet much of its own need, as well as Allied demand, for manufactured goods which then comprised approximately 82 percent of U.S. exports.[168]

As the United States turned to export, long-term credit was needed. U.S. exporters financed their operations in much the same way as British and other European traders had previously

done: U.S. banks and bank capital went abroad. (Before 1914 only banks chartered by the states had the authority to branch abroad. There were only twenty-six overseas branches of these banks by that year. And it was not till after World War I that United States banks were able to expand on an international scale. This was facilitated by the 1916 amendments to the Federal Reserve Act, which permitted the national banks, with the approval of the Federal Reserve Board, to invest in corporations chartered by the U.S. or state law to engage in foreign banking.)*[169] One of the main activites of these overseas banks was to finance commerce.

As U.S. goods poured overseas other nations became her debtors and required more U.S. dollars to pay their bills. No wonder, during World War I, the U.S. international investment position on private accounts turned completely around, and the United States became a substantial international creditor. In addition, the U.S. government made credits available to its wartime allies. This swing to a creditor position was reflected in a rapid growth of liquid dollar holdings of foreign official institutions; some of this capital outflow from the United States—which went mainly to Europe—ended up as dollar reserves in the hands of foreign central banks, although *most of it was spent again in the course of trade*.[170]

All the while the United States outstripped Britain as both a producer and exporter of manufactures, as New York became the long-term money market of the capitalist world. This was the culmination of an extended relation between the United

*Both the Federal Reserve Act and the 1919 Amendment to that Act—known as the Edge Act—permitted U.S. banks to set up subsidiary corporations for the following purposes:
(i) to foster the creation of branch banks in nations which had laws prohibiting branch banks;
(ii) to facilitate the expansion of the financial-investment activities of U.S. banks.
These subsidiary banking corporations were also permitted to engage in non-banking operations, such as manufacturing and commerce—the *forte* of overseas expansion in following decades.

States and Europe. Prior to World War I, the United States had been an avid borrower of European savings. U.S. capital had been short, but investment opportunity along a wide frontier high. While the U.S. had outstripped Great Britain as a manufacturing nation in absolute terms in the 1870s, relatively speaking, it was still very underdeveloped. And down until the First World War it continued to need vast numbers of people and large amounts of capital from abroad. Then there was a change. For during and after the war, the U.S. increased production, conquered markets formerly under Britain's control, and repaid a large portion of the accumulated debt to an investment capital owned by Europe.

There was also a shift in the position of the U.S. *vis-à-vis* third countries. After 1919, war devastation and disorganization in Europe allowed New York to share with London—and then to take on the main burden of—the world's center for long-term loans. Since New York bankers were doing most of the long-term lending in the 20s and early 30s, the collapse of this finance led to the collapse of world trade and the shift of the source of long-term capital to government-like agencies.[171]

At any rate, with foreign nations as debtors owing dollars to America, they encouraged U.S. purchasers of their factories, land areas and labor-power. And at the same time they thereby acquired dollars to pay their debts to America, United States overseas investment increased almost 70 percent (see table below).

U.S. Investments Abroad[172]
(In billions of dollars)

	Private					
		Long-Term			Short-Term	U.S. Government
Year	Total Private	Total Long-Term	Direct	Other		
1919	7.0	6.5	3.9	2.6	.5	n.a.
1927	13.8	12.5	6.6	5.9	1.3	n.a.
1935	13.5	11.3	7.8	4.8	.9	n.a.
1940	12.2	13.7	7.3	4.0	.9	0.1

n.a. = not available.

Almost the entire increase was due to private investments; and long-term direct investments by private concerns and banks were more than half of the total. Other long-term and short-term investments included loans to European nations, particularly to Germany for war debts and reconstruction.

Both bankers and industrialists therefore were deeply involved in exporting capital in the inter-war years, a study of *American Financial Foreign Policy* (1933) under the direction of Morgan Bank chief Thomas W. Lamont revealing that in the Caribbean:

> All of the countries are indisputably within the sphere of influence of the United States, financial as well as political, even though the influence is in some cases overtly manifested only at intervals.

The financial sphere of influence included U.S. investments of $2,867,000,000, Lamont explaining, "A stake of that size, in practice if not in theory, apparently justifies some disregard for the refinements of constitutionality." Control, moreover, was not limited geographically:

> . . . these territorial acquisitions were not effected in even minor degree for the purpose of protecting or consolidating previously existing American economic interests in the region affected. . . . What was involved was the protection of our Latin American commitments as a whole, and the preservation of opportunities for further commercial and financial expansion, not primarily a desire to exploit the economic possibilities of the specific regions themselves.

A world-wide banker policy had been developed through the State Department. For, said Lamont,

> The stated purpose of the department was to establish the 'Open Door' in China, in financial as well as in commercial matters, and presumably for China's own benefit as well as for that of the American bankers and investing public. Actually, the episode was part of Secretary Knox's 'dollar diplomacy,' the policy of extending the American financial empire in the more backward regions of the world by aggressive but non-military procedures.

With big bank aid, industrialists undertook investments in widely separated parts of the globe: in Europe (Ford, General Motors, International Business Machines, American Tele- phone and Telegraph), as well as in the non-industrialized areas of the world (the Middle East, Latin America, Africa and parts of Asia) where oil and other raw materials and fuel could be found.[173]

These investments brought the United States into conflict with the other industrial Powers. Joined together, investment and highly competitive finance and trade expansion after World War I, found Germany, Italy and Japan on one side at logger- heads with the United States. Germany, for example, pene- trated U.S. markets in Latin America, despite the Monroe Doctrine and the dollar sphere of influence. Both Germany and Italy carried on barter transactions with other nations, thereby doing away with the open marketplace dealings at which U.S. exporters excelled and offered keen competition. And German and Italian cartels divided markets, restricted produc- tion, and set prices to cut out U.S. exporters.[174]

Not only did German cartels consolidate control in Conti- nental Europe, but they also moved into America's world mar- kets. The home markets, the United States defended with the 1930 tariffs of Hawley-Smoot. German goods were thus turned back, giving rise to overproduction in Germany and helping to pave the way for the fascist party. On the heels of Hitler's ascendancy, the U.S. pushed up the ante in bidding for world commerce: Between 1934 and 1938, the former home of the Open Door policy signed nearly two dozen bilateral trade trea- ties with other nations, closing out German goods again. But, we have said, Germany followed suit with her own bilatera contracts, raising the prestige of the National Socialists, giving them the means to acquire raw materials to arm the nation and foodstuffs to feed the working class again on the job making guns. America was clearly cutting off her own world markets now, at a heavy price for U.S. workers, but a promise of lus rewards for the nation's biggest companies.

America had laid out a bed of nails to puncture the commercial balloons floated by other Powers. But could U.S. exporters and investors avoid pricking themselves on the pikes of others? The U.S. had long since closed down free trade into America, stopping Germany and other European countries from exporting to American shores to pay their debts. This secured the U.S. dollar for a while, making it the hardest currency in the world, pushing up its value *vis-à-vis* other currencies, but also making it inaccessible to nations that otherwise would have purchased from America. When other nations could not obtain dollars by exports to the U.S., obviously they could import nothing at all. And so U.S. exports tended to fall and had to be replaced with bilateral trade agreements. Up went U.S. unemployment when markets fell away and bilateral trade could not replace them. Then down came the dollar, the U.S. devaluing in 1933 in an attempt to stimulate exports again. But, alas, it was too late. The depression was on, production was down, America was spreading crises to Europe!

Treated harshly on American markets, German firms and cartels moved cautiously into U.S. industry—controlling chemical production, much of world steel output, and other key industries. They even went so far as to restrict production of important chemicals and the use of chemical processes in the United States, whose manufacturers and exporters became anxious to eliminate Germany's inroads at home and abroad. When Germany turned to a military solution to her problems, the U.S. monopolists did not hesitate to protect their interests by confiscation in America and fire-power abroad.

United States traders and producers were meanwhile hemmed-in throughout China and Southeast Asia. In China, the Amau Doctrine closed the U.S. Open Door and took away the welcome mat, placing in jeopardy some $68-200 million in business interests, $78 millions of gold in property interests of the American mission, and third place status in China's foreign commerce (one-fifth of China's imports and one-fourth of her exports).[175] The U.S. first responded with diplomacy, reiterating the Open Door principles. She demanded "proper and adequate protection of American citizens, their property and their lawful rights, and, in general, treatment in no way discriminatory as compared with treatment accorded to the interests or nations of any other country"—said U.S. Secretary Kellogg's July 1928 note to Minister C. T. Wang.[176]

Once Japan took charge of Manchuria, however, the United States issued a clearer warning. "As for Japan's economic needs," seasoned diplomat William L. Langer wrote in the ex-officio *Foreign Affairs* magazine, "it may at least be questioned whether she would not be better off if she avoided political and military commitments in China. Her cheap goods have made very extensive inroads in all the markets of the world, and her conquest of the whole of the Chinese market is perhaps inevitable. Far from having gained much from her recent policy, she has had to face boycotts and other forms of hostility. In this case, certainly, one may debate whether the game is worth the candle."[177] It was not. When the U.S. decided to uphold and enforce the Open Door in the face of Japanese imperial expansion, war was inevitable and Pacific Asia was partitioned again.

(vi) Scorecard at Zero Hour

Britain still led and the United States followed a policy of appeasing and strengthening Germany and her Axis partners. This policy allowed the Chinese War to drag on in hopes that Japan and Russia (now supplying arms to the Chinese) would expend their vigor in mutual destruction. This Anglo-Saxon policy also took the form of "neutrality" in allowing the Fascists to strangle the Spanish Republic. And on the eve of World War II the partition of the world looked something like that depicted in the table on page 121.

It is easy to see why Germany—with no colonial empire—and Japan—holding firmly less than one percent of capitalist world real estate—were anxious to acquire a larger share of the world's resources. Only by force could they hope to break into the tight-knit spheres of influence which excluded them. Japan moved first, drawing the following tiny empire together:

Empires, 1939[178]
(In 1,000's of people, 1,000's of square kilometers, and percentages)

	Home Area		*Colonial Sphere*			*Total Empire*			
Empire	*Pop.*	*Area*	*Pop.*	*Area*	*Number of Colonies*	*Pop.*	*Percent Total*	*Area*	*Percent Total*
British	46,487	230	590,793	42,818	103	637,280	35	42,817	39
United States	131,669	7,839	145,147	22,147	29	277,181	15	30,040	27
French	41,950	551	71,461	12,099	32	113,411	6	12,650	11½
Dutch	8,834	33	69,709	2,061	5	78,543	4	2,094	2
Belgian	8,396	30	14,156	2,391	2	22,552	1¼	2,391	2¼
Italian	43,864	310	14,102	4,587	7	57,966	3½	4,897	4½
Portugese	7,620	92	10,595	2,099	8	18,215	1	2,191	2
Japanese	72,520	382	28,527	298	7	104,247	6	680	½
Spanish	1,122	505	1,155	333	7	2,277	1	838	¾
Others[a]						467,670	26	11,146	11
Total						1,779,342	100	109,744	100

(a) Contested areas, mainly China and Outer Mongolia: population 450,000,000; area 10,367,000 square miles.

	Total Area[179] *(Square Miles)*
Japan proper[a]	179,257
Kwantung[b]	1,438
Manchukuo[c]	446,000
Mandates[d]	830
	627,525

(a) Includes home island of Hokkaido.
(b) Leased territory in China.
(c) Puppet state after 1931-3.
(d) Mandated islands: Carolines, Marshalls, Marianas.

Then it was Germany's turn. "If we see that Germany is winning," then influential Senator Harry S. Truman told the Senate, "we ought to help Russia and if we see that Russia is winning we ought to help Germany and that way let them kill as many as possible, although I don't want to see Hitler victorious under any circumstances." So early war strategy by Britain and the United States continued the policy of appeasement—delay in opening a western front in favor of the United States. U.S. invasions of North Africa and Italy also allowed Russia to bleed. Britain cynically offered to send her troops into the Caucasus—to fight only if Nazis broke through Russian lines, protecting Britain's Near East interests and, perhaps in the end, sharing in the partition of a weakened Russia. Churchill, steadfastly opposing the second front, prophesized that otherwise Soviet Russia would be the largest beneficiary of the terms of any European peace, military occupation being foreseen as the source of postwar power. Germany thus was given free rein to crush Russia if she could.

CHAPTER V

The Political and Military Steps Towards War

In the course of the interwar years, the struggle for economic empire had reached a high pitch, assuming political and military forms both within and outside Europe. Exaggerated economic nationalism, which the First World War fanned to red heat in the old and new-born states of the world, produced new tariff wars, new imperialistic rivalries, new jealousies, new armament races, and new political intrigues. Military and naval rivalries had not been abolished. New military alliances were established, and the army with navy budgets of the world were larger than ever. Imperialistic rivalries were as rife as they had been before the war. The nations of the world were once again on the verge of conflict. Class division in Europe was more distinct than ever before, as the centralization of capital in the hands of a few financiers led to a worsened condition for the vast majority of the working people.[180]

The population, however, did not silently bear this burden, forming rebellious Popular Fronts in both France and Spain. In 1931 the Spanish Republic was established after the electoral defeat of the monarchy and the withdrawal of King Alfonso, while in France the Popular Front put Léon Blum's *régime* in office. These two Western European republics became part of a "democratic belt" that stretched from the South across Europe through the central nations of Switzerland, Germany, Austria, Czechoslovakia, and Poland to the U.S.S.R. in the East. In all of these republics an anti-monarchist and anti-landlord sentiment prevailed; and in most of these nations there were traces of anti-capitalism as well.

These political developments frightened the aristocracy and the bourgeoisie, and they scurried to protect their land, their factories and their banks, at the same time moving to suppress these popular movements. Not only did they fear majorities, they feared one another as well; and they were ready to use national government power to suppress their equals in other countries. At the same time they joined forces to suppress the republic belt of governments, their newly-installed reactionary *régimes* armed themselves to the teeth and bought time by signing a number of military non-aggression pacts.

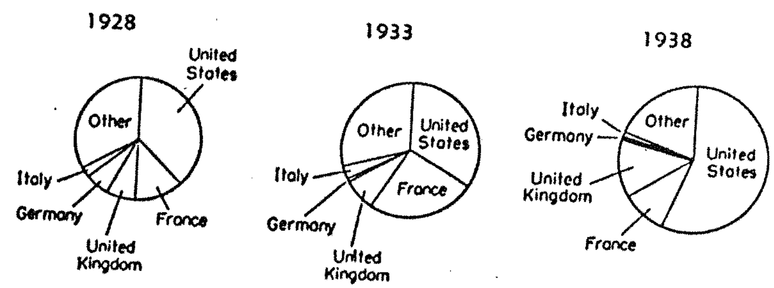
Popular movements were now undermined or destroyed. In France, for example, the Popular Front lost its following when the Blum government proved too timid to aid Republican Spain. And in Spain, the Popular Front was finally destroyed in 1939 by a combination of Italian armies, German war materials, Franco's fascist bands, and the policy of the British Tory Government which prevented both Moscow and Washington from rendering the aid the Republican Government required. Throughout Europe, the privileged classes looked upon Hitler's Nazis as their saviors; but even before the Nazis violated Austrian and Polish borders privileged classes had replaced the republican constitutions, established dictatorships, and suppressed popular protest. In Germany, Austria, and Czechoslovakia the Nazis trampled on republicanism and established fascist rule.

As the reactionaries broke popular governments, each national bourgeoisie began to compete against the others—the foreigners—for the purpose of dividing the globe in a way most favorable to themselves. They also aligned themselves into blocs of nations, the multiple of treaty, *entente*, and *rapprochement* measures increasing as the years passed.

Generally speaking, the collapse of world commerce was behind many of the new political alignments. Trade became increasingly impossible. Sound currencies exchangeable for one another on a stable basis were lacking since some nations owned gold to back up their bank notes and others did not. Since gold was *the* way in which capitalist nations valued their accumulated wealth, the currencies of those have-not nations could not be stabilized, meaning that trade with these nations

became impossible if they could not pay in commodities or gold itself. So trade soon crumbled because buying nations could not pay in gold; they could not pay in gold because they had no way to earn it by exports; and they could not export because world markets were either not rebuilt after the Great War or because they collapsed under increasing pressure on the people to produce but not to consume. So the whole system now lay prostrate because only a few nations had the gold, led by the U.S., followed by France versus Britain.

Division of Gold Reserves Among the Central Banks of the Leading Capitalist Nations, 1928, 1933 and 1938



These underlying crises threatened the collapse of the international economic system and were reflected in the final fall of the gold standard, the eclipse of international high finance as the League of Nations' chief instrument of political enforcement, and the beginning of the end of the liberal state, production for free markets, and the old balance-of-power based on United States financial resources. By 1940 every vestige of the cooperative international capitalist system of trade had disappeared. Now preparations for war had replaced negotiations for commerce, the concern for international currency stability had been displaced by dealings over ratios of military hardware, and marching armies made the struggle for peace obsolete.

Trends toward war had developed for over a decade. By

March, 1935, Chancellor Hitler, despite the Treaty of Versailles, proclaimed that Germany would at once increase the size of her army to 500,000 soldiers, on the grounds that the Allies, particularly Russia and France, had not fulfilled their promises to disarm. Moreover, once Germany began to increase her navy, England entered into an agreement with Germany—awarding her the "right" to a fleet 35 percent as large as the British one. But neither England nor the Allies could now prevent Germany from increasing her man-of-war to any size the Nazi *régime* decided.

Germany was not alone in the struggle to rearm. All during the interwar years the major imperial Powers built larger armies, larger navies, and had larger armament costs than they had in the period prior to the First World War. By 1931 the total of their troops under arms were approximately 3,200,000. And in the following year all the Great Powers were feverishly working to construct new flotilla to add to their lines of battleships and cruisers. In less than two decades (1913-31) the major Powers had increased military expenditures by 30-200 percent:

Great Powers: Expenditures for[181]
Armaments in Dollars (000's)

	1913	*1931*	*Percent Change*
United States	244,600	727,700	+197
Russia	447,700	579,400	+ 30
Great Britain	375,100	535,000	+ 42
France	348,700	455,000	+ 30
Italy	179,100	258,900	+ 44
Japan	95,500	232,100	+142
Germany	436,300	170,400	− 63

Where in 1925 just under $3,500,000,000 was expended by 62 nations on armaments, by 1930 it reached $4,128,000,000 by 1934 some $4,900,000,000, and by 1936 nearly $11,000,000,000. The larger Powers were appropriating as much as 70 percent of their budgets to defray expenses of previous wars and to maintain current armaments—at the same time as signing non-aggression pacts.

The tools of death meanwhile came from great manufac-

turing concerns owned by a relatively few members of society, paid by State taxes collected from the wages and salaries of the working class. As these monopolists grew wealthy on war contracts, the vast majority of people grew poorer. So by 1930 the per capita cost of armaments was:[182]

France	$13
Great Britain	11
Italy	8
Holland	8
United States	7
U.S.S.R.	4
Germany	3
Austria	2

As happened before World War I, again these taxes were lavished on the merchants of death. Arms manufacturers before and during that war had included the DuPonts of America, the Krupps of Germany, the Vickers of England, and the Schneiders of France. Krupp and his chief director, Hugenberg, for example, had sold to the British their patented hand-grenade fuse, which killed thousands of German soldiers. Yet, for Krupp's patriotism in supplying Germany with arms as well, the Kaiser awarded him the highest decoration. And for each grenade, the British State paid one shilling—totalling some 123 million shillings' royalty for Krupp by 1917! Again in the 1930's, Eugene Schneider of the Cruesot firm of France armed or partly armed more than twenty countries. China was his biggest customer. And the German Nazis depended upon this Frenchman's backing; he heartily approved a larger German army, worshipping the profits from larger arms orders.[183] Again, on Hitler's inauguration of a secret rearmament program on April 4, 1934, the House of Krupp offered its fidelity, thereby scuttling the dreams of the middle class socialists for more butter—the Nazis wanted guns! And guns they got, as Krupp's *Die Firma* accelerated its operations as gunsmith of Germany, as the Zentralbüro für deutsche Aufrüstung (Central Bureau for German Rearmament) had by 1937 cut the number of idle German men from six million to less than one million. Trading off the government's initial public works budget of 5.4 billion marks in 1933, the arms budget was 21 million—concealed in Herr Schacht's financial bag of tricks, paying Krupp and his fellow industrialists in IOU's which were then accepted in Berlin by a dummy corporation (the Metallurgische Forschungsgesellschaft G.m.b.H.) representing four private concerns and two ministries of State, which in turn were backed by the national treasury. Since the Central Bank Schacht directed eventually rediscounted all these notes, Krupp and the others were paid without a single digit appearing on the record. At the same time the Führer rounded up the socialists and labor leaders for jail and thereby abolished the eight-hour day, making overtime cheap for all employers, Schacht cleverly blocked all foreign currency accounts, froze foreign assets in Germany, and drained the proceeds to the arms makers. "The Central Bank," director Schacht confided in a letter of June 6, 1936, "has the German mark funds of foreigners under its control almost exclusively reinvested in rearmament bills. Our armaments are thus partly financed from the deposits of our political enemies." Thus the bag of tricks bankrolled Krupp.

Krupp had openly defied Versailles and was ready to produce. The Reichsverbank and Reichsgruppe Industrie—the voice of big business—publicly welcomed the Führer's withdrawal from the European disarmament conference and the League of Nations in 1933. The Reich Chancellor handed the armed forces a blank check, which they wrote up, the government funded, and the munition makers received. On September 4, 1933 the call was issued, munition makers getting priority on raw materials from overseas, iron imports rising 170 percent, Krupp's steel production at two major works increasing from 1½ million tons a year to 4 million, 25-26,000 tons of steel going for the secret construction of German U-boats. And this was only the beginning of arms making.[184]

So although the profits of militarization and war clearly went to the few, still the merchants of death did not cause war by themselves. Industrialists in a wide variety of fields demanded for themselves added overseas markets, more colonies, new foreign investments, more repatriated profits, more tanks, guns, grenades, shipping fleets and airplanes to protect

their investments and commerce. If the military industries benefitted along the way towards war, so much the better for their bank balance. Yet the monopolies' search for profit had never stopped, leading many to conclude that World War Two was in reality a continuation of the First World War. For indeed the fundamental forces—monopolization, militarism, nationalism and imperialism—that brought on the First World War also brought on the new one.

The march towards war had resulted from the unequal rates of development of the Powers of the world and the resulting domination some put on others. In the end, the German nation wanted what the British nation held. And the British desired to keep the Germans in check. The United States wished for the Open Door worldwide. But Japan had other goals, seeking an exclusive Asian empire of its own. Italy joined Germany and Japan to take up the colonies of the other Powers. But here Britain, France, Belgium, the Netherlands, and the United States drew the line. Cross that line, they said to the Axis Powers, and there will be war upon you to repossess what you have taken from us. And that is what happened. For triangular trade had been transformed into bilateral empire dealings; empire dealings had become convenient mechanism for rearming Germany and Japan, Britain and France; and political tensions had been translated into a desperate arms race which dragged the whole world into another holocaust.

Within European nations especially, the road to war was laid out in stages—the first for counterrevolution, the second for capitalist resurgence, and the third for crises and the rise of antagonistic governments seeking to take what all others held in trade, investments, colonies and profits. In the first period (1917-23) we can discern how civilian bands of reactionaries had used force and violence against the agrarian or socialist "revolutions"—in Finland, Lithuania, Estonia, Latvia, Poland, Roumania, Bulgaria, Greece and Hungary. With the connivance of government officials, similar violence was used against the political influence of the industrial working class in Italy, Germany and Austria. The reactionaries demanded "law and order," eventually leading to "counter-revolutions.'' Yet the incipient fascist movements did not themselves assume government power, for the marketplace was being re-established and did not require a fascistic state.

The second period (1924-29) had no use for a fascist government either. The powers of capitalist production were expanding, the market fetters were destroyed, and all the important nations save Great Britain were on the economic upgrade. While the United States enjoyed legendary prosperity and the Continent was doing almost as well, Hitler's *putsch* was a footnote in political economy. France evacuated the Ruhr, the *Reichsmark* was restored by U.S. loans, the Dawes Plan took politics out of reparations, Locarno was in the offing for peace, and Germany was initiating seven fat years. The gold standard ruled from Moscow to Lisbon by the close of 1926; buyers could now pay for their imports, restoring the capitalist marketplace to its full capacity.

Then came the Great Crash of 1929, the market economy turning down, general economic crises forcing nations to be sellers but not buyers in the world. The continuing deadlock of market dealings demanded changes in the political way in which economic solutions were planned. The Italian trusts chose fascism as a way out of their economic malaise. The German cartels demanded continental markets and colonies, not by marketplace dealings—for they were shut out of the markets and colonies of the other Powers—but by military conquest. Hitler, their puppet, demanded no more than they asked, Germany taking the lead in totalitarianizing Europe. And with Japan in the Asian wing, the Axis Pact aligned fascist power over five continents.

* * *

Thereby the material conditions of society—monopoly ownership, overproduction, market struggle, political bankruptcy, and military occupation—had ended the marketplace system. The monopolists and cartelists needed fascism to build themselves strong for a military confrontation which, they believed, would award them with more raw materials, more markets, more profits and more power. The liberal business

interests, then opting for increasing national competitiveness, also blocked any move towards allowing the social means of production to provide for popular need, instead of their private profit. The fascists, combining jingoism and planned speed-ups for the working population, now displayed a tawdry alternative to the free marketplace. And the monopolists then brought them into power in hopes that their accumulation of private gain would continue undiminished. World War II inexorably followed, not only because leaders willed it, but also because the solutions to economic and political crises required it.

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