Towards a Theory of Finance Capital

PART 2: THE ORIGINS AND NATURE OF FINANCE CAPITAL.

HILLEL TICKTIN

The argument in the first section which appeared in Critique 16, has been that finance capital has to be seen as the declining and parasitic form of capital, which, however, has been partially negated by the nature of the transitional epoch. In this section finance capital is discussed as a concept in its own right, the material form of which is elaborated in some detail in the third section to appear in the next issue of Critique, number 18.

The Contradictions of Hilferding & Lenin

Thus far although finance capital has been referred to, it has not been defined or explained. In order to do so we will briefly refer to its history as a concept and then attempt to provide a theoretical definition. It will be seen that in order to do so a discussion of Britain is inevitable. A discussion of the decline of Britain goes back to finance capital but an explanation of finance capital has to begin with the experience of Britain or else become a parochial discussion of a particular country, or still worse a vacuous description of global concepts with no context.

The word is associated in particular with Hilferding's work *Finance Capital*, and thereafter with Lenin. As already indicated it became the orthodoxy of the Comintern theorists. Since then it has been employed in a variety of meanings, though the theorists have always claimed orthodoxy deriving from Lenin. Since, as we will show, Lenin was not at all clear in his definition, description or theory, present day theory may be described as simply muddled.

Three definitions can be isolated. Finance capital is in the first instance identified with banking capital as a separate entity, and indeed both Hilferding and Lenin effectively do so. To the extent that such capital acts independently then according to them it is banking capital that we are dealing with. Thus we have such as Sam Aaronowitch referring to finance capital as money capital.[1] The recent article in the CSE journal, *Capital and Class*, virtually brings out the same point.[2] The essential point is that a form of separation between finance capital and industrial capital has to be assumed. Lenin and Hilferding appear not to do so but Lenin is too astute to assume an identity of the two forms of capital and hence precisely points to the fact that there is a tendency to separation or independence.[3] If there is such a tendency, finance capital according to Lenin would be identified largely with banking capital. Hilferding takes it for granted that there is no separation and puts the primacy on finance capital, most particularly the banks.

FINANCE CAPITAL

The second definition speaks of a unity of finance capital and industrial capital in the form of a merger of banking capital and monopoly capital. This is the way it is put by Lenin, and derived from Hilferding. It has to be said that this is effectively a vulgarisation of Hilferding. Hilferding is much more complicated since he regards finance capital as abstract capital constituting a new synthesis of the old usurious capital with banking capital to form a new entity, finance capital, based on industrial capital. Lenin it has to be said does not put it this way but rather sees it in an entirely opposed light. He sees it rather as a return to the old usurious capital but in a new epoch: that of capitalist decay.

There are effectively here two more definitions to add to the first. For the theory, the institutional forms are really secondary, in Hilferding.[4] He is arguing that monopoly capital leads to the formation of abstract capital, which necessarily comes to govern capitalism. It thereby acquires the possibility of planning capitalism in its own interests. It thus lays the foundation of both a higher form of capitalism and the transition to socialism. Lenin totally opposed this view as effectively reformist, taking the view that finance capital was a declining, parasitic form. He does not, however, do more than cite examples of retardation of technology and the reversion of productive land to forms of consumption in order to explicate his theory. He brings out the inherent waste involved in monopoly production but he does not do more than refer to the usurious nature of finance capital. In other words, he does not provide an alternative theory. Instead he effectively rejects the theory of finance capital as such and turns to an institutional description of the merger of banking and monopoly capital. This leads to the export of capital and hence imperialism. This, of course, is a theory of imperialism of unparalled power, but it is not a theory of finance capital. Indeed he makes it clear that he identifies finance capital with monopoly capital. Not surprisingly some of his followers have taken him at his word and concluded that the term finance capital is redundant.[5]

Thus in institutional terms finance capital may be regarded as identified with money capital or banking capital on the one side, and with monopoly industrial capital on the other. But it can also be regarded as a merger of banking and industrial capital in which the banking capital plays the major role. Looking at it in another way, banking capital may be regarded as independent of industrial capital possibly in contradiction with it, or it may be regarded as subservient to monopoly industrial capital, or yet again it (banking capital) may be regarded as merged with monopoly industrial capital but controlling it. Lenin can be interpreted in any way the reader requires. This has only made for permanent muddle. The reason is that it is not possible to determine which of the three forms is a correct description without developing a theory of the origin and development of the form of finance capital. Clearly, Hilferding attempted it but ended up with a most dubious result rejected by Lenin and indeed by history. Obviously, abstract capital does not plan modern capitalism, nor could it do so without overcoming its own contradictions as capital. That does not, however, invalidate his discussion entirely. To say that finance capital is a declining form is the reverse of Hilferding but it is not a rejection of his starting point of perceiving it as abstract capital. Rather it requires a different explication of both the terms abstract and capital.

A New Theory of Finance Capital

Capital cannot be identified simply with money, since the whole nature of capital is that it is capable of extracting surplus value from labour. Thus capital necessarily requires the concrete form of labour, through the production process. Money in itself, or exchange value which has become independent, will necessarily attempt to increase itself in quantity. Money which makes more money, usury or M-M, is indeed money capital, but in so far as it increases itself through trade it can only have the ultimate meaning of greed or simple consumption. The whole point of exchange value independent of use-value is its abstract character and therefore its easy deployment across spheres, industries and countries. That is the nature of money itself, but for Marx money-as-money can only exist effectively when it is in world form for otherwise it cannot be exchanged for all goods. But it cannot be in world form without assuming the self-reproduction of exchange, which can only occur under conditions of accumulation, or the extraction of surplus value. Thus money can only exist as money if the conditions for money to become capital exist. Yet the two drives are contradictory. On the one hand money is the universal equivalent and therefore wholly abstract with a tendency to expand in abstract form. On the other hand capital must dive back into a concrete form simply to obtain surplus value. Thus capital as money and capital as the form of the use-value of labour-power are in contradiction. Historically, the contradiction has been solved first through forms of extraction of surplus value which involved a rapid turnover, like mining, use of unfree or semi-free labour in primitive accumulation and later through the extraction of surplus value in increasing quantity through the acquisition of relative surplus value.

In other words the drive to self-expansion of the abstract form of capital, money as money, could be harnessed to a concrete form of labour as long as the concrete capital, the fixed capital required was limited. Once it grew above a certain level a contradiction necessarily established itself between the requirements of capital that it be fluid in order to take advantage of every profitable opportunity and the necessity to extract the surplus value through a concrete production process. Every attempt that capital made to free itself of this contradiction through increasing its rate of profit, by raising its relative surplus value only brought it back to the same contradiction of increasing fixed capital to increase its profit, while immobilising itself and so decreasing its profit.

The contradictions of money capital are legion. In its long existence over many epochs, it can only exist through the destruction of the modes of production over which it obtains dominance, as long as they are not commoditised. But if money capital destroys its host, it destroys itself. On the other hand, once labour power becomes a commodity and the labour process is harnessed to the making of money, money capital expands the mode of production to the point, however, where it is subordinated to capital as a totality. Money capital and mercantile capital then become moments in the unity of the production and circulation process of capital. This must mean that they are subordinated to industrial capital, which is the only form of capital capable of bringing into being the means for the objectification of labour, abstract labour. Money capital appears as a moment in the existence of capital but also as its form. Herein lies the contradiction. As money, capital tries to have a rapid turnover and the maximum immediate profit, but it is subordinated to the total need for capital to go through the process of production and so a reduced turnover and lower rate of profit.[6] The huge rates of interest of early capitalism are replaced by huge masses of profit, based on ever greater masses of fixed capital.

Marx & The Contradictory Nature of Capital

Marx was quite clear on this contradiction. "Fixed capital appears as the most adequate form of capital as such". By using the term 'as such' Marx makes clear that he is referring to "capital's relations to itself".[7] The problem, however, is that fixed capital is attached to a specific use-value whereas capital as value cannot be attached to any specific form of use-value. This general form of capital "as regards capital's external relations ... is circulating capital, which appears as the adequate form of capital, and not fixed capital".[8] Thus we have a contradiction between fixed capital and circulating capital. At first sight it might be asked why capital does not simply transfer in its entirety to its circulating form and so ensure the easy convertibility of its use-value form into exchange value. The answer is that it can no more do so than the intellectual could convert entirely to a senseless brain. The reason is that "The increase of the productive force of labour and the greatest possible negation of necessary labour is the necessary tendency of labour . . . The transformation of the means of labour into machinery, is the realisation of this tendency".[9] "The productive force of society is measured in fixed capital".[10] In other words in so far as capital is performing its necessary tendency to expand itself it will expand the productive forces of the society through the expansion of fixed capital. Its aim is the production of relative surplus value, which is achieved by improving the fixed capital of the firm. Thus the source of its expansion, dynamism and mature existence lies with the reduction of circulating capital in relation to fixed capital. The more it does so however, the more confined it is to a particular capital and so to a particular firm and location, thereby contradicting its immanent drive to universality. The higher the consequent organic composition of capital, the greater the socialisation of labour, and the lower the rate of profit, both because of the strength of labour and the progressive devalorisation of capital. In other words the more successful is the rise in productivity, the lower the value of products including fixed capital itself, to the point where ultimately both extra value and value itself cease to have meaning. Before the ultimate result is attained the tendency manifests itself as it did in the last century. A capital's having to exist in a specific location permits and compels the worker to exercise pressure, while the capitalist cannot take advantage of higher rates of profit in other locations. Logically, he ought to transfer to circulating capital and further down the line to circulation itself. Thus he invests in the extractive industries in the colonies, in construction type industries such as the railways all of which imply large circulating capitals.

He invests in other countries where the limits of fixed capital have not been reached such as Germany, USA etc. Here he is aided by the rise of accumulations of money essential to pay for the amortisation of the fixed capital. In this way the contradiction between circulating capital and fixed capital is temporarily resolved. He does not replace his fixed capital but rather invests in the manner described, with the highest profits going to the areas with the largest circulating capitals. He is further aided by the fact that the high organic composition of capital ensures the decline of competition and hence a decline in the tendency to invest in fixed capital. It is not eliminated but only reduced in its intensity, and this permits the transfer of the funds and capital from fixed to circulating capital, from productive capital to unproductive capital, or from capital with its own barriers to capital in a less developed form.

Finance Capital, Imperialism as The Dominant Form of Capital

We may summarise the results of this discussion as follows. In a mature form of capitalism, the contradiction between money as a moment of capital and capital itself, between capital as circulating capital and fixed capital, between abstract capital and capital attached to a use-value is subordinated to the drive for relative surplus value and so the development of the productive forces. Only in times of crisis would the contradiction show itself in open form. Otherwise, the contradiction would not be such as to threaten the system. For the contradiction to become deadly a new aspect had to enter. That was the simultaneous rise of two new aspects. The growth of fixed capital could only lead to the growth of huge concentrations of production, which themselves had particular consequences. The first was that the need to invest internally was considerably weakened in the absence of the lower levels of concentration, i.e. competition. The second was that huge sums of money came to be accumulated by those self-same firms with the large fixed capitals. Not requiring the same degree of re-investment the sums accumulated, essentially for amortisation of those original investments, could serve the purpose of overcoming the inherent contradiction of capital by investment in areas where the return was quick and relatively high. To achieve this alchemist's dream the investment had to be made in areas of low fixed capital in the first instance, as in extractive industries such as gold and diamond mining. The construction industries and the railways are similar. This was of course the original nature of the export of capital from Britain to the colonies or third world.

The investments in plantations were of a similar nature, as were the even more ruthless forms of exploitation shown in Leopold's Congo. The contradiction of these forms of investment is that they are based on earlier forms of capitalism and hence must rely on force direct and unvarnished for their continuance. To the extent that the development of fixed capital does develop the productive forces and establish the abstract labourer, it also controls the labourer. The colonial form, however, which is its necessary antithesis, cannot do so. The costs of the state must then be borne by the metropolitan country and so once again limit fixed capital formation, whether through taxation or inflation. This is not to argue that there is no development of colonies or that there is no benefit to metropolitan industry, but only to point out that there is a general contradiction in the development of the form of finance capital. It necessarily tends towards the form of abstract capital and hence the underdevelopment of fixed capital. This in turn tends to choke off its sources of accumulation, so that it is forced to retreat at strategic periods.

Nationalist Labour, Internationalist Capital

Finance capital does not, however, invest only in circulating capital or only in trade etc. Historically Britain invested extensively in such countries as Sweden, Germany and the United States, assisting their process of industrialisation. Here the sums of money which would otherwise have gone to the re-equipping of British industry or the expansion of British capitalism were supplied to its competitors. No better example of the extra-ordinary contradictions of British capitalism could be supplied. Capital as abstract capital is international and so assists in the competitive destruction of its base. When that was directly threatened it had to beat a retreat and use its political-military might to defeat its own creation. The United States is today faced with the same problem in relation to Germany and Japan. The parallel is instructive as the reason for the export of capital which has hitherto been given was limited to only one of the two features mentioned. The first feature which, we argued, caused the shift towards finance capital was the concentration of capital. The second must lie in the growth of the power of labour. The two aspects are clearly closely connected as the growth of fixed capital and concentration of production necessarily involves the increasing socialisation of labour. The growth of the working-class as a class is inevitable. Under these conditions in Britain the capitalist class was forced to concede first in limiting the working day and the exploitation of women and children, and then more directly on the shop floor. With a declining rate of profit, a more demanding working-class, which could only get more demanding, could not be met head on. Apart from political measures of incorporation, the most effective measure was to shift investment into areas of lower organic composition, where labour is naturally less militant. This was done internally as well as externally. However, just as effective is a shift of investment into areas where labour is less organised or at any rate is more controllable even with a high fixed capital component. Ultimately, all labour subjected to the control of capital would combine to oppose capital but the process started first in Britain and hence the flight of capital began first in Britain.

The investment of capital in areas of the world where there are no unions or there is less labour militancy is now taken as a standard tactic of capital, but it has always been such a tactic. The great difference, however, in the Britain of pre-WW2 days was that the shift of investment was not done directly but through financial institutions, in relation to other countries. The consequence was that there was a direct movement of capital in the form of money to European countries from Britain. The effect was that in Britain the separateness of finance capital was reinforced while the reverse occurred in the capital importing countries. Since there was little direct investment, the capital in the importing country could be handled only by financial intermediaries, even if the ultimate destination was the purchase of shares. This gave considerable power to the banks in countries developing in opposition to British competition. It also gave enormous power to British financial institutions, which could use sterling as the international currency next to gold. Britain did not develop its multinational companies but rather its financial holdings and the requisite institutions. A particular form of capital, finance capital, thus came into existence in opposition to a particular form of labour.

The particular form of labour is a local, even parochial, labour relating to its own regional or national fixed capital which has been arbitrarily divided and reduced in stature through the removal of its natural growth in an international and interregional form. Labour becomes nationalist in opposition to internationalist capital, thus reversing the real relation of an international division of labour. It naturally tends to combine with its own local industrial capital against international finance capital and thus finance capital has created a backward working-class, which is thereby the more easily contained and outmanoeuvred. This localism is cemented with the privileges to which Lenin so graphically pointed, made possible through the profits obtained from empire. In Britain it was not just prvileges for the few workers that were made possible by finance capital. In a certain sense finance capital had gone so far in its polarisation of its contradiction with fixed capital that it all but left it to its own particularist devices. This meant a degree of control and concession unprecedented in any country. This then confirmed the economistic and collaborationist tendencies of labour bound within a backward fixed capital. In the countries competing with Britain which received investment the situation was not the same, since their fixed capital was over time increasingly competitive and international in character. Nonetheless the close relation between a protective internal finance capital and the development of industry produced a different form of nationalism. The form of control and ideology were necessarily different. In Britain it was a question of concession on the basis of backwardness, localism etc., whereas elsewhere it took a more directly national form.

The merger of banking and industrial capital in Germany produced a necessarily longer term and national approach to industry itself. In Britain the separation of the two forms of capital necessarily led to a particularistic and economistic labour movement, so that the basis for a change in the social relations through the socialisation of labour was partially negated. Only in times of economic and international crisis, such as war, did the particularist attachment to fixed capital break down. This sounds paradoxical since it is precisely at such times that protectionism and other forms of division of the working class show themselves. However, during wartime industry has to be developed to its maximum with the greatest degree of fluidity of labour. Although at first labour may stand opposed to the labour of other countries and may itself be disunited domestically, that tends to change in the course of the war, as it did the first World War. The unity of the class grows with its industrial power, and the potential for planning becomes manifest. The senselessness of a war of conquest, when co-operation is the natural alternative can only grow even more apparent. During times of crisis, the divisions must increase at first but the very mass unemployment which causes the increase of that division becomes the basis of an increased mobility and fluidity of labour so prized by the employers of labour. It thereby destroys the very mechanisms which attaches the worker to his factory, his fixed capital or rather that of his employer. At the same time the solution to his restored sense of insecurity or as Marx put it, his absolute poverty, lies in a political change within the society. Then the regime must itself find another political solution, usually this has been war. If it is short and sharp it can achieve the object, but only in the form of a delaying mechanism. Of course this does not explain the course of British history but simply points to certain of its peculiarities which arose from the particular nature of its capital.

Contradictions of Finance Capital

If this were all that there was to the question it might seem, the last paragraph notwithstanding, that finance capital was the solution to all capitalism's ills. It has, however, three fundamental contradictions. Firstly, and most obviously, the more it develops as a separate entity the less developed must be its fixed capital and hence ultimately its own source of growth. This is why Lenin ultimately was able to see it as a form of decay. Secondly, a separately developed finance capital must necessarily be in the form of the investing country and the more dependent countries. The conflict between the different investing countries themselves only really developed with the decline of the major financial power, Britain. In other words, historically there has tended to be a dominant financial power, with lesser competitors. This again is no accident. Historically, one country, Britain, developed to the point where it established a world financial system in which it was dominant. Apart from the fact that it was first, Britain established a world financial system because the very nature of capital is that it can only exist in a world form, and since Britain was the world capitalist power it established the form. Concretely, Britain established the financial markets, the international forms of government and private lending and provided the state apparatus for their protection. France was the only other major financial power and it concentrated its investments to an extra-ordinary degree in Russia. Its relative industrial backwardness never gave it the resources to compete with Britain and it was knocked out with its total loss of investments in Russia. Thus international money came to mean sterling. Thus British capital has been international capital and other capitals have been much more local or national. In the process British capital partially lost its national character, permitting it to transfer out of its home base, if it required to do so. Its internationalism, which is at base the attempt by capital to be universal, is contradicted by its particularist base. It can transfer from a particular point but it always remains based on particular fixed capital in a particular location. When the development of that particular fixed capital is retarded at the expense of the development of finance capital the limitations of its internationalism become apparent. The larger the original accumulation the longer can the international form maintain itself. The costs of the form, however, both of direct maintenance, as in the apparatus of force and control in general, and in diminishing the original base, must ultimately overtake it. Its competitors then come into their own. Britain has been succeeded by the United States, which has in turn lost its dominance.

Its third contradiction lies in the fact that the international form can only be an imperial form and hence it must come into conflict both with its colonial or neo-colonial labour and with its other dependent or semi-dependent clients. In this manner it must ultimately lose much of its original investments either through nationalisation or compensatory acquisition. Since its character as finance capital is as parasitic to its client as it is to its source, it naturally tends towards the massive extraction of surplus value from these countries and hence to their ultimate bankruptcy. If finance capital were not finance capital it would re-invest only internally and so assist a rapid industrialisation at low cost. Instead, it ruins both itself and the underdeveloped country through the attempt to gouge out maximum profits until it is too late to save the original investment.

It is clear that all three forms of its necessary decline go back to its contradiction of expanding itself beyond its retarded source: the extraction of surplus value from labour in the production process. In its necessary decline, it has no alternative but to turn on its source and attempt to raise its productivity and so destroy its compromise with labour. In the historical context this has become immensely complicated with the rise of industrial capital in the context of the welfare state. However, the essential point has been that the historical advantage of finance capital in Britain has ensured the predominance of capital, although it may be said that the form itself is exhausted today.

The Historical Forms of Finance Capital

At this point it is useful to turn to the history of finance capital in Britain. It will be shown that the evolution of finance capital in Britain is the archetypal form and not that of Germany as Hilferding argued. It will be argued that banking and industrial capital were merged in all countries initially but, when the evolution of industry reached the point of being self-financing, the separation of the two forms became possible. Whether potentiality became reality depended on concrete history. Once the separation became real the issue becomes one of dominance. This can take two forms: that the nature of the whole reproduction of capital is subordinated to finance capital, or direct rather than indirect control is exercised by finance capital. The first form is that of Britain, whereas the United States appears to be a mixture of the two.

Three forms of relations between finance and industrial capital have come into existence. The first is that of the continued merger as in Japan and Germany. It is to be noted that it is precisely Germany which was defeated twice in its imperial ambitions in two world wars, while Japan which was considerably more backward before the first and second world wars was also defeated in its imperial ambitions. The problem was not that they lost their overseas investments, but that their indigenous industries had to be re-built in order to compete once again in the world market, and they both had to extend welfare provisions to include a commitment to full employment and industrial growth. It is also true, as we have argued, that history has shown that there can really be only one national capital which becomes a world capital so that the frustration of imperial ambitions has forced finance capital in their case to remain internal. Even so present day figures show considerable outflows from these countries, indicating a certain change in relations which if continued might go in the direction we have regarded as natural, that of an independent finance capital separated from industrial capital. The commitment to industrial growth has meant that internationally the flows of investment have been to a much greater degree than before the last World War direct investment rather than investment in shares or loans. Thus the separation is limited internationally but not removed.

The second is the obverse: that of an independent finance capital, as in the case of Britain. In its case, it was the dominant industrial power whose imperial form permitted it to act for a time as international capital itself and it won the necessary wars to maintain its dominance. Industrial capital was stunted in relation to other countries such as the USA or Germany. Its enormous returns from overseas investments as the well quoted figure of 10% of GNP in 1914 demostrates, allowed its finance capital to be both independent and dominant. French finance capital which was similar before the first world war had a much weaker industrial base and was effectively eliminated as a finance capitalist power both by the expropriation of a large proportion of its assets in Russia and by its enormous losses in that war. The nationalisation which is now the fate of finance capital in that country is a natural consequence of the defeat which we sketched above. Its source of surplus value had been so retarded through internal and external losses and defeats that only the use of a strongly centralised bureaucracy could revive it.

The third case is that of the present day international financial power, that of the USA. There it is clear that around the 1930s its industrial companies became self-financing. The six powerful groups of finance capital identified by the TNEC and Sweezy have given way to a much more amorphous form, which the debates in the USA have struggled to adapt to Lenin and Hilferding. It is quite obvious that General Motors and AT&T are so large that the banks or other forms of finance in the USA are dependent on their custom rather than the other way around. Nor is it accidental that the state had to step in to assist Chrysler and not the banks alone. The tendency to conglomeration has shown its limitations and the reverse is now occurring. Furthermore a glance at *Fortune's* 50 largest mergers shows the tendency in practically all cases towards a merger of similar interests in 1981.

The essential questions are the degree of control exercised and the source of the surplus value and in these respects the tendency is towards separation. Where the firm is dependent on the bank for the source of its funds for reinvestment and the bank then makes a long term commitment, they are clearly merged with dependence on the bank. In the USA this was true until the thirties and there clearly exists this kind of dependence for small and medium sized firms. Unless however, the banks actually take equity in the firms the dependence is still more limited than the kind described by Hilferding and still existing in Germany for instance. Where, however, the banks might invest in government bonds, lend overseas and lend to a variety of institutions on a basically short term basis, they are then independent of any industry and industry in general. Of course, in the end, the source of surplus value goes back to the production process but its extraction can be very indirect, operating, as indicated, through the government, on overseas interests and on different sectors of industry, with the result that the financial interests develop a firmer short-term interest towards industry. In turn, industry itself can obtain the bulk of its long-term funds from internal sources. In such a case, although ownership of the banks and the industry or firm might be the same they operate independently. In fact, in so far as finance capital can obtain higher rates of profit the tendency will be to transfer funds from the industry. To the degree that competition is limited this tendency will be accelerated. In this case, the two aspects of capital operate independently but the surplus value is transferred to finance capital and in this different sense it is dominant.

In a third case, where the firms are both large and within the world market, subject to considerable competition, they will tend to be self-financing, generating huge sums of money with the banks acting only as facilitating mechanisms. On the other hand, at certain crucial junctures as during a crisis, or when expansion is critical, stock-market flotations become important and hence the price of shares plays a crucial role. The price of the shares depends in the end on the long term profitability of the firm, in the opinion of finance capital. Thus investment in internally uncompetitive industries such as steel is frowned on, as opposed to so-called high technology, the retail sector etc. A climate of investment opinion is established.

The existence of very large institutions like pension funds and insurance companies facilitates the relative independence of finance capital in that its source of funds is ultimately wages rather than surplus value, although control remains vested in fact with particular financial forms and institutions, like the banks themselves. Nonetheless, the interest of pension funds lies with maximizing short-term return in order to pay larger pensions not with long-term risky investment. The effect is to dilute control over companies in which they might have important share-holdings. This is both because the pension funds are nominally owned by the prospective pensioners and because its requirements conflict with the interests of industry.

It may be objected that the holding company negates much of what has been just argued.[12] Thus it can be said that the holding companies of Rockefeller Brothers or Du Pont are just agglomerations of money capital shifting around where they can, to obtain the maximum return. In fact, this is obviously not true and fails to account for the tendency to de-conglomeration. A holding company which basically controls a large part of an industry is simply a more flexible method of owning a company. The holding company is actually faced with a choice. It can either buy and sell shares, lend money directly, invest in fixed securities – like any financial institution – or it can invest on a long term basis in a firm or series of firms. In the first case it is no different from the forms of finance capital described while in the second it would only be different from actually owning a particular company if it was a conglomerate. The problem with being a conglomerate, however, as the financial press points out ad nauseam, is that either the parts function independently or the holding company has to have extra-ordinary managing ability. Since, as we have pointed out, the tendency of capital is to try to overcome its problems with fixed capital by shifting its investments into a more circulatory form the natural tendency of any holding company is to sell its less successful sectors. It will then tend either to hold to the area where it is successful or effectively become investment managers, buying and selling shares etc. In fact, many holding companies tend to be a mixture of both solutions.

We may return to the British case by pointing to the differences with the USA. Although concentration of capital is not low in the USA it is considerably higher in the UK both in industry and in financial institutions and hence the separation appears in a starker form. The smaller size means that the more limited market does not make for small and medium sized companies dependent on banks. While they exist they play an almost insignificant role in the economy, so that their dependence on banks is of secondary importance. The second major difference is that the role of the pension funds and insurance companies, together with the relatively smaller stock market has meant that the control over shares is much more concentrated. In Britain nationalisation of the major merchant banks and two or three of the top insurance companies would put effective control over quoted companies in the hands of the state.

Britain

The independence of finance capital from its source is always relative, because of its ultimate dependence. It is this contradiction which renders finance capital contradictory not just between form and content but in its form itself. It is unstable because it must render itself independent of industrial capital but it has to return to its origins with potentially disastrous consequences as we have argued above. We can today trace its origins and notice that it is not cyclical but evolutionary. It is subject to the cycles and waves of capitalist development but it has its own evolution. Historically, British industrial development appeared different in relation to its forms of finance because it evolved slowly. It has, however, been pointed out that although large banks do not appear as financiers of the industrial revolution the smaller county banks were closely connected with the development of industry. Then too in the earlier period when crises occurred frequently lending short was converted by default into lending long, particularly when the banks were relatively small. Thus Peter Mathias: "Banks, and the partnerships of banks, throughout the country showed a very intimate connection with wealth made in trade and industry. Rich industrialists not uncommonly became partners in banks . . . Where a merchant or an industrialist or mineowner was a partner in a bank he felt he had special claims for accommodation."[13] He argues that the bankers might finance industry with their private funds, or give long term credit by propping up the merchant creditor. In any case, he points out in another connection, in relation to the formation of large capitals a legal division existed in the partnership between those supplying capital and those managing. While the commercial banks evolved as conservative financial institutions their early history was re-written to conform to their stated intentions and most particularly to their later form. On reflection it is clear that the evolution of early industrial capital had to be one in which the merchant and money capital which had evolved merged itself with aspiring industrialists, who would necessarily be undercapitalised.

Thus the view that Britain was some freak which would ultimately conform to the evolution of Germany, as Hilferding saw it, has to be revised. Germany on the contrary travelled the same road as Britain with the important difference that it would be more dependent on the banks because of its later development not in its need for money but in the institutional form. The difference was thus more apparent than real. There was another crucial difference: that the world monopoly possessed by Britain allowed a lower level of competition, in terms of finance required than the later Germany. Thus Mathias: "Very often, too, profits in excess of the requirements of investment in expansion would be invested in government securities, transport stock or other non-industrial assets."[14] This, of course, argues that there was no period of non-monopolistic competition. It would actually appear as if the German cartels had more need to invest in order to compete than the early British industrialists. It would also seem that a separate finance capital began quite early in Britain. However, as we pointed out above there was in fact a close connection between finance and industry in this period. Perhaps the example of the breweries is most picturesque for they "became associated with banks in over fifty cases".[15] Marx long ago pointed out the importance of investment in government stock. Nonetheless there is a difference between a tendency which is becoming a reality and the establishment of that reality.

What lay behind the evolution in Britain was the growth of the self-financing aspect of capital at the same time as three other tendencies. Firstly, although Britain did not develop the giant monopolies of Germany it did have an increasing size of capital, both through concentration and centralisation. The size of the fixed capital would have to rise over time. This is only a statement of the rise in organic composition of capital, about which Marx was exercised as an evident British reality. Its rise meant an equivalent rise in money capital requiring to be saved over time. In the second place the rise in organic composition as Marx argued and Ricardo had earlier argued on different grounds led to a decline in the rate of profit. This, however, would not have been enough to either lead to a decline in the rate of profit or a movement of capital from industry. It was the third which was crucial. The rise of the working-class movement made it difficult to pass on declining profits to the workers. There is no need to argue this case since it is well documented both in its rise and in the decline of the modes of control over labour power earlier exercised. It should be noted that the three aspects mentioned are necessary forms arising in logical order. The rise of the working-class movement re-inforced the tendency to replace labour with capital and so caused increased concentration and centralisation of that capital but a declining rate of profit which in turn required further attacks on the working-class. The struggle over machinery and working-conditions has its limits when an alternative increasingly presents itself.

The freeing of funds has two aspects. On the one hand, it seeks more profitable outlets in productive labour outside its home but on the other it simply re-groups and extracts the same rate of surplus value by other methods. Thus the extraction of surplus value through rent of property, interest, insurance, and taxes paid over to the capitalist class through their ownership of government bonds are just some of the forms in which the worker found himself at a disadvantage. He could only re-coup his position relative to capital through acting on a national scale and hence politically, before he was sufficiently political.

Finally, we may summarise the argument as follows: Britain was the first country to evolve Finance capital as such. Money capital and industrial capital were originally merged in Britain but the demerger created the new form of capital, which then partially transferred itself not just to the colonies but also to what became its competitors. The latter, however, could not exist as competitors as opposed to subordinates except through very close connections between banking and industrial capital, not to speak of the importance of the government. Whereas in Britain finance capital was able to achieve its aims through indirect means of control, the latter countries had to do it directly. Concretely this means that in the case of Britain finance capital could obtain its share of surplus value through the forms of interest, rent, insurance, management fees etc. with overseas investment all existing in separate institutional forms from industrial capital. Nonetheless, this meant that the flow of investment went through finance capital. The latter was not self-sustaining but industrial capital tended not only to pay a considerable proportion of surplus value in the above ways but also in the form of dividends and the direction of funds to investment trusts. The result was that finance capital came to control the potential for growth and the renewal of the existing capital stock. As long as it was simply a question of slow growth or no growth, industrial capital could remain as it did operating along its own lines, fundamentally supplying finance capital with its source of funds. Once that changed, although individual firms might be able to raise their level of re-investment, the system required both much higher levels of investment than could be sustained by individual firms and also a more evenly higher level of investment to allow inputs, spare parts, machine tools to be of the quality required rather than at what might be a lower level. This flow was then regulated by finance capital to the point of possibly not permitting much of a supply of funds at all. This again meant that the separation of the two forms of capital was re-inforced.

In short the characteristic of finance capital is that it is capital which attempts to raise its own rate of profit above an otherwise existing typical rate of profit by either using forms of unproductive capital or less developed capitals with lower organic compositions and higher rates of surplus value, which may or may not be in the same country. In its crudest form it amounts to an outflanking operation in relation to the working-class. It tends to evolve to separation but this process has been historically aborted and three forms have evolved, as in the examples discussed of Britain, Japan, Germany and the USA.

We may conclude this second part by restating the nature of finance capital as an abstract capital which has shifted away from its concrete form as fixed capital to one in which it becomes the form only of realisation in the process of circulation. In so far as it does, so it is parasitic since capital can only exist as a unity of its two aspects and any attempt to emphasize the one over the other only leads to a seizure. In this case, the sucking dry of the fixed capital leads to the decline of capital itself, but not before the forms by which it does so have exhausted themselves. In the next part, I shall go into the concrete forms of finance capital and their nature. In the final part, I shall consider the consequences for labour. The essential point is that Britain had a particular social structure predicated on its head start in the industrial revolution, which outlasted its industrial decline. Thus it had a particular form of capital and a particular form of labour.

1. Sam Aaronowitch, Ron Smith, Jean Gardiner, Roger Moore, *The Political Economy of British Capitalism. A Marxist Analysis*, McGraw Hill, 1981. A distinction is made between finance capital which they say is Lenin's concept of merger and financial capital which is "concerned with the growth of credit by which money can be used as capital", p.61. Thus they have produced a semantic difference to hide a real divergence of industrial and finance capital. The need to claim orthodoxy or continuity with one's past is no doubt strong among those who canonize Lenin, along with Stalin. The distinction between the two terms (p.29) is no doubt essential to recognise because of the obvious divergence of the two forms of capital, which can no longer be ignored. As a result they produce an empirical work with a low theoretical level.
2. Jerry Coakley, 'Finance, Capital: A Study of the Latest Phase of Capitalist Development,' *Capital and Class 17*, p. 134ff.
3. Lenin, *Imperialism the Highest Stage of Capitalism*. 'It is characteristic of capitalism in general that the ownership of capital is separated from the application of capital to production, that money capital is separated from industrial or productive capital, and that the rentier, who lives entirely on income obtained from money capital, is separated from the entrepreneur and from all who are directly concerned in management of capital. Imperialism or the domination of finance capital is the highest stage of capitalism in which this separation reaches vast proportions.' p. 132 of the Varga and Mendelsohn edition, *New Data for Lenin's "Imperialism"*, or p. 118 of Vol 19 of the Third Russian edition of Lenin's Works: 'Either finance capital is separate or it is merged with monopoly industrial capital.' Yet Lenin does not resolve the problem. 'The "personal union" between the banks and industry is completed by the "personal union" between both and the "state".' p.102. "The result is twofold: on the one hand the merging to an ever greater extent, or as N. Bukharin aptly calls it, the coalescence of banking and industrial capital; and on the other hand, a transformation of the banks into institutions of a truly "universal character".' (p.104) He then goes on to give instances of merger. Lenin appears torn between two conceptions: one which is derived from the logic of capital and the other an empirical description of Germany. Varga and Mendelsohn vulgarise the whole thing by ignoring the question of separation and providing detailed examples of the merger.
4. Hilferding, *Finance Capital*, RKP, London 1981. The crucial theoretical chapter is translated also in Bottomore and Goode, *Austro-Marxism* pp. 204-8. I have used the Russian translation by Stepanov, Moscow 1931. The Chapter involved is that on the Capitalist Monopolies and the Banks.
5. The kind of muddle which theorists have got into is well illustrated by the Soviet view or rather one Soviet view. They argue that finance capital is simply the merger of banking and monopoly capital. Which of the two is more important is an empirical question. 'In actuality finance capital denotes the merger of banking and industrial monopolies'. After slating Hilferding in the usual ritual way for being an idealist, the authors declare, 'Behind every bank, however big it might be, however independent in its actions it appears, there stands a finance-oligarchic group, in whose hands the bank is one of the tools of monopoly control.' Readers may be forgiven for concluding that the industrial monopoly is what is important and the banks a secondary phenomenon. Quotations are taken from M. Dragilev and G. Rudenko, *Monopolisticheskii Kapital*, Sotsekrig, Moscow 1961, pp. 96-7. On this view Britain was not part of finance capitalism. Hence Sam Aaronowitch's strenuous attempts to show the Soviet view correct in his books *The Ruling Class* and *Monopoly Capital*. In his later incarnation he has dropped this nonsense. The reason for the Soviet problem is revealed on the same page when it is pointed out that nationalisation of the banks does not necessarily change the system. Thus the French nationalisations of the banks changes little according to them. Obviously if you have a system in the USSR where nationalisation is its chief feature, it cannot be identified with such as France. As a result, finance capital can exist according to Soviet theorists even if all finance is nationalised because the only thing that is important is the existence of monopoly industrial capital, with holding companies. Logically, they ought to simply adopt Sweezy's terminology of monopoly capital, but they cannot without criticising Lenin, or admitting that capitalism has developed new forms.
6. Marx, *Grundrisse*, pp. 620-3 goes into some detail on this issue.
7. *Ibid.*, p. 694.
8. *Ibid.*
9. *Op. cit.*, p. 964
10. *Op. cit.*, p. 695.
11. *Fortune*, January 24, 1983.
12. The debate around Sweezy, *MR*, November 1971, Fitch and Oppenheim, *Socialist Revolution*, Vol I, nos. 4, 5, 6, takes place on different grounds. Sweezy curiously argues that there could not be two factions of capital, while his adversaries argue that corporations are controlled by finance capital. Sweezy appears not to know of Marx's statement: 'As a particular form, interest bearing capital stands opposite, not labour, but rather opposite

profit-bearing capital.' *Grundrisse* p. 653. Earlier he speaks of 'monied capitalists and industrial capitalists can form two particular classes only because profit is capable of separating off into two branches of revenue.' The real problem is that there is a real separation existing in Britain and a tendency towards that fact elsewhere, rather than a simple merger. But that separation is in fact predicated on a common source and consequently it is limited.
13. Peter Mathias, *The Transformation of England*, Methuen, London 1979, p. 106.
14. *Op. cit.*, p. 105.
15. *Op. cit.*, p. 106.