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CONCEPTIONS AND THEORETICAL AMBIGUITIES OF SOCIAL DEMOCRACY IN THE TWENTIETH CENTURY: HILFERDING'S FINANCE CAPITAL

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The root of the concept of monopoly capital is Hilferding's pioneering book, Finance Capital, completed in 1909, in which Hilferding aimed to develop Marx's analysis of the processes of concentration and centralization, and of the roles of competition and credit within these processes. According to Hilferding, a twofold transformation in its economic appearance gives capitalism the form of finance capital. This transformation is the outcome of processes which tended, on the one hand, to abolish competition through the formation of cartels and trusts, and on the other, to promote increasingly intimate relations between banking capital and industrial capital, within which banking capital becomes the dominant partner. The construction of the concept of finance capital is the object of the first three parts of Hilferding's book. The fourth part analyzes economic crises. There, disproportionalities between sectors of production and the problem of realization of surplus value are identified as major causes of capitalist crises, or alternatively as aspects of competition through which crises should manifest themselves. Hilferding also maintained that to the extent that cartels and trusts intervene in the mechanisms of price formation, they reinforce the tendency toward crises. Those four parts of the book form the theoretical portion of Finance Capital. Finally, in the fifth part, Hilferding discusses the economic policy of finance capital and develops a theory of capitalist imperialism.

In building up his theory of finance capital and crises, however, Hilferding treated the concepts of competition, credit, and accumulation of capital in a very sketchy way.

According to Hilferding, the processes of capital concentration and centralization through the formation and diffusion of cartels and trusts. These combinations of capital would constitute the major instruments for the promotion of price increases and originate differential profit rates.Rates of profit would rise in cartelized and trustified branches, whereas they would fall in those branches that did not benefit from such capital unifications with monopolistic aims. As a result of the progressive elimination of competition prices would no longer be objectively determined magnitudes, and an arbitrary and incidental component would progressively prevail in their determination. The law of value would therefore be gradually weakened.

In the argument developed by Hilferding there are no absolute limits to the process of monopolization. On the contrary, there is a constant tendency toward an expansion of cartelization whereby independent industries are progressively subordinated to cartelized industries, the ultimate result of this process being the formation of a general cartel. In this general cartel capitalist production would be consciously regulated by a central agency that would determine both the volume and the distribution of production.

This presentation of the processes that lead to the elimination of competition would be incomplete if we did not take into consideration the influence that, according to Hilferding, the credit provided by banks exercises upon them.

The processes of banking concentration originate in

the concentration of industrial capital. However, in Hilferding's view, from a certain point of their evolution onwards banking capital would become the decisive influence on the continuity of concentration processes toward more advanced stages. This would be so because, by absorbing the different modalities of credit as part of its operation - commercial credit, capital credit, and corporation promotion - banking capital would come to exercise control over the financing of industrial corporations and from that point on would dominate the reproduction and monopolization of industrial capital. For Hilferding, therefore, banking domination over industry and the progressive elimination of competition are articulated and complementary phenomena. It is from this articulation that Hilferding deduces his concept of finance capital.

Banking domination over industry constitutes, according to Hilferding, a mature expression of the relationships that may be observed between money capital and productive capital in the circuit of industrial capital. This domination is said to occur especially because banking capital predominantly takes on a more liquid form than industrial capital, and because in the competitive struggle among themselves individual industrial capitals become increasingly dependent upon external sources of financing to expand production scales and reduce costs. Hence, in making use of capital credit to finance their formation of fixed capital, industrial capitalists are compelled to submit to banker's supervision. Their dependence is said to increase if they associate in the promotion of corporations as their successful access to capital markets can then only be had through the intermediacy of banks. So, whether owing to the links of long-term loans, to the ownership of the shareholding capital of industrial corporations, or to its participation in the boards of the latter, banking capital would come to be the dominant partner in that integration of the different fractions of capital embodied in finance capital. Finally, given their inherent aversion to the risks of competition, both in the industrial sphere and in the banking one, large banks would be led to form a central bank that would take charge of credit distribution and thus of the determination of the volume and allocation of social production. The central bank and the general cartel would therefore be the final manifestations of the processes of capital concentration and centralization.

As we may conclude from this summary of Hilferding's analysis, his major theoretical argument concerns the progressive suppression of competition and the gradual weakening of the law of value as a result of the processes of capital concentration and centralization. Hilferding does not develop a mere historical interpretation of the evolution of capitalism using as his main reference Germany's late industrialization. What he actually does is suggest that in its very roots Marx's theoretical work about capital accumulation is vitiated by a contradiction between his theory of concentration and his theory of value and prices, such contradiction being historically confirmed by the diffusion of monopolies.

Considering the foregoing aspects, finance capital is the underlying concept in current accounts of how the capitalist mode of production operates in the twentieth century. Hilferding's

classical book may be regarded as the seminal work of an influential school of modern economists which distinguishes different stages in capitalist development: the stage of free competition and the stage of monopoly capitalism.The latter is said to originate in the structural changes undergone by capitalism as of the late nineteenth century, which would have produced qualitative modifications in its essential laws. Outstanding in this school of economic thought are Sweezy and Baran (1966), Sweezy (1976, 1977, 1981), Mandel (1968), Dobb (1972), Steindl (1976), and Boccara (1977), among many others. Baran and Sweezy (1966), for instance, argue that Hilferding was the first author to attempt to incorporate monopoly into the body of Marx's theory, but did not go so far as to treat monopoly as a qualitatively new element in capitalist economy, and that "he saw it as effecting essentially quantitative modifications of the basic Marxian laws of capitalism."[1] The massive influence of Hilferding's theory, along with the fact that in most of these works the treatment of the concept of finance capital has been rather superficial and uncritical, make it essential to debate the basic tenets that support it.

Hilferding's analysis of the processes of capital concentration and centralization, as well as his conclusions, are based on a poor and confused understanding of Marx's theory. Both capital concentration and centralization are erroneously associated to the elimination of competition and banking domination over industry.

At the roots of Hilferding's procedure we find, in the first place, his identification of Marx's conception of competition with the orthodox conception of pure and perfect competition, which in turn is viewed as an adequate interpretation of the reality of competition among capitals until the late nineteenth century. As a corollary, the concept of monopolistic combines and finance capital (of imperfect competition or oligopoly, as suggested by later economists who share ideas resembling Hilferding's) becomes an adequate signpost to characterize what are said to be the new modalities of interaction among individual capitals.

In Hilferding's concept of competition emphasis is laid on the large number of small capitals, the absence of collusion, the free mobility of capital among the various industries, and the notion that each enterprise plays a passive role as price taker in the process of price determination. These are all basic elements of the concept of pure or perfect competition. When once this trivial conception is mistaken for Marx's, a whole number of phenomena of competition - which are necessary in the light of the latter's theory - begin to be viewed by Hilferding as part of a process of generalized monopolization. This is particularly clear in the case of the differentiation of profit rates. Marx's conception regards that differentiation as a necessary aspect in the tendential process of equalization of the rates of profit on capital in different industries, as well as necessary within each industry, given the co-existence of several production methods and several levels of efficiency in the use of each method. Yet, as this differentiation contradicts the conception of pure or perfect competition, the

very same differentiation is turned into an evidence of the expanding monopolistic power.

In Marx's conception, the nature of competition is given by the fact that it constitutes a struggle between capitals in their processes of self-expansion, or an "arms race", to use Shaikh's analogy.[2] This arms race contains two aspects. In the first place there are the struggles between capitalists in one and the same industry, which result in the determination of a uniform market price for each commodity and presuppose a regulating value as a center of gravity around which market prices fluctuate. This confrontation between capitalists within the same industry is equivalent to a war within one and the same field, or to a war for the occupation of that field. Furthermore, the development of new means of production is equivalent to an arms race in which the development of new weapons consists chiefly of the ability to reduce costs and subjugate competitors. In the second place, there are struggles between capitals from different industries, i.e., a war among different industries. Different industries mean different battlefields. This confrontation occurs through both the inflow and outflow of capital in different industries whereby a tendency toward the equalization of profit rates in the inflow and outflow of capital in different industries whereby a tendency toward the equalization of profit rates in the various spheres of production is created. When the prospects of gains are high in a given field, this stimulates a displacement of armies toward that area. In other words, capital mobility is analogous to the mobility of war forces. As a result, the concept of a center of gravity for prices takes on a a new determination in the form of production prices.

Both these aspects of competition - intraindustrial and interindustrial - give rise to the existence of differential rates of profit at each point of time. However, Hilferding disregards, first of all, the aspects of competition among individual capitals in one and the same industry, and therefore the inevitability of differential profit rates arising from distinct levels of productivity of the labor absorbed by different capitals within each industry. Secondly, Hilferding conceives of competition among different industries as a process in which production prices are real equilibrium prices and not an average of past movements. Consequently, the differentials in the rate of profit resulting from the fact that supply and demand never coincide and that distinct industries present different turnover periods in their capital are not perceived as part of the theory of competition in Marx.

The problem of the differentiation between rates of profit provoked by the competition among capitals from distinct industries cannot be mistaken for the differentiation of profit rates resulting from competition within each industrial branch. Yet, it is necessary to understand both as processes that are complementary to and articulated with one another. As a result of their articulation we must realize that the abstract notion of production prices holds in itself the differences beteween individual production prices, average production prices, and regulating production prices. The latter are the centers of gravity of market prices and represent a transformation of the

concept of center of gravity initially defined at the level of each industry, when the problem of the tendential equalization of the rate of profit of different industries as part of the materialization of the notion of value still had not been introduced. This center of gravity now redefined represents the price resulting from the production method that is most accessible to the new capital being invested. This inflow of new capital is what pushes prices down as this is where supply is expanded. The inflow of additional capital is interrupted at the point where the rate of profit of this regulating capital approaches the average rate of profit. Thus, the tendency toward an equalization of profit rates is expressed as a tendential equalization of the profit rates only on the regulating capital in each industry. In other words, that tendency implies that the hierarchy of the rates of profit of a given industrial branch, generally speaking, follows the fluctuations in the regulting price for that industry.

In short, as the tendency toward an equalization of the rates of profit among different industries is applicable only in the case of regulating capital, the hierarchy of profit rates within each industry is a typical phenomenon of competition. On the other hand, as the equalization of the rates of profit of different industries is processed only as a tendency and expresses itself as an average of past movements, there will be, at any specific point in time, differential rates of profit between the regulating capitals of different industrial branches.

Therefore, Marx's conception of competition, in which the dispersion of the rates of profit emerges as a necessary actual result, is perfectly in keeping with his theory of value and production prices. And what is more, it is his theory of value, as a necessary general principle, that confere intelligibility upon competition among capitals and defines the limits within which the process of determination of market prices will condition the reproduction of social capital.

Hilferding's analysis of the processes of capital concentration and centralization is based, in the second place, on a double misunderstanding concerning the credit system. On the one hand, he mistakes the relationships between the functions of interest-bearing capital and the functions of industrial capital, which are conditioned by capital movement as a whole, for the relationships between the forms of banking capital and industrial capital as they have manifested themselves for a short while in some branches of heavy industry in Germany's late industrialization. On the other hand, Hilferding adopts a functionalist conception of credit according to which the financing of capital accumulation endows banks with the power to regulate financial and monetary circulation as well as the very competition among capitals. Consequently, a complete reversal is produced in the meaning of the diffusion of the corporate system and the financial accumulation of capital. These cease to express the growing and complete subordination of interest-bearing to the industrial capital's functions of producing and appropriating surplus value, and become elements in capitalist economy's march towards a conscious regulation by a small group of financial capitalists.

Contrary to Hilferding's assertions, the dominant partner

in the relationships between industrial capital and interest--bearing capital is industrial capital. The subordination of interest-bearing capital to industrial capital flows from the fact that in the capitalist mode of production, interest is determined by surplus value and profit. These nust be sufficiently large to allow a fraction of themselves to be appropriated as interest. In other words, the difference between the enterprise's profit and the interest rate expresses the difference between a moneyed class of capitalists and an industrial class of capitalists. However, this double existence os the capitalist class presupposes a divergence in the surplus value produced by capital. The different functions of credit - equalization of the profit rate among capitals from different industries, reduction in circulation costs, promotion of corporations, and an increased control of individual capitalists over the capital of the remaining capitalists - must then be jointly understood as an instrument for the development of capitalist production.

Even if we assume the diffusion of the corporate system, which is in turn a component part of the generalization of the financial form of capital accumulation or accumulation of financial assets the functions of interest-bearing capital will continue to lie entirely within the M - M' circuit. That circuit is consequently positioned at the intersection of two different connections: on the one hand, its functional subordination to industrial capital, and on the other, its relative autonomy in regard to the latter, given that it has its own specific movement.

That specific movement restricts itself neither to the purely technical movements performed by money in the circulation process of industrial and commercial capitals nor to the financing of capitalist accumulation, both of which originate banking capital. A second aspect of the movement of interest-bearing capital is financial circulation (and the resulting liquidity of bank capital), which allows its valorization process not to be directly limited by the action of the law of value. Given, however, that this valorization rests upon speculation, hence upon the erratic circulation of money capital, dissociated from the reproduction of industrial capital, a good deal of instability is characteristic of financial circulation. Furthermore, when the pace of accumulation of financial assets ceases to be sanctioned by the actual conditions of production of surplus value by industrial capital, financial difficulties come up and challenge the relations of credit and the monetary system.

This element of instability in financial circulation shows the contradictory character of credit in capitalist production. Banks are periodically subject to suspicion on the part of their depositors and thus call for an intervention by the monetary authority and/or the state in the capacity of lender of last resort. The regulation of the inflow and outflow of capitals in banking activity resulting thereof interrupts the operation of scale economies and sets up restrictions to the process of concentration and centralization of bank capital. Hence the non-existence of any grounds to aprioristically presume that banking concentration will progress any faster than industrial concentation, thus making it easy for the former to control the later. Neither is there any reason why we should presuppose a

tendency toward the formation of a private central bank.

Finally, the growing presence of external sources in industry financing manifest itself during certain phases os capital accumulation where there is an intensification and generalization of a revolution in the technical conditions of poduction in some industrial branches. Those conditions are not sufficient to set up a general state of banking domination over industry.

Therefore, not even in the most developed instance of the credit system, when capitals have assumed the form of corporations, does the relative autonomy of interest-bearing capital ever take on the form of a synthesis through the domination of industrial capital by banking capital. Even in that advanced stage in the constitution of the capitalist mode of production, in following the path that leads from its production to its final appropriation in the form of dividends, surplus value continues to cross the differentiated circuits of industrial, commercial, and banking capital. Not only do competition and the confrontation of forces between lending capitalists and borrowing capitalists continue to exist, but also profits (dividends) continue to be appropriated at distinct institucional loci, i.e., by distinct groups of assiociated capitalist with a wide diversification in terms of the sectors of economic activity covered by their investments. In those economic groups (conglomerates), more or less cohesively articulated as they are chiefly by the bonds of capital ownership, power relations express themselves in different hierarchies between individual capitalists and allied subgroups of capitalists. Such hierarchies reflect variable historical conditions including state action. The common bond unifying those economic group is the community of interest among their different partners or allies. In this sense, some partial experiences of banking control over industrial enterprises, such as observed in some branches of industry and for variable lengths of time in Germany's late industrialization, represent but one of a range of possibilities of the relationship between the forms of industrial capital and bank capital.

Hilferding's theory of crisis contains two contradictory conceptions about the causes of overproduction crises and the periodic breakdowns in capitalist economy. One of these conception emphasizes the occurrence of disturbances in the circulation or reproduction of capital as a whole, as expressed in excessive investment, sectorial disproportionalities, and general problems of realization. This conception is the more elaborate one developed by Hilferding, therefore it prevails in his argument at large. It is also the most widespread conception, being generally known as theory of Hilferding about the causes of crises. The other conception, presented as it is in a sketchy and incomplete way, ensues from the fall in the rate of pofit provoked by technical progress and the increase in the organic composition of capital. According to this conception, disproportionalities assert themselves only in and via competition among capitals at the point where the tendencies towards a fall in the rate of profit begin to prevail over the tendencies toward an increase in prices and in the mass of profit, at the end of the boom stage of the economic cycle.

This ambivalent and scarcely sound formulation of the theory of crises, in turn, reappears in a wider incongruity between the theory of crises and the theory of the processes of capital concentration and centralization. That incongruity was suppressed from Hilferding's conception in the years following Finance Capital's original publication by means of his formulation of a notion of "organized capitalism". According to this new notion, the processes of capital concentration and centralization completely eliminate crises and allow capitalist production, if managed by a democratic and socialist state, to become the basis for a peaceful, benign development that will enrich human society.

According to Hilferding's first conception of crises, proportionality among the various sectors and branches of production is the sole condition for the process of reproduction of capital to take place without any difficulties. Given the social division of labor and the private and decentralized character of the decisions regarding production, the maintenance of the relations of proportionality that must exist in production as a whole depends on the operation of the price mechanism. This mechanism, operating through alterations in the structure of relative prices, determines production expansion or contraction in each sector or branch, i.e., the distribution of production. Therefore, Hilferding maintains that the disruption of proportional relations must find its explanation in the disruption of or distortion in the structure of prices, which prevents them from giving an adequate indication of the sectorial requirements of aggregate production.

The main factor that may prevent prices from varying uniformly, thus bringing about disproportionalities, is the diversity of the organic composition of capital among sectors. Hilferding points out that the growth in the organic composition of capital attendant on the development of capital accumulation is differentially manifested in the various sectors and branches of production. This process, in turn, translates itself into a differential time extension, by sector and branch, of the maturity of the new investments, and therefore of the time required to expand production. The longer the time required to install a new productive facility, the harder it is to adjust supply capacity to the growing needs of personal and productive consumption. The wider the gap between supply capacity and demand, the more pronounced is the rise in prices, causing a relative increase in the pressure to transfer capitals into activities with a higher organic composition. The stimulus to expand investments in such activities is reinforced, in turn, by the effect of the increase in the organic composition of capital in terms of a rise in productivity, cost reduction, and generation of extra profits. Thus, as a result of the differential growth in the rate of profit, deriving basically from the differential response in supply, new flows of capital give preference to those sectors with a higher composition of capital. This produces a tendency toward excessive investments and overproduction in the sectors with a higher organic composition of capital as compared to those with a lower one. Duisproportionalities become manifest when the commoditiets of the former sectors reach the market, for the sale of these new products is hindered by the fact that production in the sectyors with a lower organic

composition of capital has not grown at the same speed. As a consequence, the overproduction crisis itself is more severe in those sectors with a higher organic composition of capital.

Up to this point, the foregoing conception of crisis is basically a new version of Tugan-Baranowsky's theory.[3] According to this author, cutbacks initiated by accidental overproduction in some key industries would damage sales in other industries and thus lead to cutbacks in the latter and so on, until such time as that which initially constituted a partial overproduction crisis becomes a general overproduction crisis. Hilferding's addition to this view concerns particularly the effects to the formation of cartels and of the monopolization process. In Hilferding's view, cartels are unable to alter the competition for investment spheres, hence they cannot prevent the emergence of disproportionalities. Furthermore, cartels prevent prices from dropping and thereby aggravate disturbances in the regulation operated by the price system, which in turn lead to disproportionalities. This is said to occur also because cartels put up with crisis situations by reducing production. Cutbacks in production imply an interruption of investments and the maintenance of high prices, making the effect of the crisis more serious to non-cartelized or less cartelized sectors and producing as a result a widening of the disproportionalities.

In his second conception of the causes of crises, Hilferding emphasizes the effects of technical progress and of the increase in the organic composition of capital as a whole on the rate of profit. However, his argument is rather brief and situates overproduction crises merely as a point in the cyclic movements of capitalist economy while failing to account for their nature. In this conception disproportionalities become simply and indispensable element of the manifestation of crises at the level of competition, without which they could not become effective. The relationship between his levels of analysis, however - the movement of a fall in the rate of profit in the economy as a whole and the movement of sectorial disproportionalities - remains unexplained.

In his treatment of crises Hilferding makes hodge-podge of two heterogeneous themes. This hinders him from distinguishing general crises or crises of absolute overproduction from partial crises or crises of relative overproduction. Partial crises are related to the process whereby market prices for individual commodities are regulated by (re)production prices, in which supply and demand interact and competition among capitals operates toward establishing an average rate of profit. These movements imply a process of regulation through constant imbalance and relative overproduction. Proportionate production is always the result of disproportionate production. In this sense,Hilferding's references to the need for uniformity in the movement of prices of different commodities represent a misunderstanding. As a matter of fact, the very inequality in the movement of the organic composition of capital in different sectors,as discussed by Hilferding, implies the existence of continuous alterations in relative prices. This condition of uniformity is valid only for the examination of the formal conditions of the process of reproduction and circulation of capital as a whole.Reproduction

schemes have been conceived of by Marx at a very high level of abstraction, hence they deliberately ignore many of the characteristics of capitalist reality, such as, the average rate of profit, production prices which diverge from direct prices, foreign trade, etc. To claim that the non-fulfillment of the requirement of uniformity in the movement of prices represents _per se_ a causal element in generating a crisis of disproportionaly is to be unaware of the very mechanism through which proportionality is reached. Hilferding appears, therefore, to ignore the fact that proportionaly among the different spheres of production flows from the process of a continuous disproportionality on the basis of competition among capitals. This misunderstanding arises from an attempt to mechanically apply the conclusions drawn from Marx's abstract formulation of the schemes of reproduction directly to the analysis, or rather to the concrete process that take place in the real world of capitalist production.

Hilferding is consequently wrong in asserting that general crises result from partial crises or crises of relative overproduction. It is indeed a fact that in general crises absolute overproduction begins to manifest itself as an overproduction of the main commodities and branches of production. However, those general crises are a phenomenon of an altogether distinct nature enveloping technical progress, the increase in the organic composition of capital as a whole, the increase in labor force productivity, and the drop in profitability. Thereby a fall in the pace ov investment and generalized problems of realization of surplus value is promoted. For this reason, Hilferding's argument that those general overproduction crises necessarily manifest themselves through sectorial disproportionalities cannot be accepted either. The simultaneous occurrence of absolute overproduction, bringing about the collapse of the capitalist system and of partial overproduction,is possible and points to the simultaneous presence of the result of two different self-regulating methanism in the system, except that in the case of a general crisis the very existence and historical continuity of the system are at stake.

Thus, in either of his two conceptions about the causes of crises Hilferding deviates from a conception of capital accumulation governed by the contradictory character of its endogenous laws such as expressed in the general law of capitalist accumulation and the law of a tendential fall in the rate of profit.

In contrast with Hilferding, who saw in the diffusion of monopolies only a factor aggravating crises, Steindl (1976) presents a theory of capital accumulation and crises that is decisively based upon the notion of oligopoly and excess in productive capacity. In this way, Steindl complies with Baran and Sweezy's (1966) requirements according to wich the diffusion of monopolies implies a qualitative change in the laws of capitalism, rather than merely a quantitative one as in the case of Hilferding's theory.

According to Steindl(1976, chapters IX, X, and XIV), the crises of capitalism in the twentieth century originates in the diffusion of oligopolistic market structures. Oligopoly

diffusion is said to imply a reduction in the degree of competition, i.e., a weakening of the intensity in the struggle for different markets, as a result os which the profit margin and the rate of profit would increase. However, given that the demand for consumption goods would not increase, the additional resouces obtained wuold be invested in non-utilized productive capacity (at the level of economy as a whole rather than sectorially, as in Hilferding) and thus give rise to problems of realization of accumulated profits.

An alternative mentioned by Steindl would be the investment of those additional resources in a modification of the structure of capital, thereby solving the problems of realization of surplus value as increased by oligopolies. HOwever, that alternative is disregarded on the grounds that the intensification of capital utilization would cause a fall in the rate of profit, something that capitalists seek to avoid at all costs. The increase in the rate of accumulation is thus translated into an overproduction of capital with formerly existing production methods, generating undesirable excesses in productive capacity. Those excesses in capacity tend to be eliminated by competition among capitals, but owing to the growth of oligopoly itself, competition is continually less operative, allowing excesses in capacity to persist for a long while without causing their elimination. Those undersirable excesses in capacity are then said to bring about a depressing influence upon capitalists' decisions concerning investment, with a resulting decline in the rate of accumulation.

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Grounded on that reasoning, Baran and Sweezy (1966) identify a need for exogenous measures to overcome the gap in aggregated demand originating in monopoly capital's tendency toward overproduction. They then offer their interpretation of a number of phenomena in contemporary capitalism, such as, the state's civil and military expenditures, expenses for propaganda and conspicuous consumption, foreign investments and imperialism. These would be compensatory forces to offset monopoly capital's tendency to overproduction.

As a general result, the theory of monopoly capital implies a complete abrogation of the endogenous laws of capital movement. Instead of a tendential fall in the rate of profit, there is a tendency to an increase in the mass of profits which finds no endogenous possibilities of realization.

We have already seen how the law of value is virtually displaced as the central element in the process of price formation. This flows from the conception that the processes of capital concentration and centralization cause a progressive elimination of competition, thereby turning the fixation of prices into a process that is either regulated or managed by financial capitalists. Another central aspect in that process of price determination (in this specific case, production prices) - i.e., the constant imbalances between supply and demand, thus determining the necessary existence of idle capacity in different spheres of production - is transformed into empirical evidence of a presumed excess of accumulation of capital as a whole. Productive capacity reserves, which are normal owing to the forcible

articulation between enterprises and independent production branches, are thus transformed into evidence of redundant productive capacity at the level of the economy as a whole, a capacity that should be utilized by manipulation the exogenous factors of demand.

The abrogation of the general endogenous laws of capital movement takes place, moreover, because the capitalist stimulus to increase the production of surplus value by every means available, particularly by the growing mechanization of industry, which is inherent to the labor process and the concept of capital, simply disappears from Steindl's and Baran & Sweezy's analyses. The tendency to mechanization is a first-order factor that, independently of competition among capitals, conditions technical progress and sets the limits to the process of capital accumulation. Furthermore, competition among capitalists - which is a second-order factor in the mechanization process and acts in the sense of sorting out and selecting those alternatives in technological innovation that may be translated into lower costs, hence into effective weapons in the competitive struggle - is increasingly less operative as a stimulus to the process of capital accumulation as a result of the diffusion of oligopoly.

The general result to which we are led by the theory of monopoly capital is a tendency to the stagnation of capital accumulation and crises of realization, which can be overcome only by the manipulation of exogenous factors in aggregated demand, where the state occupies a central position. As we shall see below the displacement of the contradictions that are inherent to the capitalist mode of production into the strict sphere of political activity is another common link between Hilferding's theory and its contemporary versions.

A central aspect of the theory developed by Hilferding, and one which was even projected in his intellectual and political activities in the years following the publication of <u>Finance Capital</u>, is the contradiction between the theories of capital accumulation and crisis and the theory of the processes of capital concentration and centralization.

As we have seen, Hilferding argues in Part IV of <u>Finance Capital</u> that monopolies aggravate crises in capitalism. In the fifth and last part of his book (The Economic Policy of Finance Capital), where he discusses the problems of national and international conjunctures, the development of finance capital is associated to an intensification in the struggle for power among surviving capitalists. Political power and state support become increasingly decisive factors in the competitive struggle. Disputes among capitalists, in their turn, transcend national borders, each country's finance capital seeking to develop national policies designed to expand their economic scope as well as defend the territory already under control. Among the major aspects of the emerging sharp international economic rivalry are protectionist commercial policies, political support for foreign investment, and the market growth in the military capacity of nation states.

On the other hand, within each individual nation, Hilferding points out that the development of finance capital

also aggravate rhe system's contradictions. In the economic shpere finance capital contributes to an increase in the incidence of sectorial disproporcionalities, thus strengthening the tendency to the appearance of crises. In the political sphere, the increasing evidence of a reduction in the class of large capitalists contributes to heighten class consciousness in a growing mass of workers.

In the final part of his book Hilferding thus assrts that the development of finance capital proceeds in the direction of a violent clash between nation states, stimulating a unprecedented increase in poverty and social unpheavals of a revolutionary nature. Hilferding next argues that the proletariat's response to such circumstances should be socialism, the organization of production, and the conscious control of economy by and for the benefit of society at large. However, he feels that this process of overcoming capitalism may have a slow maturation throught the labor class control over the state apparatus. For the socialization of production has already been largely carried out by finance capital's control over the more important production spheres. Therefore, rather than proposing a revolutionary transformation of the capitalist mode of production, Hilferding favors its reform so as to gradually transform capitalism into socialism.

According to Shaikh (1985], these political in favor the evolution and reform of capitalism, in spite of Hilferding's theory of crises his conjunctural analysis, are mode possible in the context of <u>Finance Capital</u>, thanks to the fact that Hilferding separates the laws of capitalism from the laws of capital. Such separation flows from his conception of the state as an independent and neutral power whose loyalty and obedience could be transferred from capitalists to workers. In rejecting the notion that the cap - italist society's economic structure ultimately dominates political and legal relationships, Hilferding rejects the notion of the capitalist state as a class state. In so doing he can be said to be rejecting the very notion of mode of production. Lenin's criticism of the concept of state could then have been the one that allowed him to make an extensive use of Hilferding's arguments,while at the same time reaching radically different political conclusions.[4]

The tendency of finance capital to aggravate the contradictions in the capitalist systems, as expressed by economic crises and in the clash between different nation states, however, does not correspond to the rationale of Hilferding's analysis of the processes of capital concentration and central - ization.A central topic in his analysis of such processes is the increasing economic and social control exercised by monopolies and finance capital. Separately viewed, his analysis presented in the first three parts of Finance Capital emphasizes the conscious regulation of production to be exercised by a general cartel and a central bank. This implies denying the existence of an intrinsic tendency toward economic crises in a system dominated by finance capital, as well as denying the tendency to a confrontation between the distinct national forms of finance capital and their respective states.

What happens, however, is that both in his analysis of crises and in his political analysis Hilferding succeeded in avoiding the logical conclusion that a sufficient degree of cartelization and development of finace capital at the national and international levels would reduce the probability of sectorial disproportionalities, economic crises, and armed clashes between nation states. The formation of a general cartel and the unification of the different national segments of finance capital were thus transformed into a very remote possibility.[5] As a corollary, Hilferding managed in Finance Capital to evade the conclusion that monopolies do indeed render capitalism more manageable.

As we have observed, however, his theory of the causes of crises in either of its two versions does not succeed in adequately grounding the need for general crises in capitalism. In the first version partial crises may eventually become general crises of absolute overproduction. In the second one, disproportionalities are viewed as simple manifestations of general crises deriving from the cyclic evolution of capitalsit economy, whose features, however, are not duly clarified. This hesitation in the theory of crises, as well as the contradictory character of his analyses of crises and of the processes of capital concentration and centralization, such as presented in Finance Capital, are later overcome by Hilferding's development of the notion of "organized capitalism".

The notion of "organized capitalism" emerged in the historical period following 1918, when Hilferding became a leader in Germany's Social Democracy which held power through a coalition in the Weimar Republic (1918-1933).[6] With his notion of "organized capitalism" Hilferding definitively abandoned the notion of general crises as a necesary feature of capitalist dynamics, the latter, in turn, coming to be conceived of as a force pushing in the direction of a benign, peaceful, and enrichening development of human society, if properly managed by a socialist and democratically-oriented state.

Bottomore (1981) sums up Hilferding's conception of "organized capitalism" in the following words:

> "This conception involved three main elements: first, that modern capitalism at the national level had succeeded - as a result of the economic dominance of the large corporation and the banks and the changed relation of the bourgeoisie to the state, which had led to extensive state intervention in the economy - in introducing a degree of planning into economic life; second, that such planning had spread, to some extent, into the international economy, with the consequence that the postwar relations between capitalist nation states had come to be characterized, in Hilferding's view, by a 'realistic pacifism'; and third, that these development had necessarily altered the relation of the working class to the state. On this last question, Hilferding argued that, in the new democratic system of the Weimar Republic, the task of the working class was to extend democracy by reforming the educational system and the administration of justice, reducing the powers of the president of the Reich, and providing real opportunities for the mass of the people to participate in political life; and at the same time to use its political power to transform an economy organized and planned by the great corporations into one which was planned and controlled by the democratic state" (p.14).[7]

Finance capital is the underlying concept in current explanations of how the capitalist mode of production operates in the twentieth century. It has attracted significant attention mainly through the works of Lenin (1968), Bukharin (1973), Sweezy (1976), and Baran and Sweezy (1966). In the case of Baran and Sweezy, finance capital has received a more in-depht treatment and their work stands as the cornerstone of the theory of monopoly capital.

This paradigmatic characteristic of Hilferding's work defines the relevance for its critical examination. In this sense, this discussion should be considered as a study of an outstanding chapter in the history of economic thought. For this reason, an analysis of the contemporary works of Sweezy and Baran, as well as the contribution of Kalecki and Steindl - which helped to give a more robust structure to the analysis of monopoly capitalism - were considered outside the scope of this work.[8] For this same reason a systematic examination of the links between Hilferding's work and contemporary versions of monopoly capital theory have received only cursory treatment, perforce limited to a few specific aspects.

The conclusions reached in this paper suggest a further step - a critical examination of the contemporary models of monopoly capitalism. This examination has already been initiated by some authors, thereby developing a new area of critical work in political economy.[9]

In drowing this conclusion, it is in order to consider a brief methodological observation about Fiannce Capital. In this work Hilferding demonstrated an enormous creativity in conceptually appropriating and synthetizing the complex realities of a specific historical period in capitalism. However,given the superficial character of his elaboration of theoretical concepts, the passage from the more abstract categories to the more concrete ones is made in such a way that the limits of variation in the concrete and more complex forms are not clearly established. Monopoly, which is an actual expression of capitalist competition, is thus perceived as something opposite, which dines the essence of competition itself. Corporations and financial groups, which are an actual expression of capital development in the form of interest-bearing capital, are perceived as a dominance of banking capital over industrial capital and as the negation of the private character of capitalist property. The increasing subordination and widening of the state's functions as a capitalist state are perceived as a separation of the state from the laws governing the movement of the capitalist mode of productin. As a corollary, this process of conceptual appropriation of the new forms translates itself into an abandonment of the very essence of the phenomenon that is being interpreted. The new forms, incorrectly interpreted as they are, become a new substance.

The incorporation of new forms into the theory, i.e., the appropriation of reality by increasingly complex concepts, is indispensable for the development of a critical view of political economy. However, the concretization of abstract concepts is not a scientifically neutral procedure. Concretization is guided by the practical application of the knowledge being generated. In this sense, the concept of finance capital as formulated by Hilferding cannot be dissociated from his social practice as a theorist and leader of European Social Democracy during the first three decades of the twentieth century.

FOOT NOTES

(1) Baran and Sweezy (1968), p.5.

(2) See Shaikh (1981, 1982).

(3) Jacoby (1975).

(4) See Shaikh (1985).On the first page of Imperialism, the Highest Stage ofCapitalism, in a reference to Finance Capital,Lenin (1968) points out that "In spite of the author's mistake regarding the theory of money, and in spite of a certain inclination to reconcile Marxism and opportunism, this work affords a very valuable theoretical analysis of the latest phase of capitalist development, as the subtitle of Hilferding's book reads.

(5) See Shaikh (1985). At the end of chapter 20 Hilferding points out (p. 297) that "In itself, a general cartel which carries on the whole of production,and thus eliminates crises, is economically conceivable, but in social and political terms such an arrangement is impossible, because it would inevitably come to grief in the conflict of interests which it would intensify to an extreme point".

(6) Concerning Hilferding's public life as an intellectual, politician, and economist, see Edinger (1956), Sweezy (1973), Bottomore (1981), Rabinbach (1983), and Hájed (1985), among others. At the end of the 1981 edition of Finance Capital Bottomore has listed a series of works about Hilferding's life and work.

(7) See also the article "The organized economy", originally published by Hilferding in 1927. See Hilferding (1983).

(8) In the case of Kalecki (1939 , 1943 and 1954), one of the most relevant aspects is his introduction of the concept of "degree of monopoly" in the analysis of the capital accumulation processes. Sweezy (1977) argues that as a result of the continuous increase of the "degre of monopoly", surplus value should progressively grow and reduce wages' share in the product,thereby

generating a permanent tendency to overaccumulation and stagnation. This issue is subsequently addressed by Steindl (1952), who intended to demonstrate, on the basis of detailed research on U.S. industrial structure and performance, how the growth of monopoly became a "slowing down factor" in the process of capital accumulation.

(9) In this connection, salient works are: Cogoy (1977), Mattick (1977b), Shaikh (1978), Castro (1979) and Semmler (1984).

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