

A LETTER TO COMRADES BY LEON TROTSKY

EDITORIAL NOTES

LAYING THE FOUNDATIONS

With the publication of the forthcoming book on the Chinese revolution, which the Pioneer Publishers are now getting ready for the press, the American section of the Opposition will record another substantial achievement. It belongs among the fundamental and most important Marxist documents written in the heat of struggle in the Communist International since Lenin departed from its leadership. We have regarded the publication of all these historic documents as one of our first and foremost tasks. The volume on China rounds out the great series of books and pamphlets from the pen of comrade Trotsky in the past period which will stand for all the time among the classics of our movement. It is with such weapons that the proletarian wing of the party will fight its way to victory. By its stubborn concentration on this simple and prosaic work of publication, by its refusal to be diverted from it by any kind of chattering promises of cheap success and easy victory, the Opposition is bringing its first, and therefore its most essential, task to a successful fruition. In this way we are laying the ideological foundations of the future movement, upon which it will stand, steadfast and sure, in the stormy days to come. There are people around the fringes of the Communist League who looked down upon this "publishing business" and ridiculed our concentration on it. The Opposition was fortunate in disregarding the pretensions of those who talk only of spectacular undertakings and overlook the essential task in hand. First things come first. There are illustrious examples of the same point of view. The founders of scientific Communism, who had a few ideas and even some great ones, were not above the simple task of assembling the technical means to publish their doctrines when that task stood first on the order of the day. In the trial number of the *Kommunistische Zeitschrift*, issued in September 1927 under the direction of Marx and Engels, one can read the modest announcement of a project not unlike the one which has engaged our efforts:

"Both intellectuals and manual workers promised their collaboration [in publishing the paper]. Yet we hesitated lest after a very short period of activity, publication should cease for lack of funds. It was finally suggested that we acquire a printing press of our own so as to give the venture a more stable foundation. A subscription list was opened . . . and in a short time the sum of 25 pounds was collected. The money permitted us to have the necessary type brought from Germany; our compositor members have set up the issue gratuitously; and here in actual fact is the first number of our paper . . . We still lack a printing press, but as soon as we have money we intend to purchase one. Then our printing establishment will be in a position, not only to run off our newspaper, but likewise to print the pamphlets necessary for the defense of the proletariat."

That is the way we are proceeding, too. We also undertook "to print the pamphlets necessary for the defense of the proletariat". With the slenderest means and with economies and sacrifices not unlike those described in the *Kommunistische Zeitschrift*, we have accomplished a part of the task. And we are still working along the same line.

HAIL, YOUNG SPARTACUS!

One of the first positive results of our national conference is the discussion of the National Committee, in agreement with the newly-appointed National Youth Committee, to launch an independent club for young workers in New York and to begin the publication of a special youth paper. With this the Communist League will begin a momentous experiment which will call out the intense interest and warm sympathy of all who fight under our banner. So far as we know we will be the first section of the International Left Opposition to form such an organization and to come out with a special organ appealing to the proletarian youth. We are pioneering on a new field in the world-wide struggle of the Marxian wing of the movement. But all the circumstances warrant the step, and we are confident that the results will quickly vindicate it.

The situation and the special problems confronting the Communist youth are not the same as those of the adult movement, or at any rate they are not exactly the same; and it is from this circumstance that different tactical and organizational methods flow. The Opposition youth remain—as the conference resolution said—a faction of the Young Communist League as our organization is a faction of the party. But the relation of forces and a number of other conditions in the youth movement are far more favorable for independent action up to a certain point.

Stalinism has wrought devastation enough in the party, but in the Young Communist League the results have been truly catastrophic. On the other hand, the Marxian educational work of the Opposition has awakened a far wider response, speaking proportionally, in the ranks of the Communist youth than in the adult organization. And this is not without valid reasons. The youth are not, and in the nature of things cannot, be weighted down with as hard and heavy a crust of bureaucratic cynicism as is the case in the party. The youth react more sensitively to revolutionary ideas. The youth are the barometer, as Trotsky said at the beginning of the struggle against bureaucratism in 1923. All our experience in America supports this idea. We do no boasting. We have never deceived ourselves or others with exaggerated claims. But we can say with absolute confidence that the flower

of the Communist youth in America are already enrolled in the ranks of the Opposition. A bold step forward is now justified and necessary.

If the youth work the Opposition is now undertaking on a wider scale has an admittedly experimental character, the same can be said with no less justice of all that has been attempted up to now in this domain by the party, and even by the Comintern. We maintain that the problem of effective work among the youth has not yet been solved in the capitalist countries, and under the regime of the epigones it has been cynically mismanaged and abused. They have been corrupting and perverting the revolutionary youth, training young bureaucrats as Fagin trained young thieves. What is wanted is the education of a cadre of frank and honest young worker-revolutionists able to organize and lead a proletarian mass movement. This task belongs to the Marxian Opposition. It will bring new methods and a new spirit to the work.

We expect that the first issue of the youth paper of the Opposition—the plans for which are already under way and which it is to be hoped will not long be delayed—will reflect this new spirit and be welcomed in the youth movement like a fresh breeze. To do this it will not have to borrow anything from the Young Worker, that pallid and unhealthy caricature of grown-up Stalinism at its worst. The aim which we and our young collaborators aspire to is to make a real youth paper, to interest young workers and not to command them, to convince and educate them and not to herd them like sheep for a faction that has no ideas. No pretensions, no diplomacy, no high-politics, no slavish aping of the big talk of the elders, but a young Communist paper for young workers.

In deciding to call the new paper *Young Spartacus*, the joint committee has endowed it with an inspiring historic name. The name of the great leader of the colossal slave revolts of antiquity was the banner around which Liebknecht and Luxemburg assembled the dispersed vanguard of the German proletariat. It can well become the symbol of the revolt of Communist youth against the corrupting influence of Stalinism, and their assault against the capitalist order. The name imposes obligations. We are convinced that the young militants of the Opposition will fulfill them. In their great undertaking they will have the unqualified support of every member of the Communist League. —J. P. C.

The Question of Workers' Control of Production

(Continued from Last Issue)

The epigones have purely mechanically accepted the idea that workers' control of production, like Soviets, can only be carried out under revolutionary conditions. Were the Stalinists to attempt to bring their prejudices into a definite system, they would probably argue as follows: Workers' control as a sort of economic dual power is inconceivable without political dual power in the country, which in turn, is inconceivable to the bourgeois power; consequently—the Stalinists would conclude—the slogan of workers' control of production is inadmissible only simultaneously with the slogan of Soviets.

From all that has been said above, it proceeds clearly how false, schematic, and how lifeless is such a construction. In practice, it results in the unique ultimatum which the party puts to the workers: I, the party, will allow you to fight for workers' control only in the event that you are prepared simultaneously to build up Soviets. But this is precisely what is involved—that these two processes must in no case run absolutely parallel and simultaneously. Under the influence of crises, unemployment and predatory manipulations of the capitalists, the working class in its majority may be prepared to fight for the abolition of business secrecy and for control over banks, commerce and production even before they have reached an understanding of the revolutionary conquest of power.

Two Ways Out

Taking the path of control of production, the proletariat will inevitably have to advance further in the direction of the seizure of power and of the means of production. Questions of credits, of raw materials, of markets alternately lead the control beyond the walls of the isolated enterprise. In a country as highly developed industrially as Germany, the questions of exports and imports alone suffice to elevate workers' control immediately to the level of state tasks and to counterpose the central organs of workers' control to the official organs of the bourgeois state. The essentially irreconcilable contradictions of the regime of workers' control will have to be accentuated to the degree that its sphere of influence and its tasks are extended, thereupon to show themselves promptly as intolerable. A way out of these contradictions can be found either in the capture of power by the proletariat

(Russia) or in the Fascist counter-revolution, which establishes the naked dictatorship of capital (Italy). It is precisely in Germany, with its strong social democracy, that the struggle for the workers' control of production will in all probability be the first stake of the revolutionary united front of the workers, which precedes the open struggle for power.

Should the slogan of workers' control, however, be raised right now? Is the revolutionary situation "ripe" for it? This question is hard to answer. There is no measuring instrument which would permit the determination, once and for all, of the degree of the revolutionary situation. One is compelled to check it up by deeds, in struggle, with the aid of the most varied measuring instruments. One of these instruments, under the given conditions perhaps one of the most important, is precisely the slogan of the workers' control of production.

The significance of this slogan lies primarily in the fact that on the basis of it, the united front of the Communist workers with the social democratic, non-party, Christian and other workers, can be prepared. The attitude of the social democratic workers is decisive. The revolutionary united front of the Communists with the social democrats—that is the fundamental political condition which is lacking in Germany for the immediate revolutionary situation. The presence of a strong Fascism is surely a serious obstacle on the road to victory. Yet, Fascism can retain its power of attraction only because the proletariat is split up and weak, and because it lacks the possibility of leading the German people on the road to the victorious revolution. The revolutionary united front of the working class already signifies, in itself, the political death blow for Fascism.

For this reason, be it said in passing, the policy of the Communist Party of Germany leadership in the question of the referendum bears an all the more criminal character. The most rabid foe could not have thought up a surer way of inciting the social democratic workers against the Communist party and of holding up the progress of the policy of the revolutionary united front.

Necessary Preparations

Now this mistake must be made good again. The slogan of workers' control can be of extraordinary aid in this regard.

However, it must be approached correctly. Advanced without the necessary preparation, as a bureaucratic command, the slogan of workers' control may not only prove to be a blank shot, but discredit the party even more strongly in the eyes of the working masses and undermine the confidence in it also of those workers who still vote for it today. Before this highly responsible fighting slogan is raised, the situation must be read well and the ground for it prepared.

We must begin from below, from the factory, from the workshop. The questions must be scrutinized and adapted to certain typical industrial, banking and commercial enterprises. Especially crises cases of speculation must be taken as a point of departure, veiled lock-outs, mendacious diminution of profits aimed at reductions of wages or mendacious exaggeration of production costs for the same purpose, and so forth. In the factory which has fallen victim to such machinations, the Communist workers must be the ones through whom are felt the moods of the rest of the working masses, above all, of the social democratic workers: to what extent they would be ready to accept the demand to abrogate business secrecy and to establish workers' control of production. Using the occasion of particularly acute individual cases, we must begin to conduct propaganda persistently with a purely positive way of putting the question, and in this way measure the power of resistance of social democratic conservatism. This would be one of the best ways of establishing to what degree the revolutionary situation has "ripened."

The preliminary feeling out of the ground assumes a simultaneous theoretical and propagandistic elaboration of the question of the party, a serious and objective instructing of the advanced workers, in the first place, of the factory council members, of the prominent trade union workers, etc. Only the course of this preparatory work, that is, the degree of its success, can show at what moment the party can pass over from propaganda to further agitation and to direct practical action under the slogan of workers' control.

The policy of the Left Opposition in this question follows clearly enough from what has been presented, at least in its essential features. It is a question in the first period of propaganda for the correct principled way of putting the

question and at the same time of the study of the concrete conditions of the struggle for workers' control. The Opposition, on a small scale and to a modest degree corresponding to its forces, must take up the preparatory work which was characterized above as the next task of the party. On the basis of this task, the Opposition must seek contact with the Communists who are working in the factory councils and in the trade unions explain to them our views of the situation as a whole, and learn from them how our correct views on the development of the revolution are to be adopted to the relationships in the factory and the workshop.

P. S. I wanted to close with this, only it occurs to me that the Stalinists might make the following objection: you are prepared to "dismiss" the slogan of Soviets for Germany; but you criticized us bitterly and branded us because at one time we refused to proclaim the slogan of Soviets in China. In reality, such an "objection" is only base sophism, which is founded on the same organizational fetishism, that is, upon the identification of the class essence with the organizational form. Had the Stalinists declared at that time that there were reasons in China which hindered the application of the Soviet form, and had they recommended some other organizational form of the revolutionary united front of the masses, one more adaptable to Chinese conditions, we would naturally have met such a proposal with the greatest attention. But we were recommended to replace the Soviets with the Kuo Min Tang, that is, by the enslavement of the workers to the capitalists. The dispute was over the class content of an organization and not over its organizational "technique". But we must promptly add to this that precisely in China there were no subjective obstacles at all for the Soviets, if we take into consideration the consciousness of the masses, and not that of Stalin's allies of that time, Chiang Kai-Shek and Wang Chin Wei. The Chinese workers have no social democratic, conservative traditions. The enthusiasm for the Soviet Union was truly universal. Even the present-day peasants' movement in China strives to adopt Soviet forms. All the more general was the striving of the masses for Soviets in the years 1925-1927.

August 20, 1931.

THE BANKING CRISIS IN THE UNITED STATES

(Continued from page 1)

So far as volume of industrial production and wholesale prices go, therefore, the creation of paper values in the form of bank deposits and of bank credit, short term in the form of loans and discounts and long term in the form of investments, ran ahead of the production of real commodity values. In short, generally speaking, the period was one of financial inflation.

3. This must be understood, however, not merely formally, but dialectically, in its relation to the development of capitalism in America during this period to a higher level, that of imperialism, in the Leninist sense which includes financial concentration toward the formation of a financial oligarchy, increasing monopolization of industry, and increasing hegemony of finance-capital over capital as a whole. This involves the transformation of increasingly large proportions of capital into the form of stocks and bonds, facilitating bankers' control.

Lenin says, "Finance-capital, concentrated in a few hands and exercising a virtual monopoly, exacts enormous and ever-increasing profits from the floating of companies, issue of stock, State loans, etc., tightening up the grip of financial oligarchies and levying a tribute on the whole of society. . . . The extraordinary high rate of profit from the issue of securities, which is one of the chief functions of finance-capital, plays a large part in the development and stabilization of the financial oligarchy. . . . Imperialism or the rule of finance-capital in which this separation [of finance-capital from industrial capital] reaches vast proportions. The supremacy of finance-capital over all other forms of capital means the rule of the investor and of financial oligarchy. . . ."

Between 1921 and 1930, there were issued in the United States over 5 billion dollars of foreign government loans; 53.3 billions of corporation securities, of which 19 billions were stock and 34.3 billions bonds, including 9.5 billions of refunding issues to pay off old securities, which should be deducted from the 53.3 billion total; and 4 millions of real estate mortgage bonds.

This tremendous outpouring of capital did not represent actual savings, or real surplus values created during the period, but rather paper values created by the banks. As indicated by the discrepancy between the increase in industrial production and the increase in bank deposits and credits, this was a period during which paper values rose faster than real values.

Bank Assets

4. To confirm this, let us examine the character of the assets of the banks, and see what changes they underwent during the boom. We shall confine our attention to the national banks, having 40% of the resources of all banks combined, because they are under the jurisdiction of one authority, the Comptroller of the Currency, rather than the state banks, regulated by 48 sets of banking authorities.

In June 1921, loans constituted 57% of the total assets of the national banks; by 1929 the percentage had been reduced to less than 50%. During the same period, investments increased from 20 to 25%.

In other words, the banks were tending to lend less, and put more of their money into securities. Of the loans themselves, in 1921, 23.7% were secured by stocks and bonds—by 1929, 37% were so secured. Of the loans secured by stocks and bonds, 7.9% were secured by U. S. government bonds in 1921, 2.5% by 1929. Simultaneously, the proportion of loans represented by ordinary commercial loans declined from 69.2% in 1921 to 48.2% in 1929. Remembering what was said in the previous article of this series, that only loans based on legitimate commercial transactions or upon U. S. government bonds are eligible for rediscount with the Federal Reserve banks, it is clear that the percentage of loans eligible for rediscount would have to decline during this period, from 80.6% in 1921 to 19.4% in 1929.

The foregoing makes clear the extent to which the enormous distribution of securities during the big boom was based on manufactured bank credit, and consequently the extent to which the financial structure of the banks was based on the security inflation accompanying the boom.

Another feature of the same situation was the fact that many corporations, which were successfully selling their stocks and bonds at high prices to investors, used the cash which they received, first to pay off bank loans, second to put their treasuries in such position that they have less need than ever before to borrow from the banks for their ordinary commercial transactions. This further intensifies the tendency for the banks to have relatively little commercial paper among their assets, and relatively large amounts of finance paper, based on stock and bond transactions.

Financial Effects of the Crisis

Comparatively little of the loans based on this inflated paper has been paid off. Federal Reserve member banks had outstanding at the end of August 1931, 14.4 billions of loans and discounts, against 16.8 billions in August 1930 and 16.9 billions in August 1929, near the peak of the boom. The other major form of bank credit, in long term investments, actually increased from 5.5 billions in August 1929 to 6.3 billions in August 1930 and 7.7 billions in August 1931. This in the face of a very rapid depreciation during these two years in the prices of stocks and bonds meant that the banks were not taking their losses and writing off their loans, but have been consistently fighting to maintain the dollar value of their participation in the boom and consequently obtain a greatly increased proportion of the effective economic strength of the country.

During the crisis, there has been manifested a great tendency to hoard money, both by little depositors, scared by the

frequency of bank failures, and by banks themselves, who have had to keep more cash in their vaults to meet the possibility of an unexpected run. The latest Federal Reserve statement, for Oct. 14, 1931, shows money in circulation of 5.5 billions. A year ago there were in circulation 4.5 billions. Considering the extent to which the crisis has deepened during this period, it would have seemed reasonable to expect a drop in circulation of several hundred millions dollars instead of an increase of a billion. About one to one and a quarter billions are evidently being hoarded, mostly in the form of Federal Reserve notes, rather than gold. On Oct. 14, 1931, total gold reserves in the Federal Reserve system were 3 billion dollars against 3.1 billions the year before; General Reserve bank notes, however, were outstanding in the amount of 2.3 billion dollars against 1.3 billions a year ago.

This increase in note issues, based on hoarding, was all right as long as gold kept coming into the country. The gold holdings of the United States, which ranged from 3 to 3.7 billions in 1921, steadily increased to 4.9 billions in 1924, declined during the period of active financing of foreign countries in 1925-7 to a low of 4.1 billions in 1928, from which point they increased steadily until by the first week of September 1931, American gold holdings were over 5 billions, the highest figure in history, and fully a half-billion higher than a year ago.

The Federal Reserve banks utilized this situation to try to stimulate business by keeping money rates low, using the two chief weapons which we discussed in the previous article, manipulation of the rediscount rate and the purchase of commercial paper and government bonds in the open market, thus pumping money into the market to pay for their purchases.

The rediscount rate of the New York Federal Reserve Bank, which had been 4 1/2% at the beginning of 1930, was forced down to 2% by the end of the year, and further reduced in April, 1931, to 1 1/2%, the lowest rate in history.

The theory of the maneuver was that the low interest rates would tempt capitalists to borrow and make the banks eager to lend.

What actually happened was that, in view of the fear of the public, which was pulling out deposits and hoarding bills, and the sharp decline in prices of investment securities based on the continued low profits of corporations, the banks themselves felt their position, loaded as they were with stocks and bonds, and with loans based on stocks and bonds, was none too safe. Accordingly, they began calling in old loans, replacing them in lesser amounts with new loans, holding back from new loans as much as possible, and building up their cash reserves, and their holdings of such assets as are very "liquid", i. e., readily exchangeable for money—government bonds, short-term loans, etc. The most recent statements of some of the largest banks in New York City have been showing 50 to 60% of their total resources in cash or assets equivalent to cash—that is, they were half-way or more out of the banking business, and merely serving the same purpose as an old sock, as a place to put money into, without participating in the process of

circulation of capital which is the fundamental function of a bank.

The low interest rates prevailing imposed little penalty on the banks for these overcautious policies, but instead, actually made it harder for the capitalists to borrow than before. Whatever good loans they had they kept to themselves, instead of turning them over to the Federal Reserve banks either by rediscount or by sale in the market.

Increased Gold Need

The large amount of Federal Reserve notes outstanding, as a result of hoarding, the relatively large deposits of member banks with the Federal Reserve banks, as a result of the banks' policy of resistance to deflation of their credits and deposits, meant that Federal Reserve banks would need great quantities of gold to maintain the minimum legal reserve requirements of 35% against deposits and 40% against note issues. As to the notes, the 40% gold reserve is a minimum only when the Federal Reserve banks can make up the additional 60% of the amount of notes issued by means of eligible commercial paper. The less of such paper the Federal Reserve banks have, the more gold they need to fill in the gap.

For example, on Oct. 15, 1931 the twelve Federal Reserve banks combined had outstanding \$1,372,000,000 of notes in circulation, to which should be added some 400 to 500 millions of notes issued but not in circulation, kept by the F. R. banks as "counter cash" to avoid having to pay out gold or gold certificates to their member banks. On the same date they had in their portfolios \$210,000,000 of discounted bills, and \$185,000,000 of bills bought in the open market, or total eligible paper of \$395,000,000.

Taking the lower of the two figures for "counter cash", would leave total eligible paper at only 22% of the total notes issued. In other words, since gold plus eligible paper must equal the amount of notes issued, the effective minimum of gold reserves requirements against note issues as of Oct. 15, 1931, was 78 percent, and not 40 percent, because of the insufficient amount of eligible paper, in turn due to the fact that the banks were loaded up with ineligible finance paper.

This situation, as said above, was perfectly comfortable as long as gold kept coming in. When England went off the gold standard on Sept. 20, however, a sharp reversal of the gold flow set in. The English capitalist, after a depreciation of 20% in the pound, found his American securities, expressed in dollars worth 20% more in pounds than before, while his French liabilities, expressed in francs, correspondingly weighed 20% more in pounds than before. Similarly with the other European nations which went off the gold standard.

It paid them to sell American securities, commercial paper, or anything else expressed in dollars, collect the proceeds in gold, and remit them to France to settle their obligations payable in francs. As a result, American stocks and bonds were heavily sold, commercial paper began to appear more freely in the market, and gold began to leave the United States for France. Up to Oct. 17, over \$650,000,000 had been exported or earmarked (removed from domestic gold reserves and held for the disposition

of a foreign bank), of which nearly 85% went to France.

The only thing for the Federal Reserve banks to do was to reserve their previous policies. Instead of buying government bonds, they sold; last week alone they sold 11 millions of these bonds; breaking the market in some issues 5 and 6 points in a week, a terrific decline for U. S. bonds, along with the selling brought out by the fact that the F. R. was selling. Instead of keeping interest rates low, they raised the rediscount rates a full 1% each in two successive weeks, bringing the New York rate up to 3 1/2%, and carrying all other forms of short-term interest rates, particularly the rate on commercial paper, up with them. The commercial paper rate for 4 to 6 months' paper, which had been steady at 2% since June, is now 4-4 1/2%.

As a result, the banks have been more eager to lend money—the penalty for keeping bank funds idle in cash is now 4% at least, instead of 1-2 to 1% to 1-2%, as a month ago. The Federal Reserve banks, as of Oct. 14, 1931, had on hand bills discounted and bought in the open market, together constituting its eligible paper available as collateral for Federal Reserve notes, of \$1,358,000,000, against \$1,045,000,000 a week ago and \$396,000,000 a year ago.

Its gold reserves (including "lawful money" such as national bank notes) were \$2,994,000,000 on Oct. 14, 1931, against \$3,193,000,000 a week ago and \$3,126,000,000 a year ago. The F. R. system therefore lost \$200 millions during the week, but because of the addition to its holdings of eligible paper was able to maintain its reserve position unimpaired. The test of the gold position of the F. R. is the "free gold", or excess of gold reserves over legal requirements. The "free gold" of the system on Oct. 14, 1931, amounted to some \$670,000,000, about the same as a week ago, and only \$90,000,000 less than a year ago, in spite of the increase of a billion dollars in note liabilities.

So far, therefore, we find that the defense of the gold standard has been successful in the face of huge gold exports and a vast amount of hoarding of money. The defense has cost so far, a severe break in U. S. government bonds, a tightening of money rates, and an extension of Federal Reserve credit on an enormous scale on very short note, on an artificial basis. Still, the immediate emergency is being overcome.

The final article of this series will discuss the immediate perspectives for the further development of the banking crisis, with their probable bearings on the general economic crisis.

—B. J. FIELD.

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