CONTRIBUTIONS OF RUDOLF HILFERDING TO AN UNDERSTANDING OF THE CURRENT GLOBAL ECONOMIC CRISIS

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"And as soon as accumulation of capital were to fall into the hands of a few established big capitals, for which the mass of profit compensates for the falling rate of profit, the vital flame of production would be altogether extinguished. It would die out."

Karl Marx, *Capital*

1. *The concept of finance capital*

The current economic-financial crisis requires, in my opinion, a return to the debate at the heart of Marxism about the category of financial capital that took place at the end of the nineteenth century and beginning of the twentieth. For Marx, finance or banking capital was defined as capital that takes the form of money and that is remunerated on the basis of interest rates. It was a form of capital with the cycle D – D', which appropriated a part of social surplus value without passing through production. It was the miracle of money breeding money: in Marx's words, the miracle of the pear tree producing pears.

In the free competition phase of capitalism that Marx studies, social capital was divided among clearly differentiated segments of the bourgeoisie, namely, the industrial bourgeoisie, the banking bourgeoisie, and the commercial bourgeoisie. This involved a sharp distinction between industrial profit, financial profit, and commercial profit. In the monopoly phase, however, the divisions between the distinct segments that make up the dominant class and those between the different forms of profit are no longer so clear. Toward the end of the nineteenth century, the process of concentration and centralization of capital in the major capitalist countries led not only to the formation of oligopolies and large joint-stock companies, but a growing interconnectedness of capital and the proliferation of what Marx called fictitious capital.

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The profound structural changes taking place with the rise of monopoly capital provoked an intense debate, in which Rudolf Hilferding (1910), Lenin, and Bukharin figured most prominently. Unfortunately, the debate digressed into a discussion of whether the category of financial capital implied the control of banks over industry, or whether it meant something else. Such discussion about the possible control of banks, while theoretically as well as politically important (because it involved the definition of the principal enemy of the working class), arose, in my opinion, from an inadequate understanding of Hilferding's concept, as I will now try to show. To an extent, that distorted interpretation followed from certain unfortunate statements of Hilferding himself.

Rudolf Hilferding (1877-1941) was one of the most important Marxist theorists of the early nineteenth century, along with Lenin, Bukharin, and Rosa Luxemburg, and the most astute student of finance economics among that group: the Marxist theorist of finance *par excellence*! The productivist slant in Marxism (the correct, but partial and insufficient appreciation of Marx as the theorist of production), coupled with the identification of Hilferding after the Bolshevik Revolution as a reformist and opportunist, relegated his work to the background of "official Marxism."

However, a hundred years after the publication of his milestone work, *Finance Capital*, in 1910, a reassessment of Hilferding's contributions to the understanding of the capitalism of his time turns out to be essential, in spite of certain errors,[1] for the understanding of contemporary events. For those of us in political economy who conceive of "the present as history," his study of finance capital as a basic category of monopoly capitalism is of primary importance in understanding the process of financialization and the recurring crisis that has accompanied it since the 1980s.

The objective of this brief paper, as its title suggests, is to analyze the definition of finance capital proposed by Hilferding and to see it in its real dimension, as well as to contribute to the understanding of this new form of capital and what its development means

[1] Among others, these errors include the lack of a general theory of currency noted by S. De Brunhoff (1973), the consideration of the monopoly price as more a subjective than an objective element determined by the law of value (Guillén, 1981), and the misjudgment in his final years that the development of finance capital led to the formation of a more stable "organized capitalism" in which the general crises of overproduction would be overcome. On critiques of Hilferding, see M. Pierre (2010).

for the later configuration of the capitalist system. To me, this understanding seems like an important element in understanding the current global capitalist crisis.

Hilferding's most well-known definition of the category of finance capital is found in Chapter 14 of *Finance Capital*. In that chapter, entitled "The Capitalist Monopolies and the Banks: The Transformation of Capital into Finance Capital," he defines finance capital as follows:

> The dependence of industry on the banks is therefore a consequence of property relationships. An ever-increasing part of the capital of industry does not belong to the industrialists who use it. They are able to dispose over capital only through the banks, which represent the owners. On the other side, the banks have to invest an ever-increasing part of their capital in industry and in this way they become to a greater and greater extent industrial capitalists. I call bank capital, that is, capital in money form which is actually transformed in this way into industrial capital, finance capital. (Hilferding, 1910: Ch. 14)

This first definition, in which Hilferding alludes principally to the role of credit in the process of expansion of large enterprises that organized themselves as joint-stock companies, has occasioned diverse criticisms (from Lenin and Bukharin, among others). It accepts that finance capital means, as Hilferding himself suggests, the domination of industry by banks. For example, Paul Sweezy (1942: 260) argues that Hilferding "erred in the direction of overestimating the importance of financial dominance in the latest stage of capitalist development." In his opinion "the dominance of bank capital is a passing phase of capitalist development, which roughly coincides with the transition from competitive to monopoly capitalism" (Ibid. 268). Sweezy also maintains, with a certain justification, that the domination of industry by banks was a phenomenon more characteristic of the German development model than that of the U.S. He is also correct in saying, as he did with Baran in *Monopoly Capital* (1982) that postwar capitalism in the U.S. depended mainly on financing with firms' own resources, more than on access to financial markets.

It seems to me, however, that the debate about the "domination" of banks is deceptive and obscures what is crucial about Hilferding's contribution. I will try to demonstrate that Hilferding gave a more profound meaning to the category of finance capital. In the paragraph following his much-cited but careless initial definition, Hilferding writes:

> Finance capital develops with the development of the joint-stock company and reaches its peak with the monopolization of industry. . . . But the bank disposes of bank capital, and the owners of the majority of the shares in the bank dominate the bank. It is clear that with the increasing concentration of property, the owners of the fictitious capital which gives power over the banks, and the owners of the capital which gives power over industry, become increasingly the same people. *As we have seen, this is all the more so as the large banks increasingly acquire the power to dispose over fictitious capital.*[2] (Hilferding, 1910: Ch. 14)

This new approach to the concept puts at least two key points into relief: first, that finance capital is the result of the process of concentration and centralization of capital, as well as the emergence of the joint-stock company; and second, that the appearance of these companies not only implies the separation of ownership and control--which modifies the forms of management of the business--but also, perhaps more importantly, the control of finance capital over the issuance and circulation of fictitious capital, that is, capital in the form of stocks, bonds, and other types of securities. Fictitious capital, as Marx brilliantly saw, is a duplicate of the real capital invested in production. It is, to use a more contemporary metaphor, the hologram of productive capital. The proliferation of fictitious capital provokes, among other things, the development of stock markets as a privileged space for its movement.

In case there is any doubt about Hilferding's idea that the defining power of the new financial oligarchy resides in its control of fictitious capital, he adds:

> The power of the banks increases and they become founders and eventually rulers of industry, whose profits they seize for themselves as finance capital, just as formerly the old usurer seized, in the form of 'interest,' the produce of the peasants and the ground rent of the lord of the manor. The Hegelians spoke of the negation of the

[2] Italics mine.

> negation: bank capital was the negation of usurer's capital and is itself negated by finance capital. The latter is the synthesis of usurer's and bank capital, and it appropriates to itself the fruits of social production at an infinitely higher stage of economic development. (Hilferding, 1910: Ch. 14)

In other words, finance capital is a new segment of capital--its dominant form in the era of monopolies and joint-stock companies--and not the old form of banking capital in the service of industry. What emerges from this fusion of banking and industrial capital is a new division of the bourgeoisie: the financial oligarchy that dominates not only the operation of banks, but that also determines the *modus operandi* of the productive sector of the economy. This financial oligarchy appropriates social surplus value through new financial mechanisms that were previously not in the hands of distinct segments of capital. It is for this reason that the dichotomy between the real economy and the financial economy as separate sectors of the economy--the idea entertained, for example, by neoclassical economics--has been completely false ever since finance capitalism came into existence and with it the era of modern imperialism. This dichotomy could only have any reality in the phase of "free competition" between small and medium-sized businesses, in which the bourgeoisie was fragmented into relatively separate segments: industrial bourgeoisie, commercial bourgeoisie, banking bourgeoisie. Although these segments did not disappear during the era of monopoly capital, they were all subordinated to the operations of finance capital.

For Hilferding, the defining power of finance capital, of the new financial oligarchy, which results from the fusion of industrial capital and banking capital, is in the control it exercises over fictitious capital. Finance capital is a new form of capital--the dominant form in the era of monopolies and joint-stock companies. It is neither the old banking capital in service of industry, nor the banking capital that dominates industry. As he rightly indicated in the introduction to his book, although finance capital means "an ever more intimate relationship" between banking and industrial capital, what is central to the concept is that "through this relationship . . . capital assumes the form of finance capital, its supreme and most abstract expression" (Hilferding, 1910: Preface). What emerges from the fusion of banking and industrial capital, as Hilferding, Buhkarin, and Lenin well understood, is a new division of the bourgeoisie that exercises hegemony over economic and political power: the financial oligarchy, which not only dominates the operations of banking and finance, but also determines the *modus operandi* of the entire economy.

2. Dividends and interest rates

Beginning in Chapter 7 of his book, in his examination of the emergence of joint-stock companies as a form of business organization, Hilferding makes a series of theoretical observations about the workings of finance capital. He notes how the buyer of a stock receives, not the interest paid in a bank loan to the owner of capital, but a dividend that approximates the interest rate from the bank:

> The rate of interest paid on money capital which is provided in the form of shares is not fixed in advance; it is only a claim on the yield (profit) of an enterprise. A second difference as against loan capital is that the return of capital to the money capitalists is not guaranteed. Neither the contract which defines their relationship to the enterprise, nor the relationship itself, gives them any such assurance. . . . (Hilferding, 1910: Ch. 7)

The owner of the shares no longer has a right over the capital the stock represents, "only a claim to his proportionate share of the total return" (Ibid.). In other words, the dividend is neither the average profit of industrial capital, nor the interest rate on a loan or a fixed-income security, but a form of income that tends to approximate the rate of interest (given that this interest is the lower limit of capital remuneration), but has an arbitrary value: it must be agreed upon by the boards of directors of the joint-stock companies.

As Hilferding said previously, stocks, like financial assets in general, are fictitious capital. This fundamental category was clearly defined by Marx:

> The independent movement of the value of these titles of ownership, not only of government bonds but also of stocks, adds weight to the illusion that they constitute real capital alongside of the capital or claim to which they may have title. For they become commodities, whose price has its own characteristic movements and is established in its own way. Their market-value is determined differently from their

> nominal value, without any change in the value (even though the expansion may change) of the actual capital. . . . All this paper actually represents nothing more than accumulated claims, or legal titles, to future production whose money or capital value represents either no capital at all, as in the case of state debts, or is regulated independently of the value of real capital which it represents. (Marx, n.d.: Ch. 29)

Many years before Keynes, Marx understood that the market in financial assets is relatively independent of the market in goods. The value of stocks represents a legal title to future surplus value in the form of financial profit. Their value does not necessarily correspond to the value of real capital. The two may diverge, and in fact they normally diverge above the value of productive capital. Occasionally, however, as in crises, they diverge at a lower value. The market in financial assets is, for this reason, eminently speculative and obeys a different logic than that of productive capital. Hilferding understood this point well. In his words:

> [T]he price of a share is not determined as an aliquot part of the total capital invested in the enterprise and therefore a relatively fixed sum, but only by the yield capitalized at the current rate of interest. Since the share is not a claim to a part of the capital in active use in the enterprise, its price does not depend upon the value, or price, of the industrial capital which is actually being used. It is a claim to a part of the profit, and therefore its price depends, first, on the volume of profit . . . and second, on the prevailing rate of interest. . . . The share, then, may be defined as a title to income, a creditor's claim upon future production, or claim upon profit. Since the profit is capitalized, and the capitalized sum constitutes the price of the share, the price of the share seems to contain a second capital. But this is an illusion. What really exist is the industrial capital and its profit. (Hilferding, 1910: Ch. 7)

According to Hilferding, the fictitious character of capital in the financial environment is most clearly revealed in government bonds:

> State bonds need not in any way represent existing capital. The money lent by the state's creditors could long ago have gone up in smoke. State bonds are nothing but

> the price of a share in the annual tax yield, which is the product of a quite different capital than that which was, in its time, expended unproductively." (Ibid.)

As I noted before, the financial oligarchy appropriates social surplus value, in large part, through new financial mechanisms that were previously not in the hands of distinct segments of capital.

3. Promoter's Profit

One of the most revolutionary aspects of Hilferding's theory is the category he labels the "promoter's profit"--the profit (actually a monopoly income) appropriated by finance capital for the mere act of negotiating the fictitious capital, that is, for controlling the issuance and circulation of stocks and public and private bonds and securities. Even considering all the differences between the current situation and Hilferding's time, it is this promoter's profit that plays a crucial role in present-day capitalism, and that was fundamental, for example, in the process of securitization and the creation of derivatives that accompanied the real estate boom of 1990-2007, and which led to the current global crisis that has now lasted for more than four years.

The financially dominated accumulation regime (Chesnais, 1994; Serfati, 1996; Guillén, 2007) has governed capitalism since the 1980s; in it, according to Serfati (2010), "the lines between financial and non-financial activities are blurred," beginning with transnational companies. This regime rests on the promoter's profit as its main source of monopoly finance capital. Commercial banks, insurance companies, and large institutional investment funds, as well as transnational companies that operate in the productive sector have access to promoter's profits. To use an expression of Passet (2000), finance nowadays has become "horizontalized." To visualize the current importance of the promoter's profit, we can note that in 2009, financial companies received 42 percent of their income from fees and 58 percent from interest, as opposed to 20 percent and 80 percent, respectively, in 1980 (Foster and Magdoff, 2009: 55).

As Hilferding well understood, with the emergence of finance capital, the majority of shareholders had to content themselves with receiving a dividend approximately equal to the prevailing rate of interest, while a handful of big capitalists, those who had access to the initial offerings of fictitious capital, managed to reap large returns in the form of "promoter's profits." In Hilferding's words, the effect was to produce "the progressive reduction of dividends to the level of interest, while an ever increasing share of the total profits of the enterprise is incorporated, in a capitalized form, in the promoter's profit. This process has as its premise a relatively high level of development of the banks, and of their connections with industry, and a correspondingly developed market for fictitious capital, the stock exchange" (Hilferding, 1910: Ch. 7).

Traditionally, Marxists who study price formation under the domination of monopoly capital have studied the problem from the perspective of the extraordinary profits made possible by the existence of "entrance barriers" in the productive sector of the economy. That is to say, monopoly profit, which was assumed to be greater than average profit, was the result of the transfer of surplus value from less oligopolized companies and economic sectors to more oligopolized ones. But this was a process of "extraordinary profits" taking place at the heart of real capital. Financial profit was omitted from the explanation of monopoly prices. However, if we consider Hilferding's concept of the "promoter's profit, the creation of "monopoly super-profits" takes on a new dimension. In this context, I suggest that we consider the hypothesis that the "promoter's profit" is a kind of "extraordinary profit," like a monopoly profit, which can be accessed only by monopoly-finance capital through the control it has over the issuance and circulation of fictitious capital. The form of this monopoly profit would resemble more the "absolute rent" used by Marx in explaining land rent than the "industrial profit" of the era of free competition.

4. Promoter's Profit and the Law of the Falling Rate of Profit

Although Hilferding does not explicitly say so, promoter's profit would have to be considered one of the principal mechanisms that counteract the falling rate of profit in monopoly capitalism. The relationship between the emergence of joint-stock companies and the factors working against the law of the falling rate of profit had already been brilliantly described by Marx in Volume III of *Capital*. In Chapter 14 of that volume, Marx analyzes the countervailing tendencies that limit the fall of the rate of profit associated with the increase in the organic composition of capital:

> The foregoing five [countervailing tendencies] may still be supplemented by the following. . . . With the progress of capitalist production, which goes hand in hand with accelerated accumulation, a portion of capital is calculated and applied only as interest-bearing capital. Not in the sense in which every capitalist who lends out capital is satisfied with interest, . . . [b]ut in the sense that these capitals, although invested in large productive enterprises, yield only large or small amounts of interest, so-called dividends, after all costs have been deducted. . . . These do not therefore go into levelling the general rate of profit, because they yield a lower than average rate of profit. (Marx, n.d.: Ch. 14)

What this means is that when a joint-stock company is formed, and a part of the stockholders are satisfied with a dividend approximating interest rates, another group of capitalists--the financial oligarchy that makes up monopoly-finance capital--can, by means of the promoter's profit, by means of the establishment of what would now be called fees or commissions, appropriate a higher than average rate of profit through the issuance and trading in stocks and bonds. This absorption of extraordinary profits, associated with the control exercised by monopoly finance capital over fictitious capital, through the megabanks and investment banks, additionally allows them to offset the possible lower rate of profit accompanying a crisis. Johnson and Kwak (2011: 76) note that during the real estate boom, investment banks obtained extraordinary profits by three means: 1) fees on the securitization of loans; 2) fees on the sale of bonds to financial investors; and 3) trading profits on those bonds.

It is worth pointing out here that it is not only the financial intermediaries who participate in the appropriation of the promoter's profit, but also the treasuries of transnational corporations, insurance companies, and rating agencies: that is, the entire network of interests that constitute monopoly finance-capital and that operate on a global scale.

Hyman Minsky was clear about the relationship between securitization and the quest for extraordinary profits on the part of banks and finance capital. In a paper on securitization published near the end of his life, he argued the following:

> Securitization also is a response to the cost structure of banks. Banks seem to need a 450-basis-point margin if fund income is to be the source of profits. This provides a great deal of profit space for innovative suppliers with lower costs. Bank participation in securitization is part of the drive, forced by costs, to supplement fund income with fee income. The development of the money market funds, the continued growth of mutual and pension funds, and the emergence of the vast institutional holdings by offshore entities provide a market for the instruments created by securitization. . . . Securitization implies that there is no limit to bank initiative in creating credits for there is no recourse to bank capital, and because the credits do not absorb high-powered money. (Minsky, 2008: 3)

5. Conclusions

In this paper I have argued for the advisability of rethinking the Marxist category of finance capital in light of the contributions of Rudolf Hilferding. My central hypothesis is that the fundamental concept developed by Hilferding is neither the process of fusion of bank capital and finance capital, nor the dominance of banks over industry, but rather the control exercised by monopoly-finance capital over the issuance and circulation of fictitious capital by means of banks, and the relationship of these with securities exchanges and financial markets.

Hilferding demonstrates that the emergence of joint-stock companies modifies the process of creation of average profit and that shareholders are content with receiving a dividend that, although a part of the surplus value generated by production, is approximately the prevailing rate of interest. He proposes the consideration of the promoter's profit as the main source of income of finance capital.

With regard to Hilferding's proposal of the category of "promoter's profit," I argue that it is a type of "extraordinary surplus value," appropriated by monopoly-finance capital through its control of fictitious capital, and that in a sense it is a monopoly rent similar to the absolute land rent that, according to Marx, arose from the absolute monopoly of the landowner over the land.

The promoter's profit acts as a countervailing force against the falling rate of profit. If this is true, I would venture the hypothesis that the financialization of the capitalist economy during the past three decades, together with globalization and deregulation, was a reaction and a response by the leading sectors of monopoly-finance capital to counteract the falling rate of profit at the origin of the "great crisis" of the 1970s. Through financialization, monopoly finance capital succeeded in elevating profit margins, but at the cost of rendering the financial structure more fragile--a process that led to the global crisis we are currently experiencing.

Perhaps the greatest homage that can be rendered to Hilferding is that offered by Paul Sweezy a few years before he died. Sweezy, an author little disposed to receiving criticism, accepted that he had erred in his assessment of Hilferding's work and affirmed that the development of capitalism in the last decades of the twentieth century and the beginning of the twenty-first confirmed the accuracy of Hilferding's analysis. Sweezy even characterized the recent capitalist era as the "triumph of finance capital" and suggested substituting the category of monopoly capital with that of "monopoly-finance capital" (Sweezy, 1994).

"Traditionally," writes Sweezy, "financial expansion has gone hand-in-hand with prosperity in the real economy. Is it really possible that this is no longer true, that now in the late twentieth century the opposite is more nearly the case: in other words, that now financial expansion feeds not on a healthy real economy but on a stagnant one?" (Ibid.).

And as Sweezy warns, “But I can say with some confidence that achieving a better understanding of the monopoly capitalist society of today will be possible only on the basis of a more adequate theory of capital accumulation, with special emphasis on the interaction of its real and financial aspects than now we possess (quoted by Foster and Magdoff, 2009: 68)”. And, I would add, a rethinking of Hilferding and his work is essential as well.

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