Imperialism — the Final Stage of Capitalism

(*Continuation*)

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III

Finance capital and the financial oligarchy

A CONSTANTLY larger proportion of the capital invested in industry," writes Hilferding, "does not belong to the men who use it in their business enterprises. That capital is placed at their disposal by banks which represent the actual owners of those funds."

"On the other hand, a bank must invest a constantly larger portion of its available capital in some industry. Consequently the bank becomes, to a constantly larger extent, an industrial capitalist. This banking capital, in the shape of currency, which can be thus transformed into industrial capital, I shall designate as finance capital—capital placed at the disposal of bankers and used by industrial operators." (43)

This definition is not complete for it leaves out one of the most important factors: the growth of concentration in industry and capital to the point were it creates monopoly.

But Hilferding continually emphasizes, especially in the two chapters preceding the one from which the definition is taken, the role played by capitalist monopolies. Concentration of industry; monopolies that result from it; alliance between banks and industry; such is the history of finance capital and such is the meaning of the expression.

We shall now show how the manipulations of the capitalist monopolies unavoidably bring about under our present system of production of goods and of private property, the dictatorship of a financial oligarchy. We may notice that the representatives of bourgeois political economy in Germany and other countries, Risser, Schultze-Gaevernitz, Liefmann and others, are without exception, defenders of Imperialism and finance capital. They do not throw light, but darkness, upon the process through which a financial oligarchy comes into being; they depict its methods in rosy colors, they remain very vague as to its sources of profits, lawful and otherwise, its connection with parliaments and so on. They dodge unpleasant questions and take refuge in high-sounding, obscure phraseology, they speak of a "feeling of responsibility" among bank directors, of the Prussian officials' "sense of duty," discuss seriously perfectly futile bills providing for "control" and "regulation," they waste their time in making up "scientific" definitions like the following, perpetrated by Professor Liefmann: "Commerce is a professional activity, which collects goods, keeps them and disposes of them." (44)

Commerce existed then among primitive men who were even ignorant of barter and will exist also in a Socialist form of society.

But there is such an abundance of facts about the wonderful dictatorship of the financial oligarchy, that in all the capitalist countries, in America, in France, in Germany, we find a rich literature dealing with the subject from a bourgeois point of view, giving us an almost accurate picture of that oligarchy at work, and containing a criticism of it from a bourgeois point of view, of course.

We must mention in the first place the system of "participation" to which we alluded previously. This is what the German economist Heymann writes upon the subject:

"The head of the basic concern (the mother-concern) controls that concern; this concern controls in turn the various societies which depend upon it (the daughter-concerns). The later control other concerns which might be called the commercial grandchildren of the first. As the ownership of 50% of the stock gives anyone the control of a stock company, the head of the mother concern only needs to own one million in order to control eight millions invested in the "grand-children companies." And if that process is extended even further, a capital of one million may control 16 or 32 millions. (45)

We know from experience that the ownership of about 40% of the stock assures practical control of the affairs of a company, as a large number of the small and scattered stockholders never have a chance of taking part in stockholders' meetings. The "democratic" distribution of stock, which bourgeois sophists and opportunists and certain "social democrats" expect to democratize capital, and to increase the importance and the power of the small manufacturers, is in reality one of the devices which strengthen the hands of the financial oligarchy. This is why, in progressive capitalist nations and in the more old-fashioned ones, legislation allows the issuing of constantly smaller shares of stock. In Germany the smallest face value of a share of stock is 1,000 marks, and the financial magnates of that country look with envy upon England where the law allows shares worth only one pound sterling.

Siemens, one of Germany's industrial and financial magnates, declared in the Reichstag on June 7, 1900, that the pound stock share was the foundation of British Imperialism. (47)

That merchant had a more through and Marxist understanding of the meaning of Imperialism, than a certain writer who is sppposed to be the founder of Russian Marxism and who imagines that Imperialism is the unpleasant characteristic of only one European nation.

The system of "participation" not only helps monopolies to build up their giant power, but enables them to put through with impunity dark and unholy deals and to rob the public, for the heads of the "mother-concerns" are not legally responsible for the acts of the "daughter-concerns" which are supposed to be independent and through which a good many things can be done.

Here is an illustration taken from the German magazine, *Bank*, for May 1914: "The Spring Steel Stock Company of Kassel was considered a few years ago as one of the most prosperous concerns in Germany. Bad management caused dividends to dwindle from 15% to nothing. It appears that the management had extended to one of its 'daughter-concerns,' the Chassia, whose nominal capital amounted only to a few hundred thousand marks, a loan of six million marks, and this without consulting the stockholders. Of this loan which amounted to almost three times the stock capital of the 'mother-concern,' the Chassia's books made no mention."

From the purely legal point of view that omission was perfectly permissible, and could be allowed to subsist for two years, for it did not run counter to any commercial statute. The chairman of the managing board who, as the responsible person in charge, signed the lying balance, was and still is, the president of the Kassel Chamber of Commerce. The stockholders learnt of that loan to the Chassia Company only later when it proved to have been a "mistake" (I can't help placing the word between quotation marks) and when the stock of the Spring Steel Company, being dumped by the well-informed, suffered a break of about 100%....

This striking example of the book juggling which is a matter of frequent occurrence in the management of stock companies shows us why their directors engage more easily in risky deals than a private businessman would. Up-to-date bookkeeping methods not only enable them to keep all knowledge of their risky deals from the average stockholder, but also to dodge all responsibility and escape losses in case of mishap, for they can unload their stock at the opportune moment, while a private businessman would have to meet the deficit out of his own pocket.

The books of many stock companies are very similar to those parchments of the Middle Ages which were used twice by scribes and whose real content is not known until one erases the second layer of ink.

The simplest and most common method of keeping books in order to foil all attempts at investigation, is to divide up one enterprise into several "daughter-concerns" or to combine the latter anew. This method seems so advantageous from every point of view, legal and illegal, that there are very few concerns which have not resorted to it. (48)

Among the large and monopolistic concerns using this method on a large scale, we may mention the Allgemeine Elektrische Gesellschaft, of which we shall speak in detail later. In 1912 it was estimated that this company "participated" in the affairs of 175 or 200 other companies, controlling them and, through them, a capital of about 1,500,000,000 marks. (49)

The various methods of inspecting books or accounts, the various reports published and other devices offered to the public by benevolent professors or functionaries, whose benevolence expends itself in defending Capitalism and apologizing for it, are the merest nonsense. For private property is sacred and no one can be prevented from buying, selling or exchanging shares of stock, hoarding them, etc....

The extent to which the "participation" system has been adopted by the leading Russian banks is shown by E. Agad, who was for fifteen years in the service of the Russo-Chinese Bank and who in May 1914, published a book bearing the rather inaccurate title *The great banks and the world market*. (50) The author divides the leading Russian banks into two principal groups: those which are being operated under the system of "participation" and those who are independent. By independent, he means independent from foreign banks. The first group he divides up into three sub-groups according to whether German, English or French banks "participate" in their operations. He also draws a distinction between productive banking capital (invested in commerce and industry) and speculative banking capital (used for stock and financial deals). With his bourgeois reformist mind, he imagines that it is possible under a capitalist system to distinguish the former and the latter.

Here are the data furnished by Agad:

Active capital of banks to the reports for October and November 1913:

Groups of Russian Banks	Capital invested; in millions of rubles		
	For Production	For Speculation	Total
a) 1. 4 banks, the Siberian commercial, the Russian, the International and the Discount Bank	413.7	859.1	1,272.8
a) 2. 2 banks: the Commercial and Industrial Bank and the Russian English Bank	239.3	169.1	408.4
a) 3. 5 banks: the Russian-Asiatic, the Petrograd Bank, the Don-Asiatic Bank, the Union Bank, the Moscow Bank, the Russian French Commercial Bank	711.8	661.2	1,373.0
Totals 11 Banks	1,364.8	1,689.4	3,054.2
b) 8 banks: the Moscow-Merchants Bank, the Volga Kamsk Bank, Yunker and Co., Petrograd Commercial, formerly Vavelberg, the Moscow Bank, formerly the Rabushinsky Bank, the Moscow Discount Bank, the Moscow Commercial and the Moscow Private Bank	504.2	391.1	895.2
Totals 19 Banks	1,869.0	2,080.5	3,949.5

Acording to the above figures, out of nearly four billions of rubles, which constitute the working capital of the leading banks, some 3 billions or over ¾ of that capital, is controlled by banks which are in reality the "daughter-concerns" of foreign banks, in the first line French banks, the famous banking trio: The Union Parisienne, Banque de Paris et d'Irlande, and La Societe Generale, and in the second line Berlin banks: the Deutsche Bank and the Disconto Gesellschaft. In 1912, two large banks, the Russian Bank for Foreign Commerce, and the Petrograd International Commercial Bank, increased their capital from 44 to 98 million rubles, and their reserves from 15 to 39 millions, three fourths of their capital being German capital. The former belongs to the group of the Deutsche Bank of Berlin, the other to the group of the Berlin Disconto Gesellschaft.

Our friend Agad is very indignant over the fact that the Berlin banks hold the majority of the stock and that consequently the Russian stockholders are powerless. It goes without saying that the country which exports capital gets the lion's share of the profits. For instance the Deutsche Bank of Berlin, importing into Berlin stocks of the Siberian Commercial Bank, kept them in its safe for an entire year and then sold them at 193, having bought them at par, thus making a profit of 6 million rubles, or about a hundred per cent on the investment. Hilferding calls that "flotation profits."

Agad estimates the "resources" of the leading Petrograd banks at almost eight and a quarter billion rubles, to be accurate 8, 235,000,000 rubles, and he divides up the "participation" or rather control of the foreign banks as follows: French banks 55%, English 10%, German 35%. Out of that active capital of 8,235,000,000 rubles, 3,687,000,000 rubles (or over 40% of it), belongs to syndicates of the naptha, metal and cement industries. It appears then that the alliance of banking and industrial capital has gone a long way in Russia toward establishing capitalistic monopolies

Financial capital concentrated into a few hands and enjoying a practical monopoly, derives a constantly larger share of profits from flotations, from the issuance of stock, from government loans, etc., which strengthen the power of the financial oligarchy, making the entire nation pay tribute to monopoly holders. Here is one of the numberless examples of manipulation on the part of the American trusts cited by Hilferding: In 1887, Havemeyer founded the sugar trust by combining 15 small companies whose total capital amounted to $6,500,000. The trust's capital was, according to the American expression, "watered," and increased to $50,000,000. This over-capitalization took into account the future profits of the monopoly just as the steel trust, also of the United States, takes into account the future profits it will derive from its monopoly, for it is constantly buying up new deposits of iron ore. And in fact, the sugar trust established monopoly prices and reaped such profits that it could pay 10% in dividends on a capital six tenths of which was watered (or 70% on the actual capital paid in when the trust was organized.)

In 1909, the capitalization of the trust was $90,000,000. In 22 years the capital had increased over tenfold.

(*To be continued*)