A New Finance Capital? Theorising Corporate Governance and Financial Power

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One of the most striking gaps in the extensive body of Marxist social science is a substantial theory of corporate governance. To be sure, scholars like Kees van der Pijl and William Carroll have extensively mapped intercorporate networks of power, thereby gaining valuable insight into contemporary capitalist society.[1] Nevertheless, missing from this literature is an awareness of the institutional formation, restructuring, and internal dynamism of the corporation, and how this is shaped in relation to its insertion within a broader, evolving structure of accumulation. In other cases, standing in for the corporation as a concrete organisation is the often highly abstract concept of 'capital.' For instance, Anwar Shaikh's 1000-page magnum opus, *Capitalism*, while helpful in clarifying the inner logic of capital, contains no mention of any actually existing corporation, let alone analysis of the emergence and reproduction of specific firms or types of corporate organisation. Focusing on this 'logic of capital' alone, in abstraction from the historical forms in which it is embodied, misses what is most dynamic about capitalism: how it is organised and restructured

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over time. This reflects the tendency for Marxists—including Marx himself—to forsake institutional analysis in the search for general economic laws. Similarly, despite the development of Marxist state theory, such writers have only begun to map the complex interconnectedness of states and corporations. Such theorists have tended to depict the state as an agency that *intervenes* in an external 'economic sphere,' or *relates to* 'capital,' understood in either case as a functionally integrated, closed system such as that described by Shaikh.

Rudolf Hilferding's *Finance Capital* points to a road not taken towards such a Marxist theory of 'corporate governance': that is, the historically evolved institutional mechanisms and channels within firms for pooling, mobilising, investing, and accumulating capital, as well as managing production processes. Hilferding's work remains foundational for any Marxist analysis of corporate capitalism methodologically, analytically, and politically. For one thing, it is the core text within classical Marxism addressing the emergence of particular forms of corporate organisation, and in tracing how these institutions mediate and realise the structural logic of capitalism. In this regard, Hilferding anticipated what we have called Institutional Marxism—which sees institutions as emergent properties of capitalist society, as discussed below. More specifically, Hilferding's sophisticated analysis of the tendency for corporate organisation to enhance the dominance of money-capital over production, and his theorisation of finance capital not as the financial *sector*, but rather in terms of a specific *fusion* of financial and industrial capital, are crucial for understanding contemporary 'financialisation.' Rather than being characterised by financial parasitism on non-financial firms, as it is often depicted, neoliberal financialisation has entailed a process linking the internal restructuring of industrial corporations with the rise of finance across the economy more broadly, marked by the enlarged dominance of money-capital. This has not simply meant that financiers become industrialists by gaining control of corporations, as had been the case in the nineteenth and early-twentieth centuries, but also the obverse: industrial corporate managers have also evolved into money-capitalists. In this chapter, we analyse this dual process, which we argue has resulted in a new fusion of financial and industrial capital—that is, *a new finance capital*—in the period since the 2008 crisis.

Insofar as it identifies how financial hegemony is linked to a transformation of the fundamental structure of the non-financial corporation, this conception would seem to imply that socialist transition entails a deep and radical reorganisation of economic institutions. However, Hilferding's

tendency to see financial concentration and corporate organisation as synonymous with the extension of conscious planning over production led him to underestimate the scale of this task in key respects. Nevertheless, his sophisticated conception of socialist transition still holds important lessons for the emerging 'democratic socialist' left today—offering an alternative to Leninist insurrectionism as well as an important corrective to proposals for firm-level democracy and worker ownership advanced by the new socialist movements in the US and UK. Strongly criticising the idea that capitalism would simply collapse 'on its own,' Hilferding held that only working-class agency, organised and expressed by a political party, could democratise the economy. This could best be undertaken, he believed, by waging a class struggle both within the state as well as beyond it. Socialist revolution was not a matter of 'smashing the state' and declaring 'all power to the workers councils,' as it had been conceived in Russia. Rather, it would entail a prolonged struggle to remove sectors of the economy from capitalist management and market discipline, while building the technical and political capacities to manage it democratically in the service of social need rather than private profit. This, in turn, required the building of mechanisms to connect workers councils with a national planning system. In his theory and political practice, Hilferding was effectively fighting to transform the capitalist state by expanding parliamentary democracy through the extension of democratic control over production, and the promotion of new forms of workers' democracy.

Towards a Marxist Theory of Corporate Governance

Finance Capital is largely concerned with the impact of the emergence of the corporation on capitalist social relations. Of course, Hilferding understood this not just as a generic bureaucratic organisation, but a specifically *capitalist* institutional form, which materialised the dynamics and tendencies Marx outlined. At the same time, the manifold operations and possible permutations of this form were not simply deducible from the operation of the mechanisms analysed in *Capital*. Marx articulated what remains a singularly compelling model of the logic of capital, but he left scant methodological guideposts for how this model could be 'tested,' or how the realisation of this logic could lead to the development of new institutional forms. If Marx stressed that only 'real-concrete' history is actual, *Capital* in fact remained highly abstract—with the real-concrete invoked primarily to illustrate the abstract model. The crucial mediating

and determining role of institutions, therefore, remained under-theorised. Moreover, the corporation had barely begun to emerge at the time Marx was writing, and thus he composed only a few short fragments on it in volume three of *Capital*. Yet although the relationship between abstract model-building and concrete historical analysis was never made clear in *Capital*, Marx does point a way forward in the chapters which identify the *emergence* of capitalist dynamics in nineteenth-century England.

Institutional Marxism defines 'emergence' as the dialectical process whereby the basic pressures of capitalist social relations are realised historically, through the development and evolution of institutional forms. Marx saw this in terms of levels of abstraction; but the point has often been overlooked that the less general (more concrete) levels have a causal force and dynamism of their own, and cannot simply be explained as the mechanistic working out of more basic mechanisms.[2] It is this distinct causal force of institutions as emergent properties of capitalist society, and not simply epiphenomenal of overarching structural laws, that Institutional Marxism seeks to capture. IM starts from the understanding that reality is *stratified* and composed of hierarchically ordered generative mechanisms. The dynamics of capital accumulation theorised by Marx—competition, concentration and centralisation, class struggle, and state power—are situated within this causal structure. The complexity of human society means that it must be conceived as an open system, characterised by immense variation in the realisation of more basic mechanisms across space and time. Emergence thus refers to the dialectical process whereby the basic pressures of capitalist social relations are realised through historically evolved assemblages of functionally interdependent institutional forms. In this way, IM seeks to understand the ways in which institutional patterns pose barriers to, are transformed by, and form the positive conditions for the realisation of deeper structural forces—an interaction that results in novel articulations of common mechanisms in distinct contexts.[3]

Anticipating the IM framework, Hilferding developed this approach in his own analysis—such that 'from *Finance Capital* to his essays and speeches of the 1930s… a new Marxist theory of capitalist development took shape' (Bottomore 1985, p. 64). Distinct phases of development, he saw, can be delineated by institutional shifts in the structures and processes through which capital accumulation and the reproduction of class hegemony occurs, including the organised form of surplus extraction and circulation, state structure, modalities of competition, world market and geopolitical relations, and the balance of class forces. Clearly,

causal mechanisms that operate at these levels exert substantial force in determining the historical realisation of the basic logic of capital, constraining or expanding the power and range of reproduction strategies available to specific actors embedded within this systemic logic by virtue of their command of institutional resources. It is important in this regard that Hilferding begins *Finance Capital* with an analysis of money, just as Marx began *Capital* by dissecting the commodity. This indicates the extent to which he does not see institutions as the ontological foundation of social reality, but rather as emergent phenomena rooted in, but not reducible to, deeper structural dynamics. If the object of *Capital* was to understand how the properties of the commodity embody the logic of capitalist production—which is fundamentally oriented towards producing commodities *as such*—the object of *Finance Capital* is to analyse how the coevolution of corporation, financial system, and capitalist state generated and reproduced the predominance of money-capital within all aspects of the accumulation process.

Finance capital is primarily characterised by the fusion of *bank capital* and *industrial capital*. This occurs through the ascendancy of *money-capital*—and thus the increased dominance of the abstract over the concrete. To begin with, the corporation replaces *personal ownership* with *impersonal ownership*. In the prior entrepreneurial era, capitalists had directly owned and controlled capital assets (means of production) and raised investment largely through family networks. The corporation's separation of ownership and control, however, means it must engage with financial markets to secure financing. This facilitated the amassing of unprecedented quantities of capital, but it also had the effect of converting industrial capitalists into creditors, or owners of money-capital who have no necessary connection with the uses to which their credit is put. Instead of qualitative capital goods (machinery, buildings, etc.), capitalists owned tradable shares—effectively a draft on future profits generated by assets controlled by professional managers. At the same time, this allowed banks to acquire new importance as shareholders, mobilisers of capital, and organisers of corporations and cartels. As the possessors of the largest pools of money-capital, and capable of generating credit, banks were able to seize control of smaller-scale entrepreneurial firms and merge them into large corporations. As a result, investment banks gained extensive power over industrial enterprises, placing individuals on corporate boards to create interlocking networks of firms they controlled.

Hilferding argued that the formation of finance capital inexorably gives rise to a system of 'organized capitalism,' whereby the banks that dominate networks of monopoly firms steer the economy to overcome the 'anarchy of free-market capitalism on a capitalist basis' (Hilferding 1924, p. 531). Finance capital thus led to the socialisation of production through the development of stable linkages across firms, as large-scale enterprises came to 'agree about their share of the market.' Such cartelisation was 'enormously encouraged' by banking interests, as 'reciprocally destructive competition' threatened their existing investments and limited their ability to profitably issue new shares (Hilferding 1931, p. 747). This resulted in what was effectively a planned economic system centred on the investment banks. However, capital's drive for growth meant that competitive pressures would simply be displaced onto the world market in the form of inter-imperial geopolitical rivalry. This would take place through the erection of protective tariffs to secure exclusive economic territory from which firms from other nation-states were barred, as well as to 'reserve the domestic market for national capital.' Such measures would allow firms to achieve the 'extra-profit' necessary to 'increase their competitiveness on the world market' (Hilferding 1931, p. 748). Capitalist competition therefore fuelled the drive for each state to enlarge the economic territory within which its national firms could extract wealth through the export of capital, free from competition from firms located in other states.

This hierarchically planned system of production remains distinct from socialism because the productive forces are regulated for the benefit of those classes that own the means of production. Nevertheless, Hilferding believed it would establish the essential conditions for the democratic administration of the economy. While organised capitalism changes the character of working conditions by making unemployment less of a threat, it also renders the 'usurpation of economic power' by the capitalist owners more apparent and 'unbearable' (Hilferding 1924, p. 532). This has the effect of 'unify[ing] the interests of…workers and employees of all types' around the struggle for economic democracy (Hilferding 1924, p. 534). Perhaps even more importantly, it reorganises the internal logic of firms by eliminating the operation of the law of value (Hilferding 1920, p. 319; 1927, p. 572). As organised capitalism centralises formally fragmented production decisions by coordinating the different branches of industry through scientific planning, it sets aside the coercive laws of competition—reducing the many-sided distinction between socialistic and capitalistic organisation to the ownership structure of monopoly firms. 'Organised

capitalism' thereby effectively becomes a planned economy that is structured to benefit capitalist owners. Thus, if *Finance Capital* became the key foundation for the understanding of corporate capitalism within the Second International, so too did it pave the way for the widely held but erroneous view—rooted to some extent in the work of Marx himself—that the corporation was a transitional form to socialism. This created the serious misconception that the process of socialisation is actually accelerated by the concentration of corporate power.

As James Clifton argued, large corporations are in fact *more* competitive than smaller firms (Clifton 1977). Capitalist competition is not over sales or market share, but *profits.* Thus

> the key strategic decision of the capitalist is what to invest in and the defining characteristic of capitalist competition is the mobility of investment – mobility over space and between different commercial/financial/industrial activities. (Bryan and Rafferty 2006, p. 167)

Competition between capitals thus takes the form of competition between investment opportunities: low profit rates lead to the withdrawing of investment, while high profits draw increased investment. Such competition takes place not just *between* firms, but also *within* them. It is crucial to recognise in this regard that an individual *firm* is by no means the same as an individual *capital.* Large corporations undertake a range of separate production processes, each of which can be identified as an 'individual capital.' It is *primarily* individual capitals, not the corporate institutions to which they are articulated, which engage in competition. Large multi-process firms are also the most mobile and are therefore intensely competitive, since planners in these firms have the greatest range of options for investing money-capital across diverse internal operations as well as new external opportunities. While corporations may in some sense be economic planning systems, they are nevertheless about *planning competitiveness.* Importantly, this analysis shows that competition between capitals is internalised not just within the firm, but also *within the money-form itself.* As abstract capital, money-capital confronts the entire range of possible investments as different concrete forms that it could potentially take. In this way, money-capital is the most liquid, and thus the most mobile, form of capital—and the key locus of capitalist competition.

The Financialisation of the Non-financial Corporation

Corporations are not merely generic bureaucratic planning machines, but are fundamentally organised to reproduce capitalist social relations: raising capital on competitive financial markets, marketing products competitively, allocating investment competitively to maximise profits, and crafting and transacting sophisticated financial instruments that are critical for managing the risks involved in circulating value globally. The functions undertaken by the corporation are distinct to capitalist society, and competitive market discipline plays an essential part in regulating its institutional development. Indeed, as Hilferding shows, an important dimension of competition in corporate capitalism is over *organisational forms*: those organisations that are able to mobilise capital most efficiently will enjoy a range of competitive advantages, thereby swallowing or destroying organisational forms which are less capable, as well as sparking imitation. The unfolding of corporate organisation over time is thus akin to a process of Darwinian adaptation within a structural environment profoundly shaped by the contradictory logic of capital (Maher and Aquanno 2018).

To conceive of the corporation simply in terms of a 'command economy' is to completely misunderstand this dialectical historical process from which different modalities of corporate organisation emerge. Moreover, corporate institutional structures are not only defined by their embeddedness within capitalist society, and their function within the broader structure of accumulation, but also by a particular *phase* of capitalist development. If the corporation in the *finance capital* era (1880–1929) constitutes one 'type,' that which emerged during the subsequent *managerial* period (1930–1979) is another; the *neoliberal* firm (1980–2008), another still. As Hilferding saw, by reference to the institutional forms through which accumulation is undertaken, one can differentiate one period of capitalist development from another.

It is the function of the state to organise these systems of *economic* power into a hegemonic *political* order. Hegemonic orders, in this view, are characterised by specific ideological formations as well as particular structures of state-corporate organisation. Because crises of capitalism are also crises of particular institutional ensembles, these tend to be followed by restructuring and the emergence of new institutional patterns. Though the centrality of investment banks was already on the decline with the broadening of the financial system and breakup of the big family trusts,

the finance capital period Hilferding analysed was formally brought to an end after the 1929 financial crisis. Among other things, the crisis revealed the need for dramatically expanded state involvement in managing an increasingly complex corporate capitalism. As such, a massive state-building effort ensued, which diminished the role of the banks and established extensive new markets for corporate control to mediate between investors and industrial firms. This was achieved through New Deal measures such as the Securities Act and the Glass-Steagall Act, both passed in 1933, as well as the Securities and Exchange Act, which established the Securities and Exchange Commission, the following year. Glass-Steagall's separation of commercial and investment banking was particularly noteworthy. Banks opting to pursue commercial banking had to restrict equity holdings and limit seats on the boards of industrial corporations, while investment banks could no longer accept consumer deposits, and thus had reduced leverage. The act thus effectively 'separated financial institutions from corporate boards,' thereby dealing the *coup de grâce* to finance capital (Simon 1998, p. 1090).

Hilferding's late works are astonishingly prescient in their analysis of the changing role and increased capacities of the modern state. By the 1940s, it was clear to Hilferding that the bank-centric phase of capitalist development he had observed in *Finance Capital* was passing into a new stage. This would be dominated by the power of the modern state, then taking shape through the New Deal in the US, the rise of Nazism in Germany, and Stalinism in Russia. Marxist social science, Hilferding argued, with its focus on economic laws, lacked the tools to grasp the significance of this transformation. In a 1941 manuscript he was working on at the time of his suicide in a Nazi prison, Hilferding argued that 'the development of *state power* accompanies the development of the modern economy,' and as a result the state was now 'a power in its own right, with its own agencies, its own tendencies and its own interests.' Consequently,

> the political problem of the post-war period consists in the change in the relation of the state to society, brought about the by the *subordination of the economy* to the coercive power of the state. (Hilferding 1941, pp. 77–78)

In this regard, he anticipated the 'state theorists' of a generation later in identifying the impact of the expansion of state institutional capacities on capitalist social relations, and the degree of state autonomy from capital, as the crucial problems facing Marxist social science – though such

theorists would certainly not go so far as to claim that the state has 'subordinated' the economy.

Hilferding's analysis proved incisive. The development of the state economic apparatus and industrial policy dramatically accelerated over the war years and after. In the US, massive state investment during World War II resulted in the *doubling* of production, as well as the formation of a durable military-industrial complex linking the expansive new Department of Defense with large high-tech engineering firms and the vast science and technology apparatus that had emerged around the Manhattan Project. This facilitated the consolidation of corporate power in the hands of 'insider' managers, and further reduced the power of external investors. These shifts were underpinned by a tremendous wave of concentration and centralisation in the decades following the war, forming the giant corporations that were the foundation for what C. Wright Mills called 'the managerial reorganization of the propertied class' (Mills 1956, p. 147). That the now-'multinational' corporations these managers commanded were substantially autonomous from the banks meant that they had to develop extensive new institutional capacities, including a range of functions necessary to engage with a broader and more competitive financial system (McKenna 1995). At the same time, in marked contrast with the consolidation of shareholdings that had existed during the finance capital era, stock ownership was now fragmented and dispersed, preventing the emergence of an oppositional block of ownership power that could challenge this managerial layer. Shareholder-elected boards of directors, once the centres of corporate control, became backwaters controlled by internal management. This 'Golden Age' of managerial capitalism extended throughout the two-decade-long post-war boom, until crisis struck once again in the 1970s.

It is within this managerial era that the roots of the new finance capital lie. Even as this managerial stratum consolidated its position at the top of the institutional pyramid, corporate diversification and international expansion made it increasingly difficult to manage complex operations through hierarchical Weberian bureaucracies. This was exacerbated by trends in anti-trust prosecution, whereby price competition was protected by preventing firms from controlling too large a share of the market in any one sector—thereby leading large firms to pursue growth through acquisitions across unrelated sectors (Hyman 2012). Top executives had neither the time nor the industry-specific knowledge to be directly involved in the operations of each business (Chandler 1962, pp. 299–314; Cordiner

1956, pp. 44–45; Paxton 1955). The answer was decentralisation, whereby operational responsibility for specific businesses would be downloaded to lower-level divisional managers, while top executives became 'general managers.' As top executives moved away from *operational* roles in overseeing specific businesses and into general *entrepreneurial* or investment functions, they came increasingly to resemble finance capitalists located at the nexus of finance and industry. These new 'general managers' sought to approximate (abstract) capital 'in general,' in search of the most profitable concrete investments. Moreover, that 'the top team was now less the captive of its operating organizations' also meant that they required 'the financial offices [to] provide more and better data,' which drove the expansion and empowerment of corporate financial operations (Chandler 1962, p. 310; Cordiner 1956, p. 98; O'Boyle 1998, p. 52). The quantitative metrics these financial units provided constituted *general criteria* on the basis of which *general managers* could assess internal and external operations alike: judging the performance of internal operating units alongside 'new areas for development or expansion in which operating unit executives would have comparatively little interest or knowledge' (Chandler 1962, p. 310). Increasingly, these metrics were seen in terms of exchange-value: what made qualitatively distinct production processes *comparable* was their quantitative money-value as determined by rates of return.

This was the essence of the *financialisation* of the non-financial corporation. Though often conceived in terms of industrial corporations morphing into banks by expanding their financial services investments, this process in fact entails a much deeper institutional reorganisation of the corporation from a *system of production* to a *system of investment* (Fligstein 1990). This had three broad dimensions: (1) the conversion of top corporate managers into bearers of abstract money-capital; (2) the reorganisation of corporate governance as an internal capital market; and (3) the empowerment of corporate financial functions over the rest of the organisation. By the 1970s, corporate planning structures had come increasingly to resemble internal capital markets. Top executives saw business divisions not as concrete production processes to be directly managed, but as a portfolio of discrete investments. These divisions competed with one another, and even with outside subcontractors, for a finite sum of investment funds distributed by senior executives. Divisional managers developed business plans autonomously, which they presented to top managers as if they were external investors. In these ways, divisional managers were

encouraged to act like owners, making autonomous decisions based on the need to secure investment from corporate planners for their individual business units. Additionally, to the extent possible, managerial remuneration was tied to the contribution of their business unit to the firm's share price (Fligstein 1990; Rothschild 2007; Useem 1993, 1996). Decentralisation therefore also meant replacing rigid bureaucratic hierarchies with flexible financial discipline. This was enforced especially by the firm's financial unit, which 'exercised ultimate control over money and personnel' (Cordiner 1956, pp. 66–7; O'Boyle 1998, p. 52).

This was reinforced by the broader rise of the financial sector from the 1970s onward. However, the neoliberal form of financial power was different from that which had existed during the finance capital period. It was characterised not by direct *bank control* of industrial corporations, but rather *polyarchic financial hegemony*, in which constellations of competing financial institutions came together to exert broad influence and discipline (Carroll and Sapinski 2011, pp. 180–95; Glasberg and Schwartz 1983; Mintz and Schwartz 1986, 1987; Scott 1997, p. 139). Bank power was far less centralised, less powerful relative to industrial firms, and its relationship to corporate governance more substantially mediated by institutions within which 'insiders' retained considerable control. Industrial firms were much larger and more complex, placing a premium on 'insider' knowledge. To be sure, financial hegemony was partly expressed through interlocking directorates possessed by financiers, but boards themselves were less significant institutional spaces for organising and expressing corporate control than they had been in the finance capital era. In both cases, more significant than these institutional venues were the underlying capital relations that they expressed and facilitated. Such relations are constituted by the functional structure of accumulation—consisting of roles in mobilising capital including granting or withholding credit, setting interest rates, and buying or selling large blocks of shares. An important aspect of financial power, therefore, was the extent to which firms had to rely on external financing. With declining profitability and persistent deficiencies in capital formation at the end of the post-war boom, internal financing was constrained, and industrial firms became more dependent on external sources of capital—thereby increasing the relative power of the financial sector. Investors used this leverage to push for further financialised restructuring, including the empowerment of the corporate financial operations with which they were closely linked.

These shifts were further buttressed by a wave of concentration and centralisation of equity in the hands of large financial institutions during the 1970s, fuelled by the pools of capital that emerged in the form of occupational pension funds. Ironically, the proliferation of such funds 'reflected the strength of unions in collective bargaining in the 1960s,' yet these victories for union power in fact ended up contributing to building financial hegemony, shifting the balance of class forces towards capital and intensifying financial pressure for restructuring non-financial corporations. The state, too, was essential to the tremendous growth of such funds: 'tax advantages for both corporations and workers' played a significant role in the extension of pension plan coverage 'from a fifth of the private sector workforce in 1950 to almost half by 1970' (Panitch and Gindin 2012, p. 121). By the 1970s, pension funds became the largest single holders of corporate stock (Drucker 1976, pp. 1–2; Herman 1982, p. 138; Kotz 1978; Rifkin and Barber 1978, p. 10, 234; Scott 1997, p. 67). The scale of these holdings prevented such big institutional investors from simply following the 'Wall Street Rule' and dumping shares of underperforming firms, as it would be impossible to sell such a large number of shares all at once without seriously depressing their value. This created a further need among investors for new mechanisms for coordination with and oversight of 'insiders.' After the hostile takeovers by the 'corporate raiders' of the 1980s, the power of institutional investors was felt in the wave of proxy fights in the 1990s, as the new hierarchy began to crystallise. Institutional linkages were constructed between financiers and the governance structures of industrial corporations, including in the form of 'investor relations' units (Useem 1993, 1996). This, in turn, enhanced the power within the firm of corporate finance, which further pressed financialised reorganisation.

In this way, the rise of the financial sector was linked with the financialised restructuring of the non-financial corporation. While no major corporation had a chief financial officer in 1963, beginning in the 1970s, the trend began to sweep the business world, becoming all but ubiquitous by the 1990s—with diversified conglomerates in the lead. This signalled 'a fundamental redistribution of managerial roles, with greater relevance of financial considerations built into the executive structure and the decision-making process.' Whereas in the past,

> corporate finance had been a back-office function performed by treasurers or controllers, whose duties were confined to tasks like bookkeeping and preparing tax statements.

The CFO was now the company's second-in-command, controlling vast institutional resources. 'Financial' considerations became increasingly paramount, as CFOs

> gained critical say in key strategic and operational decisions, from evaluating business unit performance, inventing new ways to leverage capital, managing acquisitions and divestitures, and fending off hostile takeover attempts, to serving as the company's primary ambassador to investors and financial analysts. (Zorn 2004, pp. 346–7)

The CFO's 'investor relations' functions in particular both reflected the rise of finance and contributed to the financialisation of the corporation. In addition to supplying data and making forecasts for investors, CFOs also pushed forward the disciplines within the firm necessary to meet these expectations. This included ensuring that financiers 'got their cut' in the form of interest, dividends, and asset valuations—shifting the distribution of profits across the capitalist class as a whole towards the financial sector and culminating in what would be called 'shareholder value.'

New Finance Capital: A New Phase of Capitalist Development?

The relative irrelevance of boards of directors over the managerial period reflected the empowerment of industrial managers over investors, as boards were basically under the control of insider managers. With the rising power of the financial sector by the 1990s, boards again began to emerge as significant institutional venues for expressing investor power within corporate command and control structures, organising a constellation of financial interests to finance and govern industrial assets. As the power of finance grew, financiers continued to push for more substantial forms of corporate 'compliance' and 'good governance.' Similarly, major episodes of corruption at Enron and WorldCom paved the way for corporate governance rules that allowed boards to discipline management and initiate key operational and strategic policy. Reforms stressed the importance of having boards composed of a majority of independent members as well as independent board compensation and audit committees and pushed codes of business conduct to improve transparency.

This restructuring of corporate governance was supported by developments in the state regulatory apparatus, as indicated by the Sarbanes-Oxley

Act and especially the SEC's Regulation FD, which greatly strengthened the power and independence of boards. The latter prevented the selective disclosure of corporate information to large investors, ensuring that all shareholders had the same information and that institutional funds were no longer tied to company boards. While these shifts in state policy set the conditions for a different interaction between management and owners, the regulations and restructuring that followed the 2008 subprime financial crisis was even more substantial. Above all, this initiated a process of dual concentration within the financial system: among both a small group of large banks and investment funds. US regulators looking for a way to stabilise the financial system, amidst the seizure of short-term funding markets and the collapse of key asset classes, found a solution in the merger of large financial institutions. Whether or not this crisis management policy reflected an understanding that larger firms are better suited for global competition, its impact was to create a new class of diversified mega banks, registered in the large increase in the share of system assets of the top five US banks (BIS 2018).

A further change occurred in the fund management industry. This first involved the meteoric rise of a group of activist hedge funds, such as Elliott Management, Starboard Value, Carl Icahn, ValueAct, Corvex Management, and Bulldog Investors: between 2004 and 2016, these funds increased their assets under management (AUM) by 1400 per cent. Activist funds attempt to extract latent value from underperforming corporations by shaping the composition of boards of directors through proxy contests and better proxy access, which can serve as institutional positions for pushing for deeper restructuring of assets and labour processes. They also try to influence strategic and operational policies by working directly with managers through investor relations departments (Sawyer et al. 2019). Second, the crisis resulted in a major shift in portfolio strategy towards passive management. Passive funds follow a selected market index (e.g. the NASDAQ or S&P 500) and do not engage in regular trading. As a result, they have much lower management fees and a long-term investment approach. Indeed, these funds hold shares indefinitely, trading only to reflect the shifting weight of different firms in a given index. Whereas prior to the crisis, 75 per cent of equity funds were actively managed by a portfolio manager, passive funds are now larger in size, with over $4 trillion under management (McDevitt and Schramm 2019). The massive portfolio held by these funds in fact means that they are collectively the largest equity owner in many American corporations (Fichtner et al. 2017).[4] This

long-termism has led these funds to build linkages to industrial corporations to allow for more routinised and systematic contact.

Paradoxically, then, the aftermath of the crisis saw both a sharp rise in investor *activism* and a simultaneous historic shift in portfolio strategy towards *passive* management. Yet far from being antagonistic to one another, these two trends are in fact complementary and mutually reinforcing. Moreover, both have encouraged the development of institutional linkages between financial institutions and non-financial corporations, which in turn have increased pressure for a neoliberal restructuring of corporate governance and the labour process. This all generates great pressure for maximising shareholder value through cost-cutting and enhanced margins, encouraging the implementation of 'lean production' as well as outsourcing and offshoring to precarious and low-paid workforces in both North America and peripheral zones.

State regulation and management was a crucial factor in generating the investment shifts that followed the 2008 crisis. Key here was the Fed's quantitative easing program. In the process of detoxifying bank balance sheets and backstopping losses, QE pushed up asset prices along the risk spectrum, as private sellers rebalanced their portfolio into riskier assets. This drove a boom in equity prices that made it difficult for investment firms to justify high management costs. In response, institutional investors altered their growth model and began attracting new capital through low-fee passive funds, while hedge funds competed by adopting activist strategies capable of outperforming the market. Moreover, by limiting repo trading and forcing investment banks out of key secondary markets, the tighter liquidity and risk thresholds associated with post-crisis regulation pushed institutional funds away from short-term funding markets and enabled them to expand their concentration of equity ownership. All of this took a significant step forward with the passage of the Dodd-Frank Act, which gave renewed impetus to corporate governance reform that served to further consolidate investor power. The 13 sections of the DFA dedicated to corporate governance include new 'say on pay' and disclosure rules that have greatly emboldened shareholders.

The prime importance of these shifts in fund management lies in the new form of organised power that has taken shape as passive institutional funds have integrated their strategies with activist hedge funds. As large long-term holders of corporate equities, passive investment funds have regularly supported activist hedge funds in their attempts to restructure corporate assets to release latent value. They have also reduced market

liquidity, encouraging hedge funds to take more long-term strategies themselves. At the same time, these strategies have been supported by and reinforced the empowerment of financial units and competitive logics within non-financial corporations, which push for increased returns from the productive assets they control. This confluence of forces has produced a new constellation of financial power expressed in part through greater contestation over non-financial boards of directors. It has allowed hedge funds to leverage their small ownership percentage to pursue successful activist campaigns and encouraged large institutional investors to build up sophisticated corporate management teams to further their control over corporate governance (Jahnke 2017, 2019).[5] The result has been a new structure of ownership and control, marked by a *fusion* of finance and industry and the further dominance of money-capital over production: what we call a *new finance capital*. Though financial control is now exercised through shareholder activism, this resembles the system of bank power described by Hilferding insofar as financiers have come to take a more direct role in the governance of industrial corporations, while industrial managers themselves increasingly resemble money-capitalists.

While the post-crisis restructuring of the financial system deepened the power of banks, it has at the same time produced a parallel process of concentration in the fund management industry. This new form of governance is rooted in the same type of financial *long-termism* identified by Hilferding, given that it aims to maximise financial profits through shifts in corporate organisation and to gain 'greater security' for the capital invested by fund managers by increasing the voice of financiers within corporate command and control systems and intensifying the discipline of money-capital inside non-financial firms (Hilferding 1910, p. 199). The power and autonomy boards amassed during the neoliberal period facilitated greater financial discipline as polyarchic financial hegemony became more centralised, and the linkages between finance and industry more extensive and direct, after 2008. As we saw, in addition to the growing significance of boards of directors, this fusion of finance and industry has been apparent from the emergence of 'investor relations' offices within non-financial corporations. So too was it evident from the reciprocal growth of similar 'corporate relations' units within financial institutions. The latter also serve to coordinate and network with activist investors and influence board policy.

But if all this suggests that a qualitatively new phase of capitalist development is emerging from the restructuring underway since the 2008

crisis, it is not yet completely clear that this new finance capitalism represents a permanent qualitative shift from the interlocking forms of financial, industrial, and state power that constituted the neoliberal form of class hegemony. To be sure, many firms have acquiesced to the new logic, either by accepting activist demands or by moving towards majority voting and away from classified boards and poison pills. Nevertheless, the intensification of financial discipline has also produced new strategies for insulating corporate governance from financial discipline, such as by limiting shareholder voting rights. The future of these new modalities of corporate ownership and control is not yet clear. Similarly, the power of activist investors seems tied to the combination of low interest rates, low inflation, and monetary stimulus, as these conditions shaped the investment strategies leading to the closer fusion of finance and industry. While the development of investor and corporate relations departments and their reciprocal interaction highlights the institutional durability of these new linkages, their connection to a specific set of market entanglements means that this is simultaneously unstable and volatile.

Indeed, deep contradictions have resulted from the pattern of 'dual concentration' we have described between different forms of concentrated power. It is very significant that activist networks have begun targeting mega banks by drawing on the DFA's disclosure requirements. Vanguard, State Street, and BlackRock alone own about 20 per cent of the equity of the top five US banks. This has led them to become increasingly involved in campaigns requiring the largest banks to sell off underperforming divisions. In response, these banks have vigorously defended their business models and actively sought out new corporate and political alliances—as demonstrated by the Business Roundtable's recent rejection of shareholder primacy 'as the sole purpose of the corporation' (Ritholtz 2019).[6] This marks a shift from the Roundtable's previous philosophy, laid out in a 1997 whitepaper on corporate governance which argued that 'the paramount duty of management and boards of directors is to the corporation's stockholders' (Business Roundtable 1997). Though the left widely dismissed this statement as a mere exercise in public relations by corporate elites, a Marxist theory of corporate governance helps us to understand how this may in fact be rooted in the institutional contradictions that have attended neoliberal financialisation. The conflict between these two components of organised financial power, which intensified in the aftermath of the 2008 crisis, will go a long way in determining the form which financial power will take in the years ahead.

Democratic Control and Socialist Planning

As we have shown, Hilferding's work offers some of the crucial foundations for a Marxist theory of corporate governance. It does so in four interrelated ways: (1) a theorisation of *finance capital* as distinct from *financial* and *industrial* capital, and constituted through the fusion of these two forms; (2) the identification of *money-capital* as the *abstract* form of capital which comes to dominate the *concrete* processes of production through this fusion; (3) an understanding of how institutional forms *emerge* within capitalist society dialectically in relation to the dynamics of capitalist competition, concentration and centralisation, the balance of class forces, integration with the world market, and the organisation and exercise of state power; and (4) the *periodisation* of different 'phases' of capitalist development by reference to the institutional modalities through which accumulation occurs. These constitute some of the key analytical tools for understanding the institutional changes that we have argued amount to a new finance capital, characterised by a new fusion of financial and industrial capital. In this process, the increasing mediation of the money-form within corporate governance has led the managers of large industrial corporations to become financiers, while financiers have likewise developed increasingly substantial and direct linkages with industrial corporations.

This is not merely of academic interest. Indeed, these tools have never been more essential for political strategy than today, as Bernie Sanders in the US and Jeremy Corbyn in the UK helped to catalyse a surprising and promising new socialist movement. The policies these leaders have proposed for advancing the socialisation and democratisation of the economy have consisted primarily of expanding different forms of worker ownership, and increasing workers' 'voice' in the management of capitalist firms.[7] Assessing whether these represent meaningful steps towards economic democracy requires understanding how they will impact the actually existing forms of institutional power in which they seek to intervene. This requires some conception of how these forms take shape and are reproduced. In this regard, as well, Hilferding's work frames some of the crucial questions still facing the socialist movement today and helps to develop a roadmap to socialist transition beyond what has been proposed in the form of worker cooperatives and other models focused on extending firm-level democracy. Whereas these strategies remain captive to the forces of market competition and the need for profit, Hilferding

insists on a struggle to transform the state and undertake the democratic planning of the economy.

Hilferding viewed socialist transition as a process of *extending democratic control* over the economy as a whole by strategically removing specific sectors from capitalist ownership and market discipline and subjecting them to public planning. Therefore, the first task of the socialist movement was to deepen and broaden the democratic capacities of the working class through struggle and popular education. This took place through the organisation of a mass party capable of 'transcending the different fractions' within the working class. These divisions develop as gender, race, ethnic, and national identities tend to throw 'workers against each other both concretely and intellectually,' and also as short-term material interests take precedence over long-term democratic goals (Hilferding 1924, p. 538; 1927, p. 575). Hilferding saw this politicisation and organisation as a slow process rooted in 'continuous struggle,' through which the building of parliamentary and extra-parliamentary forces would be mutually reinforcing. Running in elections and waging a struggle within the capitalist state would both draw support from, and reciprocally support, the development of durable institutions of working-class power outside of parliament. This included the build-up of public and workplace-centred educational institutions to 'enlighten the popular masses' and foster 'cooperative solidarity' (Hilferding 1918a, p. 292; 1920, p. 324; 1925, p. 561). The 'psychological transformation' nourished through 'conscious educational work,' he argued, functioned as an essential 'prerequisite for economic democracy' (Hilferding 1924, p. 533).

The transition to socialism would occur through *the transformation of the state*: new forms of workplace, community, and national-level democracy would be organised and linked through the agency of the party, which would restructure the state apparatus to promote, support, and integrate these processes. This struggle would not be consummated in a single revolutionary upsurge. Rather, Hilferding argued that the transition to socialism would take place through a series of ruptures, inflection points, and potential reversals. This process would continue even after the working class had captured political power, since the socialisation of the economy could 'occur only in a long-term… evolutionary way' due to the deep organisational and structural basis of capitalist class power (Hilferding 1924, p. 533). Socialisation would proceed from 'capital's strongest economic positions' in a 'step-by-step fashion' until the material and psychological conditions for transition were fully realised (Hilferding 1919a,

p. 301–2). These branches of the economy possessed the technical and organisational capacities that make socialist planning possible. More important, their strategic position in the system of production allowed democratic control to impact profit patterns in other related sectors (Hilferding 1920, pp. 323–5). As a result, taking these 'key positions of economic power' would initiate an 'organised' transformation of the economy, allowing society 'to control all of the positions that form the basis of economic power' (Hilferding 1919a, 1924, p. 302).

The path to socialist economic planning thus developed around a 'combination of socialist and bourgeois democracy' (Hilferding 1918b, p. 295). While working through the institutions of liberal democracy in this way opened the door for 'unreliable governments' and 'reactionary impulses,' it established important political conditions for a national planning regime capable of integrating communal interests (Hilferding 1918b, p. 299). In the period of transition, firms still operating capitalistically would be subject to legally protected workers councils that participated in production decisions by exerting limited control over 'enterprise operations' (Hilferding 1919b, p. 297). Democratic workers councils would serve as industrial parliaments for socialised industries, and constitute the heart of the socialist planning regime. For Hilferding, the council system possessed the technical and administrative capacities that were indispensable for managing the economy, and would prevent the 'bureaucratization of production' by democratising workplace authority. (Hilferding 1920, p. 316). As the 'permanent representation of the whole working class,' these councils transferred control over productive assets to workers and consumers, and were also given certain political functions aimed at advancing and securing the interests of the revolution (Hilferding 1919b, p. 298). Hilferding's conception of socialist transition thus differed markedly from the Bolshevik call to 'smash the state' in a single blow through insurrection, focusing instead on building the extensive state and working-class capacities necessary to democratically manage a socialist economy while preserving the gains institutionalised within the existing liberal democratic state.

Though he saw workers councils as key organs of workers power in a socialist society, and sought to develop strategies for supporting their emergence within capitalism as a key to achieving a transition to socialism, Hilferding nevertheless opposed—just months after the Russian Revolution—the slogan of 'all power to the workers' councils' (or Soviets). He did so on the grounds that this would lead to dictatorship, and just as

importantly, that individual plants *do not* belong to the workers who work in them, but rather to the entire society. The crucial challenge in this respect was to find ways to *integrate* workplace councils with broader democratic planning structures articulated at the regional and national levels. Society as a whole, not individual workplaces or firms, must democratically determine the division of labour, and the relative output of different sectors and branches. For this reason, the 'rights of the councils must be limited' so that production decisions do not 'exclude any part of the population.' To some degree, this could be accomplished by establishing a central workers body, composed of delegates from local councils, responsible for reviewing and submitting legislative proposals. But even this risked corrupting the general will with narrow sectoral interests. Hilferding saw the solution to this in a democratically elected national assembly that worked with the councils to express the interests of the 'whole community' (Hilferding 1919b, p. 297).

Initially, Hilferding focused this strategy on the banking sector, but this changed as he observed shifts in the production process owing to technological advancements. As commodity chains grew more dependent upon the use of synthetic chemistry, he argued that socialisation should begin in the energy and raw materials sector (Hilferding 1918b, p. 294; 1925). The need for credit during the transition period meant that, in his opinion, big banks could not be immediately socialised but rather would have to be slowly merged 'into a single agency' and gradually 'taken over by society' (Hilferding 1919a, p. 300). This strategy must be placed in the context of Hilferding's argument that socialisation is stimulated through 'legislation… placing firms in syndicates,' and the problematic nature of seeing capitalist concentration and cartelisation as steps towards socialism in themselves. Nevertheless, it points to the importance of restructuring the financial system and bringing it under public control as a central priority of socialist transition. In any case, it is important to take account of the extent to which Hilferding's strategic reflections begin from a concrete appraisal of class power and corporate organisation. This immediately takes him to the central nodes of economic control and patterns of corporate and state governance underpinning accumulation, and how these are constituted through capitalist social pressures during particular moments of struggle. In the current conjuncture, this draws attention to the forms of financial power consolidated in the post-2008 period and implies that a pivotal component of socialist strategy should be socialising passive investment firms like BlackRock and State Street.

Of course, achieving a victory on this scale is currently hard to imagine given the balance of class forces. And yet, it is not clear that this is significantly more out of reach than Bernie Sanders' call the 'break up the banks'—which would not increase democratic control over finance and investment. Nor does expanding worker ownership of individual firms, or increasing worker 'voice' in shaping competitive strategy to maximise profits, directly contribute to the socialisation of the economy. On the other hand, taking the firms that are at the centre of the new finance capital into public control could be a major step in this direction. This could be complemented by further moves to democratise the financial system, such as by shifting the Federal Reserve's regulatory functions to include not merely reducing market volatility, but extending public control over corporate investment—for example, by imposing penalties on firms that fail to restructure their investments to meet the needs of a 'green transition.' This could be supported by the implementation of a Green New Deal, with firms seeking state contracts forced to submit to state-imposed planning agreements directing them to produce particular socially useful goods. So too could such a strategy include support for workers cooperatives, overcoming competitive pressures by embedding these within regional planning structures. It is this conception of socialist transition—as a process of state transformation and the reorganisation of economic institutions so as to promote the socialisation and democratisation of all forms of governance—that should animate strategic debates within the socialist movements taking shape today.

Notes

1. And, it should be said, were both greatly influenced by Hilferding.
2. See Karl Marx, *Grundrisse*, Introduction, Part III: The Method of Political Economy. The consequence of reifying the most *abstract* level as the essence of *concrete* history is the formulation of an Idealist Marxist, as in the work of Louis Althusser. See Maher 2016.
3. For a thorough elaboration of the Institutional Marxist framework, see Maher and Aquanno 2018.
4. As of 2017 one of Vanguard, BlackRock, or State Street was the largest shareholder in 88 per cent of the S&P 500 companies.
5. Jahnke provides a good empirical description of this new form of corporate control. He shows that while 6 per cent of S&P 500 companies reported investor engagement in 2010, this rose to 23 per cent in 2012, 50 per cent in 2014, and 72 per cent in 2017. His research also finds that from June

2016 to June 2017, Vanguard, a major passive investment firm, reported 954 engagements with corporate managers.
6. It has been widely reported that Jamie Dimon, CEO of JPMorgan Chase and Co., spearheaded this shift.
7. For a thorough discussion of these proposed policies, see Maher et al. 2019.

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