

inventions. Such a situation is bound to give rise to an economic crisis. From one narrow point of view, the twentieth century's economic crisis was a situation of this type. To understand how such a situation could arise, we must examine the development in the chief capitalist countries and discover the causes of the crisis.

## Chapter 32—Great Britain

In Britain, throughout the nineteenth century, the supply of capital was so plentiful from private savings that industry was able to finance itself with little recourse to the banking system. The corporate form was adopted relatively slowly, and because of the benefits to be derived from limited liability rather than because it made it possible to appeal to a widespread public for equity capital. Savings were so plentiful that the surplus had to be exported, and interest rates fell steadily. Promoters and investment bankers were not much interested in domestic industrial securities (except railroads), and for most of the century concentrated their attention on government bonds (both foreign and domestic) and on foreign economic enterprises. Financial capitalism first appeared in foreign securities, and found a fruitful field of operations. The corporation law (as codified in 1862) was very lenient. There were few restrictions on formations of companies, and none on false prospectuses or false financial reports. Holding companies were not legally recognized until 1928, and no consolidated balance sheet was required then. As late as 1933, of 111 British investment trusts only 52 published a record of their holdings.

### Secrecy Is One of the Elements of the English

#### Business and Financial Life

This element of secrecy is one of the outstanding features of English business and financial life. The weakest "right" an Englishman has is the "right to know," which is about as narrow as it is in American nuclear operations. Most duties, powers, and actions in business are controlled by customary procedures and conventions, not by explicit rules and regulations, and are often carried out by casual remarks between old friends. No record perpetuates such remarks, and they are generally regarded as private affairs which are no concern of others, even when they involve millions of pounds of the public's money. Although this situation is changing slowly, the inner circle of English financial life remains a matter of "whom one knows," rather than "what one knows." Jobs are still obtained by family, marriage, or school connections; character is considered far more important than knowledge or skill; and important positions, on this basis, are given to men who have no training, experience, or knowledge to qualify them.

### The Core of English Financial Society Consists of 17 Private

#### International Banking Firms

As part of this system and at the core of English financial life have been seventeen private firms of "merchant bankers" who find money for established and wealthy

enterprises on either a long-term (investment) or a short-term ("acceptances") basis. These merchant bankers, with a total of less than a hundred active partners, include the firms of Baring Brothers, N. M. Rothschild, J. Henry Schroder, Morgan Grenfell, Hambros, and Lazard Brothers. These merchant bankers in the period of financial capitalism had a dominant position with the Bank of England and, strangely enough, still have retained some of this, despite the nationalization of the Bank by the Labour government in 1946. As late as 1961 a Baring (Lord Cromer) was named governor of the bank, and his board of directors, called the "Court" of the bank, included representatives of Lazard, of Hambros, and of Morgan Grenfell, as well as of an industrial firm (English Electric) controlled by these.

### The Heyday of English Financial Capitalism

The heyday of English financial capitalism is associated with the governorship of Montagu Norman from 1920 to 1944, but it began about a century after the advent of industrial capitalism, with the promotion of Guinness, Ltd., by Barings in 1886, and continued with the creation of Allsopps, Ltd., by the Westminster Bank in 1887. In the latter year, only 10,000 companies were in existence although the creation of companies had been about 1,000 a year in the 1870's and about 1,000 a year in the 1880's. Of the companies registered, about a third fell bankrupt in their first year. This is a very large fraction when we consider that about one-half the companies created were private companies which did not offer securities to the public and presumably already were engaged in a flourishing business.... In two years (1894-1896) E. T. Hooley promoted twenty-six corporations with various noble lords as the directors of each. The total capital of this group was £18.6 million, of which Hooley took £5 million for himself.

### Money Power Exercises Its Influence through Interlocking

#### Directorates and Direct Financial Controls

From this date onward, financial capitalism grew rapidly in Britain, without ever achieving the heights it did in the United States or Germany. Domestic concerns remained small, owner-managed, and relatively unprogressive (especially in the older lines like textiles, iron, coal, shipbuilding). One chief field of exploitation for British financial capitalism continued to be in foreign countries until the crash of 1931. Only after 1920 did it spread tentatively into newer fields like machinery, electrical goods, and chemicals, and in these it was superseded almost at once by monopoly capitalism.... In addition, its rule was relatively honest (in contrast to the United States but similar to Germany). It made little use of holding companies, exercising its influence by interlocking directorates and direct financial controls. It died relatively easily, yielding control of the economic system to the new organizations of monopoly capitalism constructed by men like William H. Lever, Viscount Leverhulme (1851-1925) or Alfred M. Mond, Lord Melchett (1868-1930). The former created a great international monopoly in vegetable oils centering upon Unilever, while the latter created the British chemical monopoly known as Imperial Chemical Industries.

## Banking Control of Government throughout the World

Financial capitalism in Britain, as elsewhere, was marked not only by a growing financial control of industry but also by an increasing concentration of this control and by an increasing banking control of government. As we have seen, this influence of the Bank of England over the government was an almost unmitigated disaster for Britain. The power of the bank in business circles was never as complete as it was in government, because British businesses remained self-financing to a greater extent than those of other countries. This self-financing power of business in Britain depended on the advantage which it held because of the early arrival of industrialism in England. As other countries became industrialized, reducing Britain's advantage and her extraordinary profits, British business was forced to seek outside financial aid or reduce its creation of capital plant. Both methods were used, with the result that financial capitalism grew at the same time as considerable sections of Britain's capital plant became obsolete.

## The Money Trust Became Increasingly Concentrated and

### Powerful in the Twentieth Century

The control of the Bank of England over business was exercised indirectly through the joint-stock banks. These banks became increasingly concentrated and increasingly powerful in the twentieth century. The number of such banks decreased through amalgamation from 109 in 1866 to 35 in 1919 and to 33 in 1933. This growth of a "money trust" in Britain led to an investigation by a Treasury Committee on Bank Amalgamations. In its report (Colwyn Report, 1919) this committee admitted the danger and called for government action. A bill was drawn up to prevent further concentration but was withdrawn when the bankers made a "gentlemen's agreement" to ask Treasury permission for future amalgamations. The net result was to protect the influence of the Bank of England, since this might have been reduced by complete monopolization of joint-stock banking, and the bank was always in a position to influence the Treasury's attitude on all questions. Of the 33 joint-stock banks existing in 1933, 9 were in Ireland and 8 in Scotland, leaving only 16 for England and Wales. The 33 together had over £2,500 million in deposits in April 1933, of which £1,773 million were in the so-called "Big Five" (Midland, Lloyds, Barclays, Westminster, and National Provincial). The Big Five controlled at least 7 of the other 28 (in one case by ownership of 98 percent of the stock). Although competition among the Big Five was usually keen, all were subject to the powerful influence of the Bank of England, as exercised through the discount rate, interlocking directorships, and above all through the intangible influences of tradition, ambition, and prestige.

## Finance Capitalism Paves the Way for Monopoly

### Capitalism to Flourish

In Britain, as elsewhere, the influence of financial capitalism served to create the conditions of monopoly capitalism not only by creating monopoly conditions (which

permitted industry to free itself from financial dependency on banks) but also by insisting on those deflationary, orthodox financial policies which eventually alienated industrialists from financiers. Although monopoly capitalism began to grow in Britain as far back as the British Salt Union of 1888 (which controlled 91 percent of the British supply), the victory of monopoly capitalism over financial capitalism did not arrive until 1931. By that year the structure of monopoly capitalism was well organized. The Board of Trade reported in 1918 that Britain had 500 restrictive trade associations. In that same year the Federation of British Industries (FBI) had as members 129 trade associations and 704 firms. It announced that its goals would be the regulation of prices, the curtailment of competition, and the fostering of cooperation in technical matters, in politics, and in publicity. By 1935 it had extended this scope to include (a) elimination of excess productive capacity, (b) restrictions on entry of new firms into a field, and (c) increasing duress on both members and outsiders to obey minimum-price regulations and production quotas. This last ability was steadily strengthened in the period 1931-1940. Probably the greatest achievement in this direction was a decision of the House of Lords, acting as a Supreme Court, which permitted the use of duress against outsiders in order to enforce restrictive economic agreements (the case of *Thorne v. Motor Trade Association* decided June 4, 1937).

#### Giant Monopolies Control the Banking System

The year 1931 represented for Britain the turning point from financial to monopoly capitalism. In that year financial capitalism, which had held the British economy in semi-depression for a decade, achieved its last great victory when the financiers led by Montagu Norman and J. P. Morgan forced the resignation of the British Labour government. But the handwriting was already on the wall. Monopoly had already grown to such a degree that it aspired to make the banking system its ... [ally] instead of its master. The deflationary financial policy of the bankers had alienated politicians and industrialists and driven monopolist trade unions to form a united front against the bankers.

#### The Revolt of the British Fleet

This was clearly evident in the Conference on Industrial Reorganization and Relationships of April 1928. This meeting contained representatives of the Trade Union Congress and the Employers' Federation and issued a Memorandum to the chancellor of the Exchequer signed by Sir Alfred Mond of Imperial Chemicals and Ben Turner of the trade unions. Similar declarations were issued by other monopolist groups, but the split of monopolist capitalists and of financial capitalists could not become overt until the latter were able to get rid of the Labour government. Once that was achieved, labor and industry were united in opposition to the continuance of the bankers' economic policy with its low prices and high unemployment. The decisive event which caused the end of financial capitalism in Britain was the revolt of the British fleet at Invergordon on September 15, 1931, and not the abandonment of gold six days later. [Actually the powers of financial capitalism and monopoly capitalism have been cooperating to build and sustain the international financial system and the international economic system.]The

mutiny made it clear that the policy of deflation must be ended. As a result, no real effort was made to defend the gold standard.

### The Adoption of Protective Tariffs

With the abandonment of gold and the adoption of a protective tariff, monopolist capital and labor joined in an effort to raise both wages and profits by a program of higher prices and restrictions on production. The old monopolies and cartels increased in strength and new ones were formed, usually with the blessing of the government. These groups enforced restrictive practices on their members and on outsiders even to the extent of buying up and destroying productive capacity in their own lines. In some cases, as in agricultural products and in coal, these efforts were based on statute law, but in most cases they were purely private ventures. In no case did the government make any real effort to protect consumers against exploitation. In 1942 a capable observer, Hermann Levy, wrote, "Today Britain is the only highly industrialized country in the world where no attempt has yet been made to restrict the domination of quasi-monopolist associations in industry and trade." It is true that the government did not accept the suggestions of Lord Melchett and of the Federation of British Industries that cartels and trade associations be made compulsory, but it gave such free rein to these groups in the use of their economic power that the compulsory aspect became largely unnecessary. By economic and social pressure individuals who refused to adopt the restrictive practices favored by the industry as a whole were forced to yield or were ruined. This, for example, was done to a steel manufacturer who insisted on constructing a continuous-strip steel mill in 1940.

### Restrictive Practices

Among the producing groups, social pressures were added to economic duress to enforce restrictive practices. A tradition of inefficiency, high prices, and low output became so entrenched that anyone who questioned it was regarded as socially unacceptable and almost a traitor to Britain. As *The Economist*, the only important voice in the country which resisted this trend, said (on January 8, 1944) ". . . too few British business men are trying to compete. In these days, to say that a firm has so increased its efficiency that it can sell at low prices is not to give praise for initiative and enterprise, but to criticize it for breaking the rules of 'fair' trading and indulging in the ultimate sin of 'cut-throat' competition."

No detailed analysis of the methods or organization of these restrictive groups can be made here, but a few examples may be indicated. The Coal Mines Act of 1930 set up an organization which allotted production quotas to each colliery and fixed minimum prices. The National Shipbuilders Security, Ltd., was set up in 1930 and began to buy up and destroy shipyards, using funds from a million-pound bond issue whose service charges were met from a 1 percent levy on construction contracts. By 1934 one-quarter of Britain's shipbuilding capacity had been eliminated. The Millers' Mutual Association (1920) entirely suppressed competition among its members, and set up the Purchase Finance Company to buy up and destroy flour mills, using funds secured by a secret levy

on the industry. By 1933 over one-sixth of the flour mills in England had been eliminated. In textiles the Lancashire Cotton Corporation acquired 10 million cotton spindles in three years (1934-1937) and scrapped about half of these, while the Spindles Board scrapped about 2 million spindles in one year (1936-1937). In spite of the growing international crisis, these restrictive actions continued unabated until May 1940, but the drive toward total mobilization by the Churchill government brought a fuller utilization of resources in Britain than in any other country.

### The Conservative Party in Britain Represent the Bankers

This wartime experience with full employment made it impossible to return to the semi-stagnation and partial use of resources which had prevailed under financial capitalism in the 1930's. However, the economic future of Britain in the postwar period was much hampered by the fact that the two opposing political parties represented entrenched economic interests and were not a rather amorphous groupings of diverse interests as in the United States. The Labour Party, which held office from 1945 to 1951 under Clement Attlee, represents the interests of labor unions and, in a more remote fashion, of consumers. The Conservative Party, which held office under Churchill, Eden, Macmillan, and Douglas-Home after 1951 represents the propertied classes, and still continues to show strong banking influence. This has created a kind of balance in which a welfare state has been established, but at the cost of slow inflation and slack use of resources.

Consumption and enjoyment of leisure rather than production have been the marks of the British economy even under the Conservative Party, which has shown more concern for the value of the pound in the foreign exchanges than it has for productive investment. The middle classes and, above all, the professional and educated groups are not directly represented by either party. By their shift from one of these alien parties to the other, they can determine the outcome of elections, but they are not really at home in either and may, ultimately, turn back to the Liberal Party, although they are reluctant to embark upon the period of coalition, and the relatively irresponsible governments this might entail.

### Class Structure in Britain

The class structure in Britain, which has survived the war in spite of steady attrition, is still being eroded, not by any drastic increase in working-class people rising into the upper class; but by the development of the third class which belongs to neither of the old classes. This new group included the people with "know-how," managers, scientists, professional men, imaginative parvenu entrepreneurs in lines which the older possessing class had ignored. These newly established rich now try to ignore the older upper class, and frequently show surprising resentments toward it. As this new, amorphous, vigorous group ... blurs the outlines of the two older classes. Much of this blurring has been the result of adoption of upper-class characteristics by non-upperclass persons. Increasing numbers of young people are adopting the British Broadcasting Corporation accent, which makes it increasingly difficult to establish the class, educational, and geographic origin of a speaker. Closely related to this is the improved appearance and health of the

ordinary Englishman as a consequence of rising standards of living in general and the advent of the National Health service in particular. The loss of these two identifying characteristics leaves clothing as the chief class distinctive mark, but this applies only to men. Many women, as the result of the wide spreading of style magazines and the influence of the cinema, wear similar dresses, use the same cosmetics, and adopt the same hair arrangements. Today, even relatively poor shop-girls are often well dressed and invariably are attractively clean and carefully coiffured.

### Large Blocks of Interest Groups

As in most other countries in the postwar world, Britain's economy is increasingly made up of large blocs of interest groups whose shifting alignments determine economic policy within the three-cornered area of consumers' living standards, investment needs, and governmental expenditures (chiefly defense). All these diverse interest groups are increasingly monopolistic in organization, and increasingly convinced of the need for planning for their own interests, but the major factor in the picture is no longer the banking fraternity, as it was before the war, but the government through the Treasury. [The bankers are now sharing power with the new groups of wealth and the transnational corporations.]

### The Increase in Power of the Giant Monopolies

This decrease in the power of the bankers, [power is now being shared with new financial groups] with a corresponding increase in that of other groups, including the government, is not the result of any new laws, such as the nationalization of the Bank of England, but of shifts in the flows of investment funds, which increasingly bypass the banks. Many of the largest industrial enterprises, such as British Imperial Chemicals or Shell Oil, are largely self-financing as a result of monopolistic conditions based on cartels, patent controls, or control of scarce resources. At the same time, the great mass of investment funds come from non-banking sources. About half of such funds now comes from government and public authorities, such as the National Coal Board, which produces £17 million a year in new money seeking investment. Insurance companies (concerned with non-life policies) are fairly closely linked with the older banking structure, as they are in most countries, but the banks ignored insurance on lives, which in England developed as a lower-class concern, paid by weekly or monthly premiums through door-to-door collections. These insurance companies in Britain provide £1.5 million a day in money seeking investment (1961), and the largest company' the Prudential, pours out £2 million a week. Much of this goes into industrial shares. In 1953, when the Conservative Party denationalized the steel industry, which Labour had nationalized in 1948, much of its shares were bought up by funds from insurance companies. These enormous funds create a great danger that the handful of unknown men who handle the investment of such funds could become a centralized power in British economic life. So far they have made no effort to do so, since they supply funds without interfering in the existing management of the corporations in which they invest. They are satisfied with an adequate return on their money, but the possibility of such control exists.

## Lower Class Distaste for Banks

Another source of funds from lower-class sources is the Postal Savings system. This has expanded because the lower classes in England regard banks as alien, upper-class institutions, and prefer to put their savings somewhere else. As a result, Postal Savings at over £6,000 millions are about the same size as the deposits of all the eleven joint-stock banks.

Somewhat similar in character are the investments of pension funds, which reached a total of about £2,000 million at the end of 1960 and are increasing at about £150 million a year.

## Pressure Upon Britain by International Institutions

Two other lower-class non-banking innovations which have been having revolutionary influences on British life are the building societies (called "building and loan" in the United States) and "hire-purchase" associations (installment-buying organizations) which help the lower classes to acquire homes and to equip them. Together, these have wiped away much of the traditional dinginess of English lower-class life, brightening it up with amenities which have contributed to increase the solidarity of family life. Slum clearance and rebuilding by local government bodies (the so-called Council houses) have added to this. One consequence of the flowing of investment funds outside the control of the banks has been that the traditional controls on consumption and investment by the use of changes of bank rates have become decreasingly effective. This has had the double effect of damping down the movements of the business cycle and shifting such controls to the government, which can regulate consumption by such devices as changes in the terms of installment buying (larger down payments and carrying charges). At the same time, Britain's formerly independent role in all these matters has come increasingly under the influence of outside, uncontrollable influences, such as business conditions in the United States, the competition of the European Common Market, and the pressures of various international agencies, such as the International Monetary Fund. The final result is a complex and increasingly feudalized social-welfare economy in which managers ... [and] owners share power in a complicated dynamic system whose chief features are still largely unknown even to serious students.

## Chapter 33—Germany

While Britain passed through the stages of capitalism in this fashion, Germany was passing through the same stages in a different way.

In Germany, capital was scarce when industrialism arrived. Because savings from commerce, overseas trade, or small artisan shops were much less than in Britain, the stage of owner-management was relatively short. Industry found itself dependent upon banks almost at once. These banks were quite different from those in England, since they were "mixed" and not divided into separate establishments for different banking functions. The chief German credit banks, founded in the period 1848-1881, were at the