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INTRODUCTION

In his general analysis of the evolution of capitalism, Marx had posited that industrial capital would subjugate (autonomous) financial capital, manifested in the private banking infrastructure, on the grounds that interest-bearing capital derives from the capitalist production process (and is therefore ultimately dependent on it) and further that commercial credit was a secondary function (merely concerned with facilitating circulation) to the value-adding production process (p.468) (Marx 1971).

Yet, shortly after Marx, events appeared to contradict his prediction. The rise of the joint-stock firm, for instance, suggested that (investment) banks had gained decision-making power over the corporate(s) through integration – the Hilferding notion of *finance capital* (Hilferding 1910; Lenin 1996). Substantial tribute is also, of course, extracted from the economy in the form of interest. I argued, in a previous AHE paper, that financial *rentiers* are now less integrated, strengthening their position relative to productive capitalists (Mouatt 2005). Hedge funds and private-equity firms that ‘short-sell’ leveraged funds for instance, that are authorised by the decisions of private bankers, are able to manipulate currency and stock prices that can belie the market fundamentals and bamboozle small investors. Redistributive accumulation, asset stripping, and corporate monopolization can then follow any subsequent currency (or share-price) shock. It seems that finance (and those that control it) has triumphed. Yet, there are contemporary signs of systemic weakness. Banks are increasingly exposed to the vagaries of international financial markets and earn a smaller proportion of profit from interest. In addition, firms are now less dependent on the bankers, as a result of retained profits, and are also further developing their own monies, payment systems and banks. This financial innovation, with new circulation channels, requires a re-think on (modern) money.

This paper traces these monetary developments and argues that, largely as a result of the information revolution, a latent corporate monetary system - derived from new monies and technologies, is emerging that challenges prevailing monetary notions. This new *corporafinance* system is perhaps poised to replace the present financial system, comprised of commercial and investment banks, in the event of a major monetary collapse. In the final analysis industrial capital might, as Marx had thought, subjugate autonomous financial capital.

MARX AND MONETARY EVOLUTION

Generalised monetary discourse, as Niebyl noted in his review of the classical period, is often problematic since the theoretical development and empirical work on money has predominantly pertained to a specific historical context (Niebyl, 1946). Consequently, abstract theories of money, that can be universally applied, are often non-existent or impractical. Furthermore, monetary theorists (often from the same school of thought) have historically disagreed on the origin, nature and function of money *per se*. Notwithstanding, much of the prevailing monetary thinking has been loosely based upon ideas formed during the industrial revolution (IR) and its immediate aftermath – the very context that Marx formulated his thinking. Marx begins by identifying the ‘older’ forms of capital and states his case:

“The commercial and interest-bearing forms of capital are older than industrial capital, which, in the capitalist mode of production, is the basic form of the capital relations dominating bourgeois society – and all other forms are only derived from it or secondary: derived as is the case with interest-bearing capital; secondary means that the capital fulfils a special function (which belongs to the circulation process) as for instance commercial capital. In the course of its evolution, industrial capital must therefore subjugate those forms and transform them into special functions of itself” (Marx, p.468)

Interest-bearing capital, of course, is loaned (by the owners) at interest to industrial capitalists and therefore depends upon the production plans taking place. Marx further argued that, as capitalism developed, the subjugation of this capital form results from two processes. First, the ‘violence’ of the (bourgeois) state would lead to the enforcement of lower interest rates, to the benefit of industrial capitalists who then gain a larger proportion of surplus value.¹ Secondly, the subjugation derives from the emerging (bourgeois) credit system that, Marx sees as a purposeful creation of the capitalist mode of production, in order to gain the surplus value traditionally extracted by the usurers (Marx 1971). He further predicts this credit system evolving as the scale of manufacture increases. The banking industry indeed experienced a major transformation, throughout the IR, and new financial structures were (arguably) one of the main drivers. Deane, for instance, explored the role of the banks during this time and concluded that the emergent banking structures enabled capital to be raised, to fund the development of factories, and provided a means to save and reinvest accumulated wealth (Deane 1988). In a similar way the current Information Revolution (IR2) is resulting in its own set of changes to monetary structures, to meet the needs of the emergent electronic and virtual interactions. As the new forms of banks and money became the main IR driver, the emergent financial structures are likely to be a cornerstone of IR2.

Marx also explains how commercial capital will be subjugated, as the merchant (of the Middle Ages) becomes transformed into the industrial capitalist. In the former instance, the merchant (and commercial capital) had dominion over the ‘producing’ guilds, or

¹ However Marx sees this as pertaining to a ‘lesser-developed’ capitalist economy Marx, K. (1971). *Theories of Surplus Value: Part Three*. Moscow, Progress.

peasant craftsman, since they chose (or not) to purchase their wares. In the latter scenario, the producer is himself the merchant and commercial capital becomes simply an “intermediary only in the circulation process” and therefore more subject to the industrial capitalist (Marx 1971). This process, of course, becomes even more apparent as large-scale production emerges, since the market power of the firm is enhanced.

FINANCE CAPITAL

As capitalism developed, following the death of Marx, the provision of equities, bonds and loans from the private banking infrastructure all came to be considered as *financial capital* - provided for the purposes of the industrial capitalist. Yet, the Hilferding argument was that, as the joint-stock firm enabled much larger scale production and monopolization, the financial arrangements that facilitated this ceased to be conducted at ‘arms length’. The banking ‘decision-makers’, therefore, became integrated with the industrial capitalists as a result of corporate shareholdings by banks, social links (bank directors appointed to corporate boards) and the detailed (bank) knowledge of corporate financial transactions. Hilferding considered that, in this context, bankers had the ‘upper hand’ and effectively determined the future trajectory of capitalism (Hilferding 1910). This meant that circumstances appeared to be moving away from Marx’s prediction. To complicate matters further, the state enhanced its role in the financial system.

THE ERA OF THE FINANCIAL STATE

The immediate aftermath of the depression led to calls for the state to play a larger role in the financial system. Milton Friedman had, for instance, identified a state-driven credit squeeze as the root cause of the deflation. In addition, monetary reformers like Keynes, Wicksell and Fisher, had advocated increased (state) monetary policy to combat the increased magnitude of the trade cycle oscillations of the early twentieth century. So, the Bretton Woods ‘golden age’ era began, characterized by low interest rates, state-intervention, a fixed exchange-rate regime and a dollar-exchange anchor. Yet, as Helleiner has noted, the (private) banking lobbyists soon pressurized post-war governments towards financial liberalization, in the form of capital control removal and deregulation, eager to profit from prospective changes (Helleiner 1994). As soon as the dollar came under pressure, coupled with OPEC oil price rises, currencies floated and exchange controls were removed.² There are several calls, of course, in the present era, to re-establish the multilateral regulation of the international financial system in order to mitigate speculation and avert the continuation of the currency crises of recent times.³

² Robert Triffin had predicted that the dollar-exchange system would come under pressure due to the conflict between liquidity needs and the maintenance of confidence in the international reserve currency Triffin, R. (1960). *Gold and the Dollar Crisis*. New Haven, Yale University Press.

³ The Asian crisis of 1997-98 provides a good example of the damaging effects of un-regulated private capital flows.

LIBERAL FINANCE

As the profit margins of the private banking infrastructure increased, during the seventies, it appeared to many that the financial sector was becoming more autonomous from industrial capitalists (Strange 1988; Griffith-Jones 1998). It is interesting to note that whilst the discourse on financial crises during the eighties and nineties tended to emphasise the unregulated volumes of monies, circulating around the international financial markets, and the autonomous nature of (private) financial agents, the focus is *now* on the vulnerabilities of commercial and investment banks to the vagaries of the system. Interest payments, for instance, now only form approximately 20% of bank profits - the remainder being sourced from fees, charges, commissions and bank trading positions. It has also been estimated that a 12% crash in aggregate derivative prices would now lead to the bankruptcy of the majority of the world's banks (Brown 2007). If the financial state has declined, and the private banking infrastructure is showing signs of a profit-squeeze, then which entities have gained financial power at their expense? The central argument of this paper is that emerging corporate monies (and payment systems), *corporafinance*, are encroaching on the private banks - driven by the profit-motive.

THE RISE OF NONBANKS

Even if we reject Marxian notions of the capitalist trajectory, where firms seek to realize increasingly more surplus value to offset the falling rate of profit, the generally accepted corporate imperative is still the pursuit of profit. Yet, as previously stated, there are fresh challenges for firms, since IR2 and innovation have led to new channels of financial circulation, and financial liberalization has also contributed towards a more (competitive) global economy. The companies most likely to succeed in this environment, as Lietaer noted, are the ones most able to combine electronic knowledge systems with production. If this is extended to the development of corporate monies, banks and payment systems this will further strengthen their competitive position (Lietaer 2001).

So nonbanks are playing increasingly significant roles in the financial world. Bradford *et al* have examined their varied roles in payment activity, in both traditional and emerging systems. As a consequence they have complex relations with the banks and payment system users. In addition, since they are rarely directly involved with final settlements, they appear, at least, to be less associated with systemic risk. In reality, however both banks and nonbanks are susceptible to operational risk factors (Bradford T. 2002).

A follow-on study by the European Central Bank and Federal Reserve Bank of Kansas City further confirmed the growing importance and influence of nonbanks (p.45) "Retail payments systems throughout the world are undergoing fundamental change. Traditional paper-based forms of payment are giving way to electronic forms of payment. Technology advances are making possible new front-end payment instruments and new back-end processing methods. New products, business models, new markets, and new alliances are an everyday occurrence (ECB/FRBKC 2007). The margins on internet payment transactions, for instance, are lower than ones for traditional electronic retail

banking and the corporations, through financial innovation, are therefore able to further encroach upon traditional bank business.⁴

Another feature of the new financial landscape is that retailers have diversified into financial services, challenging banks in their own core markets. Since retailers have strong brands and customer responsiveness they often have stronger market knowledge. Yet, as Welch and Worthington have identified, retailers have so far adopted a selective approach to the provision of financial services and do not cover the wider range offered by banks (Welch 2007). Notwithstanding, the retailer threat to retail banking is likely to continue. Retailers have strong customer relations, provide services and tie in customers with reward schemes. In addition, a customer is more likely to meet a retail manager than a bank manager. Conversely, the banking trend has been towards ATMs and 'distance banking', driven by cost-saving motives, and bank-customers rarely get to see banking personnel. In contrast, retail customers regularly visit their preferred retailer for weekly shopping or for a variety of other goods such as medicines, mobile phones, kitchen items, white goods, electronics goods, books and CDs. Much financial innovation by nonbanks, therefore, has been driven by the development of closer customer interaction.

The large retailers have also developed a low risk approach to the commercial exchange of commodities. Typically, contracts with suppliers, and the lean distribution networks, mean that a customer will pay for their weekly shopping bill at the checkout before the suppliers have been paid for the very same goods. Indeed, the small suppliers can wait for months before receiving payment from the large retailers. The low risk approach of retailers extends to other aspects of the supply chain relationship. Subramani identifies, for instance, that supplier-retailer relations are complex and uneven, especially where there are technology dominated supply chains, since a small supplier will need relationship-specific investments and are effectively locked-in to a retailer. The large retailers effectively offload much of the risk to their wider supplier network (Subramani 2004).

The Centre for the Study of Financial Innovation, a London based think-tank, at the end of the 1990's, initiated an investigation into the "non-bank" phenomenon within Europe and how this would impact the retail banking sector. The report concluded that the new entrant retail players did pose a serious threat for the long term, though the inroads made by retailers at the time into the financial sector was limited (Lascelles 1999). It seems that the corporate sector is poised to make a serious impact on the retail banking sector, and its financial systems, facilitated by technology-led innovations. As with the IR1, our current IR2 is resulting in the development of a new network of financial systems and structures, which are changing and challenging the existing financial power structure.

However, the retail sector is not the only threat to the retail banking and financial sectors. Car manufacturers, for instance, have found that the development of finance houses, for car credit, has been an anecdote to tighter margins in recent years. GM capital provides another example of multinational corporate finance houses (Houghton-Budd 2005). Another threat, of course, is the development of alternative and complementary

⁴ This has been further enhanced by the development and licence of public key cryptography.

currencies. Edward De Bono, whilst writing for the Centre for the Study of Financial Innovation in 1993, had raised the (future) concept of the ‘IBM Dollar’ or large corporation Dollar that might appear in generalized circulation. The idea was that a corporate currency could be linked to (future) company products and, a secondary market could ensure minimum risk for holding. In this manner the ‘targeted (tied) currency’ could insure against inflation (Bono 1993). David Boyle has also suggested something similar to the concept of corporate money, that of new money systems for large urban centres such as London. These would effectively form a ‘regional-corporation’ money covering significant expenditure items within that region, such as transport and local economic exchanges (Boyle 2000). Examples already exist with the Oyster card system in London and the Octopus cards in Hong Kong, which can be used to purchase non-transport items. Similar systems have been applied in other cities around the world, one of the most recent being in Dubai (Octopus 2007). The Oyster and Octopus systems do not really perform the full functionality of a dual currency system suggested by Boyle that can operate alongside existing financial systems. Possibly the closest example of such a system is the ‘Wir’ system in Switzerland: “Wir - short for Wirtschaftsring (economic circle) - is Europe's oldest barter network, aimed specifically at smaller companies, and is now so widespread in Switzerland that it amounts to a virtual currency in parallel to the Swiss franc. Wir started in 1934, the brainchild of two followers of the economist Silvio Gesell, who urged the creation of negative interest currencies.⁵ By 1993, it had a turnover of £12 billion and 65,000 corporate members (Boyle 2002). Alternative and complementary currencies, from local authority and grassroots sources, have both received much more interest of late as a result of the widespread uncertainties surrounding the financial systemic vulnerabilities (Lietaer 2001).

A large city can have enough participation and economic activity to generate its own dual currency, to compete with and complement the existing formal currency and financial system. However, the same may also be true with dispersed groups that engage in mutual exchanges, say commercial or socializing networks that use the Internet to shrink the distances between the participants. Technology innovations are set to continue, making deep changes in the financial services sectors. The next technological evolution of the Internet – Web2.0, for instance, is set to have a big impact on the range and type of financial services that will emerge, as well as bringing in even more new entrants to the financial services market place (Towell 2007).

Interesting examples of corporate networking financial systems have emerged with a host of voucher systems. Examples include book and music vouchers, retailer vouchers (e.g. Tesco, Wal Mart vouchers etc), and Airmiles. An interesting collaboration of ‘vouchers’ has emerged in Ireland with the ‘One4all® Gift Voucher’, which uses the one voucher for 4000+ retail outlets (One4all 2008). This has recently been expanded to some parts of the

⁵ Gesell argued that, since money is not subject to entropy, the function of money as exchange is hindered. Supply conditions await demand and demand is subject to the ‘holding back’ of monetary resources. If monies deteriorated in value, the onus would be on the exchange of goods and services Boyle, D., Ed. (2002). *The Money Changers*. Ebbw Vale, Earthscan.

UK and Malta. Again these city systems and networking systems are driven and supported by the information and communication technology at the heart of the IR2.

THE BANKING SECTOR FIGHTS BACK!

Notwithstanding these threats to their core activities, there have also been several innovations initiating from the banking sector itself. Changes include ATMs, call centres, telephone services and internet banking. There have also been many new innovative financial instruments such as futures and derivatives which offer a 'quick turn round' of financial products for large investors. The repackaging and reselling of sub-prime mortgages is another recent and topical example.⁶ Yet, whilst the banking sector has been innovative in their core markets, an increased level of abstraction of money and increased customer distance has occurred as finance becomes more divorced from actual production.

In a speech at the Philadelphia Fed Policy forum in November 2007, Governor Randall Kroszner discussed some of the innovations and challenges within financial markets, particularly relevant in the wake of the sub-prime mortgage crisis. Kroszner argued that sufficient information about financial innovations is paramount for stakeholders in order to clearly understand the (real) risk and maintain market stability (Kroszner 2007). It has been recognized that a major failing, prior to the sub-prime debacle, was the AAA investment grade rating given to the securities when the rating agencies were not (legally) required to carry out an appropriate credit risk assessment (Kregel 2008). In this instance the state regulators have clearly lagged behind the innovators. Another major strand of Governor Kroszner's speech was the need for the standardization of financial instruments. Standardisation, it is argued, will improve the information needed to support stakeholders in understanding market risks and facilitate market stability. Yet, despite their advantages, the latent IR2 *corporafinance* processes, therefore, are likely to lead to even more innovation and, by implication, more instability until the currencies reach a 'critical mass' of social acceptance.

It seems clear that corporations are developing their own financial instruments, in parallel to the financial services, which is evident from the proliferation of voucher systems and electronic transactions by the retailers and wider corporations. I have used the term *corporafinance* to describe these developments, derived from the wider retail and corporate market spaces. In Marx's time, in the recent aftermath of the IR, industrial capital concepts were based on the production of physical commodities. In IR2, however, the focus is more service and information centred. As such, the industrial capital of IR1 has evolved into the *corporafinance* of IR2, as individual capitalists seek to secure a larger proportion of surplus value.⁷ These latent corporate monetary systems, or *corporafinance*, are also challenging prevailing monetary theory. Banking and monetary

⁶ Much of this activity has derived from the blurring of the boundaries between commercial and investment banking, following financial deregulation e.g. the reversal of the Glass-Steagal act in the USA (1999).

⁷ In the last three decades there has been substantial tribute accrued by the private banking infrastructure.

text books will also need to be rewritten as the new *corporafinance* system is (perhaps) poised to replace the present financial system – the ‘writing is already on the wall’.

This market view of the emergence of *corporafinance* could also be considered as a variant of the Hayek free banking proposals. The natural progression of a Hayekian philosophy should be an explosion of increasingly abstract levels of money, from the banking and financial sectors, in conjunction with any corporate monies and complementary currencies. However, the increasing volume and abstraction, without margins of safety, could lead to a point where there is substantial (at least in the short-term) systemic risk. The increased abstracted volume of money will surpass sustainability and a potential crash will collapse the banking and financial sector in a debt deflation. In the Hayek view, of course, the money competition in a relatively free market, would eventually deliver a system that achieves the common trust necessary for stable money and fewer currencies (Houghton-Budd 2005). It could be argued, therefore, that the industrial capital, or *corporafinance* system, since it has a more solid foundation - dealing directly with commodity items, is more likely to become predominant in the event of a major crash. However this is problematic since, as Handy noted, firms are not democracies but autocracies (Handy 1992). It is a concern of this paper that these *corporafinance* processes would lead to a concentration of power amongst the corporations, with a subsequent (state) democratic deficit. A consideration of these implications is, perhaps, the subject for another research paper.

CONCLUSION

The main conclusion is that Marx’s view of industrial capital ‘subjugating’ the private banking structure, as capitalism evolves, seems to be a correct one. It is not claimed, however, that Marx is the sole antecedent of the contemporary notion. Edward de Bono, for instance, had posited the future possibility of corporate currencies and Bernard Lietaer had suggested the same possible scenario (Bono 1993; Lietaer 2001). Yet, Marx can probably be considered to be the earliest proponent of the view.

The paper also introduces the concept of *corporafinance* and argues that this term denotes the growing strength of corporate finance, relative to traditional retail and investment banking. As the corporates (manufacturers, internet firms and retailers) encroach on the bankers core activities they force them to increasingly compete on cost, leading to distanced customers. This further undermines their sustainability since the corporates offer new services and closer customer interaction.

The sustainability of the banking industry, therefore, seems shakier than in previous decades. If there is a collapse in the banking sector then *corporafinance* could step in and replace the banking infrastructure as the prime power of capital. In the absence of a collapse then the trend is still towards a more insular banking industry, more abstract sources of funds and a riskier monetary base. It is further concluded that the trend in industry and the non-banking sectors is towards a more stable monetary foundation, supported with innovations and closer contact with customers and commodities.

Industrial capital, in this scenario, might well subjugate financial capital by stealth. Yet, it is argued, this will inevitably lead to a democratic deficit and the increasing centralization of social power in corporate hands.

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