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TOWARD A CLASS ANALYSIS OF THE RELATIONSHIP BETWEEN CORPORATIONS AND BANKS

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INTRODUCTION

The issues raised in this paper concern relationships between modern capitalist corporations and financial institutions, and indeed, the nature of contemporary capitalism itself. The subject of finance capital has been debated vigorously since the early part of this century on account of its clear theoretical and political import. At stake are the definition and practical implications of the behavior, power and class configurations among some of the paramount institutions in capitalist society.

Since Hilferding coined the term "finance capital" and Lenin analyzed the "coalescence" of industrial and financial capital in Imperialism (1917), the literature in this field has moved to a different terrain. The purpose of this paper is to examine this shift and to assay the current state of the controversy. The publication by the Institutionalists Berle and Means of The Modern Corporation and Private Property (1932) has influenced the subsequent direction of scholarship among American social scientists. In recent decades, discussion among Marxists has focused on one particular aspect of the corporate-bank nexus: control.

Do banks control corporations? Are corporations controlled by their management? Does ownership determine control of corporations? Some, such as Fitch and Oppenheimer, argue that bank domination is a theoretically inevitable and historically irrefutable fact. Others, including Baran and Sweezy, have taken the contrary position with as much conviction, viz, that corporations are management controlled and finance is an important but secondary matter.

Throughout this literature, there is an underlying tension concerning the articulation of class processes with social institutions. I suggest in this paper that the apparently innocuous shift in emphasis from forms of capital to sites in society results in movement away from Marxist class analysis. In particular, I argue that this change is the consequence of two major factors: the misinterpretation of Lenin and the penetration of Institutionalism into Marxism.

Both sides draw on Lenin to substantiate their cases. This creates a logical contradiction. I show that both schools of thought choose a particular aspect of Lenin's analysis to structure their arguments. The financial control theorists essentialize his position while the management control theorists essentialize his position on monopoly. There are three propositions concerning the impact of the Institutionalist framework. First, institutions are the unit of analysis, giving priority to sites over the class process. Second, social groupings and interests are defined in relation to property relations based on ownership patterns. Third, relations of power are the entry into analysis, making control the relational concept of the discourse.

I contend that this debate perpetuates reductionist views of banks and corporations and their interactions. In addition, it reveals conflicting conceptions of class analysis and divergent definitions of the capitalist class. Ultimately, these are fundamentally important issues for Marxists to resolve.

The first section of the paper examines the major source of the contemporary literature. Primarily, it looks at the Marxist approach to finance capital taken by Lenin, and secondarily, the Institutionalist approach to "modern" corporations used by Berle and Means, which is relevant to the extent that it has influenced later generations of Marxists.
The second section defines the contending positions in the debate, analyzing and criticizing both perspectives. In grouping the sides, I take the liberty of overlooking minor differences within them in light of their basic agreement concerning method of analysis and conclusions. The third section provides a framework for specifying how class processes are manifest through social institutions. This stresses the class analytic nature of Marxism, and the application of value theory to social analysis. The final section, utilizing the main arguments of the preceding parts, offers an alternative conceptualization of the relationship between banks and corporations and a redefinition of the issue of control.

I. FINANCE CAPITAL AND MODERN CORPORATIONS

In this section, I review the dual origins of the contemporary debate: the Marxist literature on finance capital and Institutionalist writing on corporations. The purpose is to show how the Institutionalist framework established parameters in a debate that emerged in the Marxist framework. I do this by situating the contending sides of the contoversy in relation to Lenin. Financial and management control are both legitimate but logically contradictory "readings" of _Imperialism_, one focused on the role of banks and the other on the impact of monopoly. The weakness of each is that it essentializes and simplifies a complex relationship. Then I explain the way in which Institutionalism has influenced Marxist analysis.

Even though contemporary Marxists acknowledge their debt to Lenin and claim consistency with his work, the presence of important elements of the Institutionalist edifice in the current literature on the subject belie these contentions. I intend to demonstrate that the movement away from the terms framed by Lenin and Hilferding represents more than a dissenting viewpoint. The work of Berle and Means is a _prima facie_ rejection of Marxist approach to corporations and banks. Indeed, their analysis is based on a theoretical framework that does not recognize the validity of the basic concepts of Marxism or the cogency of the Marxist class analysis of capitalism.

Hilferding's _Das Finanzkapital_, published in 1910, is an attempt to grasp the contours of early twentieth century European capitalism.

From a Marxist perspective, he sought to elucidate the theoretical basis and political consequences of the close relationship between a few large banks and the largest concentrations of industrial capital. Finance capital, as he calls it, evolves when,

> to an increasing degree the bank is being transformed into an industrial capitalist. This bank capital, i.e., capital in money form which is thus really transformed into industrial capital, I call "finance capital."... Finance capital is capital controlled by banks and employed by industrialists.[1]

As a consequence of this work, Hilferding has had a lasting influence on the Marxist tradition. Perhaps more than any previous theorist, he directed the attention of Marxists to the relevance of banks, underscoring the importance of financial processes in capitalist economies.

This represents a fundamental change in the understanding of how capitalism "works". For Hilferding, the analysis provided a basis for political optimism and faith in the future of a world steeped in capitalist class relations. The interests of the ruling class in this new phase provide a basis for planning at a level that could resolve the major contradictions of a capitalist system predicated on the antagonisms of competing national bourgeoisies. In his analysis, Hilferding accurately reflects contemporary concern over one of the most pressing problems of the era -- the division of the world, i.e., of world markets, among imperial rivals. Competition over this process set the context for the coming World War.

Lenin wrote Imperialism as an assessment of capitalism as an international system in the wake of World War I. His project is to define the main features of imperialism and link it to capitalism as a mode of class exploitation. Imperialism, in this view, is the expression of the tendencies of capitalism on an international scale, given the existence and interaction of a particular set of conditions. Finance capital, as Lenin defines it, is an essential component of this process.

Lenin links the logic of imperialist development to its basis in the class relations of surplus value production. The accumulation of capital initiates tendencies toward concentration and centralization, generating monopolies in finance and in some branches of industry. Once the centralization of banking reaches certain proportions, finance takes on a qualitatively more important role in hastening the development of international industrial monopolies, in part by providing the massive amounts of money capital necessary for the effective export of capital. Imperialism is constituted by combining the drive of industrial capitalists for super-profits, the ability of the large banks to export capital, and various kinds of state support for overseas ventures.

The connection between the abstract logic of the accumulation process and the concrete nature of modern imperialism is finance capital: "...the concentration of production; the monopoly arising therefrom; the merging or coalescence of banking with industry." [2] Here Lenin situates finance capital as the locus of ruling class forces that largely suffice to define and determine "the highest stage of capitalism." By entering the analysis with the class relations of capitalism, and then depicting the articulation of class and nation (with respect to the role of the state), Lenin avoids what he sees as the mistake of viewing imperialism simply as a foreign policy whose roots are distinct from its origins in a society based on capitalist class relations.

In the pamphlet, Lenin is engaging and criticizing Hilferding, Kautsky, et al. who see imperialism as a policy of nation-states which, if managed correctly, is consistent with the goals of socialism. The error he sought to rectify was the suggestion that governments of capitalist countries would pursue goals ultimately in contradiction to the class interests of the capitalist class. Rather, he ties imperialism to specific conditions emerging from the capitalist class process, namely monopolization in banking and "basic" industries in conjunction with a colonialist foreign policy on the part of the state. As he points out in his introduction, _Imperialism_ has an "economic" focus and a "political" object. From this vantage point, Lenin is countering the congruent outlook underpinning a _de facto_ political alliance between social democrats and the bourgeoisie. He is trying to rescue socialist politics from the social democrats and deter deeper involvement in World War I.

For the purposes of this paper, _Imperialism_ is significant insofar as it is a theory of the relationship between banks and corporations. The class basis of the theory is indicated by the fact that the interaction of banks and corporations is situated in the context of the tendencies of competition stemming from the production of surplus value. Based on the necessity of producing and accumulating surplus value, Lenin constructs an argument linking the emergence of monopolies in industry and banking to the process of concentration and centralization.

Lenin stresses that one of the contradictions of corporate capitalism is the separation of the ownership of capital from its application to production a point observed by Marx in Capital. In the era of finance capital, "this separation reaches vast proportions," because of monopolization and the role of banks." [3] On one hand, banks "intensify and accelerate the process of concentration of capital and the formation of monopolies." [4] On the other, banks may profit from the success or failure of capitalist enterprises. In this conceptualization, Lenin has identified the contradictory nature of the relationship. The distinction between bank capital and industrial capital, even in their "coalescence" is a consequence of their distinct and contradictory functions in the reproduction of capitalism.

The importance of this specification is illustrated by reference to value categories and forms of capital. To the extent that interest payments are the basis of bank income and profit, banks as institutions are dependent on an unproductive form of capital. Lenin does not make this argument, instead emphasizing the common interest of banks and corporations as representing different forms of capital. The role of banks as the providers of access to capital for industrial enterprises makes them the purveyors of a condition of existence. They therefore stand in a contradictory relation to productive enterprises. Were the categories of bank and industrial capital defined with respect to the distinction between productive and unproductive capital and in relations to surplus value production, their shared and opposed interests could be specified and used to explain the mutual dependence of corporations and banks. However, the connection between social class and social institution is not fully developed.

The shortcomings in this work of Lenin's stem in part from the succinct presentation and in part from the lack of a detailed definition of finance capital. In fairness, Imperialism in not -- nor is it intended to be -- a comprehensive tract. Nonetheless, the ambiguity of certain formulations has created the theoretical space for divergent interpretations. The statement that "imperialism is the epoch of finance capital and of monopolies" presents an opening for both positions in the financial vs. corporate control debate as reductionist explanations. From a theoretical standpoint, the resolution of this confusion depends on construing the meaning, in class terms, of "merging or coalescence."

The prolonged and deep world wide depression in the 1930's provided the backdrop for considering once again the economic, social and political power of capitalist corporations. Publication of Berle and Means' The Modern Corporation and Private Property in 1932 advanced to a new level the Institutionalist analysis of corporate capitalism. I am interested in "reading" it primarily to characterize the theoretical framework of this approach so that its influence on a subsequent generation of Marxists (and non-Marxists) may be recognized and understood.

Berle and Means regard their object of analysis, the "modern" corporation, from the perspective of changing property rights and relations. Viewing the corporation as a "collective" form of ownership in which the public participates, they fasten their attention on the relationship of claims of real property vis-a-vis the power to determine its disposition. Property has been one of the central concepts of political and social theory since the seventeenth century. The work of Hobbes and Locke is the basis of the property orientation that underlies much of contemporary social scientific analysis in the U. S. MacPherson has thoroughly documented and examined the links between forms of property, property rights and capitalism in this discourse. [5]

The issue that Berle and Means seek to elaborate concerns their perception of the growing division between corporate ownership and control. They are interested in a variety of related issues ranging from the concentration of economic power and the skewed distribution of wealth and profits, to the inadequacy of the "conventional wisdom" of neo-classical economic theory as a means of grappling with these problems. In the last instance, they provide the framework, and their analysis the rationale, for the thesis that corporations are essentially self-financing and management controlled.

Berle and Means' reliance on juridical (ownership) categories makes property the entry point into their analysis. Capitalism, in this view, is a set of property relations mediated by market interactions. To the extent that Berle and Means may be said to have a theory of class -- they do not use the word -- it is fundamentally circumscribed by property ownership and rights. Their implicit formulation of the class-property articulation is open to criticism as a simplification of a complex relationship. Property relations are without doubt an important aspect of class relations. It is a mistake, however, to reduce the latter to the former.

Berle and Means' central point is summarized succinctly in their introduction.

> The translation of perhaps two-thirds of the industrial wealth of the country from individual ownership to ownership by the large, publicly financed corporations vitally changes the lives of property owners, the lives of workers, and the methods of property tenure. The divorce of ownership from control consequent on that process almost necessarily involves a new form of economic organization of society.
>
> Of this revolution, the corporation has proved a vital (albeit neutral) instrument and vehicle ... It is in great measure emancipated from dependence on individual savings and "capital" markets. [6]

The lack of an explicit characterization of capitalism is indicative of ambivalence toward the subject running through Institutionalist analysis. On one hand, the virtues and superiority of the "free-corporate-enterprise system" [7]-- though it is not without its problems -- are extolled. At the same time, they speak of a revolution taking place in the fundamental property relations of this system. What do they mean by "a revolution" that "involves a new form of economic organization"? Surely what they have in mind is radically different from Lenin's conception of "a higher social-economic order" characterized by the "principal forms of monopoly." [8]

Institutionalists occupy a contradictory position in relation to their object of analysis: the institutions of capitalist society. It is my contention that their analysis embodies ambivalence toward capitalism itself. On one hand, they reject the narrow focus and high degree of abstraction of orthodox economic theory. They want to address the impact of some of the "non-economic" forces in social life. On the other hand, their framework treats institutions as neutral sites of power relations defined by property categories. Institutions are conceived as existing independent of any specific class process. Consequently, capitalism is taken as given, as the natural outcome of social evolution. In addition to having a different point of entry than Marxists, i.e. institutions rather than classes, Institutionalists do not perceive social development in terms of its contradictions.

This helps explain the critical stance of such theorists as Veblen, Commons or Berle and Means, who nevertheless retain many of the assumptions and concepts of the mainstream economists from whom they seek distance. After all is said and done, Institutionalism shares with the neo-Classical worldview the notion that production and distribution are the effects of historically transcendant "human institutions." [9] The Institutionalist dependence on property appeals to a strong tradition in social thought, from before and since Berle and Means. This tendency has been, and continues to be, a trap for Marxists.

II. THE DEBATE: FINANCIAL VS. MANAGEMENT CONTROL OF CORPORATIONS

The corporation, as an object of inquiry among Marxists, reemerged in the 1960's with the publication of Baran and Sweezy's Monopoly Capital, sparking a debate concerning the control of corporations. Both sides justify their respective positions by refering to Lenin. It is shown that the force of their arguments is undermined by their reductionist methodology. At the same time, I contend that the interpenetration of the Institutionalist framework in the context of Marxist analysis imposes serious limits on the form and content of their inquiry.

As Marxists, these authors explicitly reject Institutionalism and attempt to square their concepts of class with the analysis of corporations. They unanimously repudiate the "neutral technocracy" theory of managers advanced by Berle and Means since class interests militate against neutrality. However, they adopt some of the terms of the Institutionalist problematic, emphasizing the connection between ownership and control as determining class interests and the exercise of class rule. Baran, Sweezy, Fitch, Oppenheimer, et al. accept the notion that ownership and control are separated in corporations. They differ primarily with respect to who owns; the degree to which ownership confers control; under what circumstances this occurs; its impact on corporate behavior and ultimately, on the class configuration of U. S. capitalism. In this section, I focus on how the influence of Institutionalism constrains and distorts the Marxist conceptualization of corporations and banks in relation to class processes.

There is general agreement among these authors that property determines class status and class interests. Capitalists own, workers do not. Since property defines class status, the control issue is settled by reference to the locus of ownership. According to Baran and Sweezy,

> the fact is that the managerial stratum is the most active and influential part of the properties class... They constitute in reality the leading echelon of the property-owning class. [10]

Zeitlin distinguishes owners from managers, noting that managers need not be owners but contends that capitalist control is the result of the fact that together they form a "more or less unified social class." [11] Herman claims that

> in the overall system of communities of interest the connections are loose and tentative, and the old "interest group" systems not based on a solid ownership base have eroded over time. [12]

Fitch, Oppenheimer and Kotz emphasize that ownership of stocks and bonds by bank trust departments is the avenue through which financial capital "controls" industrial capital. In what follows, I sketch the arguments of the two sides in the debate, showing that the disagreement ultimately resolves into the different solutions chosen by these authors to reconcile the contradictions created by a theory of class reduced to property and ownership criteria.

The theory of financial control is advanced in its contemporary form primarily in the work of Fitch and Oppenheimer, and Kotz. Fitch and Oppenheimer published a three part series of essays "Who Rules the Corporations?" beginning in 1970. David Kotz' book, Bank Control of Large Corporations in the United States (1978) falls within the same general approach. While there are differences in methodology, these works share a common conclusion: in arguing against the managerial control thesis, they assert that there has been a resurgence of bank control of large corporations in the post-World War II epoch.

Their case is based on a theoretical argument and supported by empirical findings. Fitch and Oppenheimer contend that

> financial control is merely the outcome of the process of capitalist reproduction. On the one hand, the gradual concentration and centralization of capital forces corporations to rely, over time, on the large pools of capital made available by financial institutions. On the other, the ups and downs of the business cycle force the corporation to rely on external capital at critical conjunctures in its development.[13]

Concretely, they situate the basis of financial control in the securities holdings of commercial banks, insurance companies, etc., and lending by some of these same institutions. There relations of control are reinforced by interlocking directorates and other interconnections between financial and nonfinancial companies. This transition from "individual" to "social" capital embodied in corporate capitalist development has resulted in control by financial entities, who profit at the expense of industrial corporations by exercising their control.

Fitch, Oppenheimer and Kotz argue that the tendency toward financial control has been reasserted in recent decades. The period from about 1930 to the Second World War saw a decline in banker power from its ascension beginning in the post-Civil War era. The epoch following World War II has been characterized by

> financial institutions resum(ing) their role as important providers of external finance to non-financial corporations... However, this source of financial institutions' power...now became secondary to another source of power: the control over corporate stock. [14]

Kotz estimates that roughly one-third of the largest two hundred non-financial corporations are financially controlled according to his criteria and data. According to Fitch and Oppenheimer, this is important because

> under finance capital, the rate and mode of corporate growth are no longer determined independently within the corporation. Rates of accumulation, dividend payout ratios, debt policy, relations with other corporations, and purchasing and sales relations differ, depending on who controls the corporation. [15]

Baran and Sweezy distance themselves from the neo-classical and Institutionalist views of the corporation. They critique Kaysen's image of the "soulful corporation," Simon's "satisficing" thesis and Berle and Means' concept of a "neutral technocracy." As Marxists, they ground their analysis in what they see as the class structure of capitalism. Their concept of class is based on property ownership and they repeatedly refer to the "property-owning class." Baran and Sweezy admit that there are "conflicts of interest" among segments of the propertied class, but the reduction of class to property confuses and obscures at least as much as it attempts to reveal.

Baran and Sweezy have been characterized by some as "Marxist managerialists" since the publication of Monopoly Capital (1966). In the book -- an analysis of contemporary U. S. capitalism -- they define corporations as management controlled. Management, comprised by the board of directors and top executives, is a self-perpetuating group which aims at maintaining continuous "inside" control of corporations. Given a "large" corporation's ability to reap monopoly profits, internal generation of funds results in "financial independence."[16] The behavior of these "giant" corporations is the centerpiece of their theory of monopoly capital.

The financial control theorists are concerned that large corporations can no longer determine their behavior "independently" of financial institutions. Baran and Sweezy emphasize that the "financial independence" of large corporations is a defining characteristic of monopoly capital. In both theories, there are logical explanations for these situations: they exhibit the systemic tendencies of capitalism. Yet it is obvious that they both cannot be right. To resolve this dilemma, a clearly specified concept of capitalist finance is required. Then the question of institutional "independence" (or lack thereof) can be disentangled from issues or surplus value production, appropriation and distribution.

Baran and Sweezy have a narrow definition of corporations, reducing them to the essential function of capital accumulation. [17] By assuming profit-maximizing behavior and the ready availability of an internally generated surplus for investment, they rule out _a priori_ the possibility of significance of financial control. In fact, their analysis leaves no room for the complexity derived from the contradiction between productive and unproductive capital. Finance, readers are led to believe, is a secondary and relatively uncomplicated matter. Banks may be important institutions, but they are largely irrelevant to the salient features of modern capitalism. When criticized of ignoring finance, Sweezy asserts that "the very essence of monopoly capital" [18] is consistent with the "coalescence" position of Lenin.

Financial processes and financial institutions receive little attention in _Monopoly Capital_. When criticized for the omission, Baran and Sweezy are forced to spell out their position more explicitly. They respond that they never denied "the existence of either outside directors or corporate borrowing from financial institutions." For them, the issue turns on "whether these activities confer corporate control on banks and bankers." The problem as they see it has a historical and a theoretical dimension. According to Sweezy

> ..._monopoly capital_ rules the corporations, _including not only industrials and utilities but also banks and other profit-making financial institutions_. (Author's emphasis.) [19]

As against the financial control theorists' belief that there are fundamental splits in the capitalist class between the financial and industrial sectors, he asserts that

> ...what is at issue here is not merely struggles among contending groups and factions of the ruling class over the division of surplus value... The capitalists form a unified class which intuitively understands that its primary interest lies in the maximum possible exploitation of the working class. Compared to this, the struggle over the division of the spoils is a secondary concern.[20]

Sweezy's dismissal of distribution as part of the dialectical basis of production is consistent with the role he assigns to finance. It is not consistent with Marx's conception of "the unity of the production and circulation processes...the process of capital's movement considered as a whole."[21]

Baran and Sweezy are joined by Herman and Zeitlin in emphasizing that the control exercised by management, predicated on ownership and proprietary interests, is characteristic of U. S. capitalism. Based on a theory that gives priority to industrial over financial capital, their case is buttressed by the empirical evidence amassed by Herman. Zeitlin occupies a somewhat different position in his refutation of Institutionalist managerial and financial control theory, stressing class theory, the unity of ownership and control in corporations, and the role of managers as functionaries. Like Baran and Sweezy, Zeitlin ignores the role of finance and financial institutions. In his article "Managerial Theory vs. Class Theory of Corporate Capitalism," he maintains

> the large corporation continues to be <u>controlled</u> by ownership interests, despite their <u>management</u> by functionaries who may themselves be propertyless.[22]

Regardless of the class status of managers, Baran and Sweezy assert that

> there is no justification for concluding...that managements in general are divorced from ownership in general. Quite the contrary, managers are among the biggest owners.[23]

This is similar to Zeitlin, who states that owners and managers "taken as a whole, are merely elements of the same...class."[24] Their differences on this issue are of degree, not of kind.

It appears that both sides of this dialogue fail to see the class process in terms of the appropriation <u>and</u> distribution of surplus value. The emphasis on how corporations are affected by the relationship between ownership and control focuses attention on control as a function of property. Were property conceived as one condition of existence among many, the locus of ownership would be distinguished from its role in the class process. Separating these issues facilitates reconceptualization of control as a class issue.

III. INSTITUTIONS AND CLASS PROCESSES

In this section, I present a framework to organize a Marxist analysis of banks and corporations. The major objectives here are to situate corporations and banks in relation to the class processes of capitalism; to show that corporations, like "entrepreneurial" enterprises, are the principal location of fundamental and subsumed class processes; and to demonstrate that the provision of money capital to capitalists is a condition of existence usually, though not always, provided by "financial" intermediaries.

Of the myriad natural and social processes that may be identified, Marxists organize analysis with respect to class processes. Class processes [25] -- the extraction and distribution of surplus labor -- are one aspect of social existence overdetermined by a variety of other processes. These class and non-class processes are considered to be each others' conditions of existence. Class processes are either fundamental or subsumed. The fundamental class process involves two class positions, one defined by the direct performance of necessary and surplus and the other by the extraction of the surplus. The subsumed class process is the distribution of the surplus appropriated by the fundamental extracting class.

Individuals occupying subsumed class positions receive their share of the surplus for securing conditions of existence of the fundamental class process. The non-class processes are conditions of existence of the fundamental class process because the latter would cease to exist as currently constituted in the absence of the former. The purpose of subsumed class payments is to bring about reproduction of the fundamental class process which depends upon, but is distinct from, its conditions of existence.

The two class processes of capitalism are defined as the extraction and distribution of surplus labor in the form of value. The class positions of the capitalist fundamental class process are productive workers (performers) and productive capitalists (extractors). Capitalists appropriate surplus value from the consumption of labor power during the production of commodities. The surplus is distributed among occupants of subsumed class positions associated with, though not limited to, the state, merchanting, finance, landlords, managers and monopolies. It is not possible, however, to infer the class position of an individual from their occupation. Class position (or lack thereof) is determined by the relationship of the individual to the appropriation and distribution of surplus value.

The class processes of capitalism occur in many social situations involving a range of institutions. The argument presented in this work depends on explaining the articulation of class and site, specifically arguing that the fundamental and subsumed class process of capitalism are manifest in corporations. In doing so, it must be borne in mind that other, non-class processes are simultaneously present in, and constitutive of, the ensemble of processes referred to as "the corporation."

Marx develops an understanding of the capitalist fundamental class process, some of its conditions of existence and its relationship to the capitalist enterprise in <u>Capital</u>. By diffentiating the "Volume I world" from the "Volume III world" and discussing the basic features of joint-stock companies, it becomes evident how a theoretical understanding of this relationship is developed.

The "Volume I world" is a level of abstraction at which the value relations of capitalism are reduced to the production relations of "workers" (direct producers) and "capitalists" (extractors). This is achived by vitrue of two simplifications. First, commodities exchange at their embodied socially necessary abstract labor values. Therefore, reaslization is non-contradictory, money has no effectivity of its own, and circulation is a passive process. Each "capitalist" gets the surplus value produced under his/her auspices because each has an average value structure of capital and produces at an average efficiency.

Second, one individual is responsible for all the functions pertaining to the production, extraction and distribution of surplus value - Marx's redoubtable Mr. Moneybags. As a result, a range of the (fundamental and subsumed) class positions of capitalism, generally associated with being an entrepreneur, are embodied in the persona of "the capitalist." This is a device used for the sake of establishing the basic value-theoretic concepts of the capitalist class process. Specifically, it abstracts from the subsumed class process and its corresponding conditions of existence. It is the practices associated with particular conditions of existence that structure the relations between financial and non-financial enterprises.

In Volume III, Marx moves to a more concrete specification of the structure and dynamics of the capitalist class process. The individual capitalist of Volume I is superseded by the "collective" capitalist characteristic of the development corporate capitalist economy. Marx disaggregates different forms of capital and several of its conditions of existence, each associated with different class positions regardless of whether the "function" is performed by the same person or distinct individuals. This capitalist division of labor includes merchant capital, interest bearing capital, landlords and a theory or monopoly prices as entitlement to the surplus value of other capitalists. Interest bearing capital is the form of capital identified with credit and financial processes.

The specification of these class positions and their role is contingent upon the economic theory in Volume III which formulates how prices and profits are related to value and surplus value. Competition among capitals results in the formation of the average rate of profit, the process against which capital mobility, investment, productivity and redistribution via the formation of prices of production are understood. The unity and contradictions of production and circulation are developed to a degree of complexity ruled out <u>by assumption</u> in Volume I. The explanation of production, appropriation and distribution in terms of its social forms is the context defining the classes that structure the capitalist economy of the "Volume III world."

Marx associated the formation of corporations with the development of capitalist finance. Except for occasional obiter dicta, there is little in Capital to constitute a fully developed theoretical analysis of corporate enterprises. There are, however, particular characteristics observed by Marx in Volume III that underscore the interconnections between financial intermediaries and joint-stock companies. Incorporation allows expansion of the scale of production beyond that of a typical unit of capital owned by an individual or partnership, and it increases the potential pace of capital accumulation. The widespread distribution of ownership through selling shares brings some of the fundamental attributes of property rights and relations into a more "social" forms. This is represented by the conceptual distinction between money capitalists and functioning capitalists. The former provides capital to capitalist enterprises while the latter is responsible for the appropriation and distribution of surplus value.

The separation of ownership from the employment of capital, an attribute inherent in the corporate form, generally necessitates the acquisition of capital from external sources. These sources are the subsumed class positions related to the several forms of financial capital associated with credit and securities. The original capitalization of a corporation comes from shareholders who purchase stock. Subsequent capital may be acquired from internal funding, stock or bond issues, or direct loans, calling for the development of mechanisms to place money capital at the disposal of corporations. These processes involve the existence of so-called capital markets and institutions of financial intermediation. The need for access to capital is the basis of the contention that the provision of money capital to functioning capitalists is a condition of existence of the capitalist fundamental class process, the provider of which occupy subsumed class positions.

The relationship between these classes is produced and reproduced in the context of capitalist competition. As capitalist enterprises struggle to secure their conditions of existence, the process of concentration and centralization emerges, resulting in the growth of enterprises and the redistribution of capital. Some capitals survive the rigors of competition stronger, their growth often coming at the expense of others that eventually cease their existence as producers of surplus value.

Access to money capital is an integral element of competition, becoming both an object and instrument of this interaction. Access is an object to the extent that enterprises must acquire money capital in order to constitute themselves and continue to compete. In this capacity, capitals compete as capitals in the financial markets over access to money capital. It is an instrument to the degree that capitals producing the same commodity use their acquired capital to gain advantages over their rivals. This is consistent with the meaning of Marx's observation that

> the credit system...becomes a...terrible weapon in the battle of competition and is finally transformed into an enormous mechanism for the centralization of capitals.[26]

Once access to money capital through direct loans, stocks, bonds, commercial paper, etc. is established as a condition of existence, competition ensures that most non-financial firms will have to acquire capital through some combination of them at some time. These financial practices represent forms of unproductive capital. The relationship between a bank and an industrial corporation, therefore, involves the contradiction that unproductive capital is a condition of existence of productive capital.

Corporations are the site of the transformation of unproductive capital into productive capital. Since corporations represent the predominant form taken by "units" of capital, their subsumed class payments are central to the reproduction of the capitalist fundamental class process. The growth of subsumed, i.e., unproductive, class processes places limits on the ability of corporations to utilize appropriated surplus value and may increase the reliance of corporations on external access to "other people's capital." This approach to the capitalist enterprise does not reduce its function solely to the accumulation of capital, as is implicitly or explicitly the case with most. It changes the sense of how the corporation "fits" into the class processes of capitalism, broadening the conceptualization of the form(s) and content(s) of class struggles. The relationship between industrial (productive) and financial (unproductive) capital, i.e., between the capitalist fundamental extractors and the subsumed class position occupied by finance, is the central focus of the controversy over finance capital and the control of corporations.

IV. THE CLASS PROCESSES OF CAPITALISM AND THE CORPORATE CONTROL

The purpose of this concluding section is to present interpretation of the main issues of the corporate control debate using the class theoretic framework. The sequence for analyzing corporations is to enter with the concepts of the class process and then determine the institutional location of the individuals occupying the subsumed class positions corresponding to its financial conditionas of existence. The analysis of control is thereby situated in the context of the production, appropriation and distribution of surplus value.

This section extends analysis of the relationship between corporations and the class processes of capitalism. The key to the financial vs. managerial control debate is in the relationship between ownership and management as subsumed class positions and control derivative behavioral question. I conclude that understanding corporations and their contraints must be based on a conception of control that is more complex and carefully specified than that provided by the literature.

Based on the preceding characterization of capitalist financial conditions of existence, owning financial instruments and managing capitalist enterprises and their interrelationship must be examined. Owner-managers are an important element of the case for the management control thesis. Owning, as defined by the literature, refers to the purchase of securities, i.e., claims on present or future value, not to the ownership of "real" capital. Since the purchase of stocks and bonds is the mechanism for providing the condition of existence for money capital, owning these financial instruments is entitlement to the subsumed class payment. It is clear that banks, corporations or anyone may choose to "own" and occupy a subsumed class position. Although ownership is widely dispersed, it is heavily concentrated in bank trust departments, insurance companies, industrial corporations, pension funds, etc. -- the so-called institutional investors. Banks are in the unique position of being able, theoretically, to lend as well as own. Thus, they may occupy two subsumed class positions related to finance. However, it is a rare occurence for a bank to own the securities of and lend to the same corporation in the U. S. because of legal restrictions.

Managers of productive enterprises as distinct from capitalists who occupy the fundamental extracting position, receive salaries which are subsumed class payments. [27] Management is responsible for administering and executing decisions concerning the productive, financial, etc. processes that take place under the auspices of a corporation. Managers who also own stock occupy two subsumed class positions. In the literature reviewed, Baran, Sweezy, Fitch, Oppenheimer, and Kotz collapse these two subsumed class positions into one, making it easier to treat managers, providers of money capital-lenders and security owners - and exploiters as "the" capitalist class.

When Lenin wrote about the "coalescence of banking with industry," the close "personal union" he described was comprised of bank ownership of stock and "the appointment of bank directors to the Supervisory Boards (or Boards of Directors) of industrial and commercial enterprises, and *vice versa*."[28] In this relationship, one person occupies the fundamental extracting position, and the subsumed positions of owner and provider of capital. Lenin's concept of finance capital also includes the subsumed class position associated with monopoly. This particular combination -- wherein bankers become capitalist and capitalists bankers -- produces a qualitatively new alignment of class forces and institutional arrangements within the capitalist class process.

Capitalism is qualitatively transformed when these class positions come under the aegis of productive capital, that is, when these positions are occupied by the individual or collective acting as the functioning capitalist. This convergence of class positions results in a more integrated set of relations determining the disposition of productive and unproductive capital. The subtlety of Lenin's formulation, absent from most contemporary analyses, is seen in his recognition that finance capital is a contradictory entity. For managerial control theorists, banks do not seem to matter much. For financial control theortists, bank ascendancy is based on simple self-interest rather than the mutual benefit of both institutions.

Previously, it was shown that Fitch, Oppenheimer and Kotz assume a casual link between ownership and control. But what does ownership have to do with surplus value production and distribution? As a condition of existence, the provision of money capital by security purchasers (owners) is necessary for a corporation to exist. Corporations are nominally owned by shareholders who have voting rights with respect to the board and matters of corporate policy. The formal existence of this right is less relevant than whether enough stock is owned to effectively exercise it through bloc voting or the threat of sale. Both of these strategies can be used, and are occasionally, to influence corporate behavior.

Fitch, Oppenheimer and Kotz have focused on <u>one</u> aspect, security ownership, of the interaction between these institutions and have simplified a complex relationship that may in addition involve lending, services and directorships as the basis for "control". These conditions tie the institutions into relations of mutual but contradictory dependence. Control in this context pertains to the struggle among occupants of subsumed class positions in different institutions over distribution of the surplus. While banks may struggle to "control" corporate behavior in some cases, the existence of both institutions ultimately depends on the production and realization of surplus value - the function of productive capital. In rare cases, usually involving extreme finanical duress such as the imminence of bankruptcy, banks may place themselves on the board of directors to dictate corporate policy. Even in these cases, however, the bank's goal is to reestablish the firm's competitive viability. The notion that banks enter into financial relations with corporations for the purpose of controlling and taking advantage of them trivializes Lenin's concept of finance capital.

Contrary to the financial control hypothesis, Baran and Sweezy seize upon a different essence to give unity to their theory. By taking Lenin's cue regarding the importance of monopoly, they give monopoly profits the role of internally providing the funding necessary for corporations to be self-financing. This provides the autonomy for the firm to be considered management controlled. Herman reaffirms the validity of this train of thought in his recent book, Corporate Control, Corporate Power (1981).

> Despite the persistence of various lines of criticism of managerialism, its position has strengthened over time, and, at this conjuncture, its triumph is virtually complete. That top managers generally control large corporations is an established truth, which serves as a premise -- not as something to be proved -- in most serious analyses in the field...[29]

The obviousness of managerialism comes in part from the fact that it is almost a tautological proposition. Management, by its nature, involves control of some kind.

This simplicity occludes the complicated connection between the board of directors as the functioning capitalist and managers, the executives and coordinators of corporate activities, as occupants of subsumed class positions. Some managerialists, such as Baran and Sweezy, treat these class positions as one -- including security owners as well. This is their capitalist class. Herman, on the other hand, sees outside directors as "passive", not appointed "to decide on basic policy in a corporation". Yet he concedes they occupy a "strategic position" with respect to "solidifying relationships with important external constituencies."[30] He recognizes, along with the others, that the extensive direct and indirect interlocking directorates are a potential source and means of control.[31] While "inside" directors are primarily responsible for setting corporate policy and priorities, these individuals are at once board members and upper echelon executives, i.e., capitalists and managers.

In assessing and criticizing the arguments in the financial vs. management control debate, it becomes apparent that the controversy itself misses the point. Control, an important issue, is given conceptual content by its situation in the discourse. Intent on depicting the determinants of institutional behavior, both sides ultimately fail to clearly spell out the articulation of institutions and the class process, or the relationship between property and the class process. The narrow conception of ownership and control is, as I have demonstrated, the legacy of a particular non-Marxist tradition in American scholarship. Ironically, it has contributed to and reinforced the constraint of the "two class" vision of society in Marxist thought.

Both sides are also wrong in their one-sidedness. As argued earlier, these positions emerge from established tendencies within Marxism. Advocates of financial and management control represent divergent essentialist readings of Lenin's work. While specific passages may be cited to substantiate either case, on the whole Lenin's analysis did not depend on such an instrumental view of corporations, banks or capitalism as a class system.

Marx wrote that the corporation transformed the

> functioning capitalist into a mere manager, administrator of other people's capital, and...the owner of capital into a mere owner, a mere money-capitalist. [32]

The relationship between these classes, as significant as it is, does not constitute the universe of forces that bear on corporate behavior. There are a wide variety of determinants, including those related to other subsumed class positions. The salient distinction is between the "labor of supervision and management" and

> the capitalist who extracts unpaid labor directly from the laborers...the first appropriator, but by no means the ultimate owner of surplus value.[33]

The capitalist class process is that contradictory unity involving the production, appropriation <u>and</u> distribution of surplus value. In the final analysis, control in the context of capitalist enterprises concerns the ability to determine the utilization of a portion of surplus value. If managers or bankers control corporations, it is because they are simultaneously in the class position of functioning capitalists.

FOOTNOTES

1. V.I. Lenin (1974), p. 47.
2. Lenin (Ibid), p. 47.
3. Lenin (Ibid), p. 59.
4. Lenin (Ibid), p. 37.
5. See C. B. MacPherson (1973).
6. A. A. Berle and G. Means (1967), p. xlc and p. xxv.
7. Berle and Means (Ibid), p. xxxv.
8. Lenin (Ibid), p. 123.
9. Berle and Means (Ibid), p. xli.
10. P. Baran and P. Sweezy (1966), pp. 34-5.
11. M. Zeitlin (1978), p. 258.
12. E. Herman, Monthly Review (1979), p. 56.
13. R. Fitch and M. Oppenheimer, Socialist Revolution (1971), p. 43.
14. D. Kotz (1978), p. 63.
15. Fitch and Oppenheimer (Ibid), p. 34.
16. Baran and Sweezy (Ibid), p. 16.
17. See B. Norton (1983).
18. P. Sweezy and H. Magdoff (1972), p. 144.
19. Sweezy and Magdoff (Ibid), p. 141.
20. Sweezy and Magdoff (Ibid), p. 142.
21. Marx (Ibid) Vol. III, p. 25.
22. Zeitlin (Ibid), p. 258.

23. Baran and Sweezy (Ibid), pp. 34-5.

24. Zeitlin (Ibid), p. 258.

25. The concept of class processes is presented in S. Resnick and R. Wolff, <u>The Review of Radical Political Economy</u> (1982).

26. Marx (Ibid), Vol. I, p. 626.

27. See Marx (Ibid) Vol. III, p. 383 ff. for a discussion of when managers are productive laborers and when they are not.

28. Lenin (Ibid), pp. 41-2.

29. E. Herman (1981), p. 14.

30. Herman (Ibid), p. 31.

31. See Herman (Ibid), p. 197 ff. for a discussion of issues pertaining to interlocking directorates.

32. K. Marx (1974), Vol. III, p. 436.

33. Marx (Ibid), Vol, III, p. 386 and Vol. I, p. 564.

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