Finance Capital: A Mechanism for Restructuring

Dick Bryan

Much has been written in recent years about the transformations in Australia's position within the international economy and the structural change of the Australian economy. This has included analysis of mining booms, manufacturing slumps, the effects on Australia of Asian industrialisation, and, of course, the perennial favourite - the spectre of transnational corporations in Australia.

Invariably, the consideration of these issues has focused on questions of the location, level, and organisation of production - its international, intersectoral, and intra-industry reordering. However, the **mechanism** of this reordering tends to be neglected as an object of analysis: it is generally ascribed to 'the competitive process' or to 'the decisions of transnational corporations'. Implicitly, this identifies the mechanism as historically invariant, and thus not as a factor by which to explain recent tendencies in the international and Australian economies.

Rather than focus exclusively on the location, level, and organisation of production, there is a need to address the relationship between money and production as the mechanism by which production is reorganised. This relationship, which has undergone significant change in recent years, is termed 'finance capital'.

'Finance capital' is something of a buzz word in left-liberal and marxist political economy. Unfortunately, it is a term that has come to mean whatever its user chooses. This perhaps indicates that debate on the Left about the economic role of money remains undeveloped. Also there is evidence of jargon for jargon's sake - a tendency to use the term 'finance capital' when better understood terms like 'banks' or 'financial institutions' or 'money' would designate more simply as well as more accurately the subject of description.

In fact, finance capital is a complex concept, and one that can take on full meaning only in marxist categories. Loosely, it refers to the articulated relations between the money form and the productive form of value in the process of accumulation of social capital.

As a preliminary, it is worth emphasising why a marxist concept of finance capital means more than just 'banks' or 'money' or 'finance'. Here there are two points. The first involves the importance of the term 'capital', used in a marxist sense to designate the social relation of value production and reproduction. Thus, finance **capital** situates finance within a social process: the process of the class relations of capitalism as expressed in the operation of the law of value. Further, finance capital cannot be a synonym for 'banks', for banks are institutions, not in themselves social processes. The second point is that finance capital should not be reduced to 'money' (or even Marx's concept of 'money capital'). If finance capital referred simply to the credit system or to money advanced to fund production, the terms 'money' or 'money capital' would suffice. But finance capital refers to something different, or additional, for it involves not just the existence of capital value in the form of money, but also the social process by which money capital is transformed into productive capital, i.e. it involves the links between the spheres of money and production.

The purpose of this article is to elaborate this concept of finance capital and to show its specific relevance in explaining recent transformations in capital accumulation in Australia. The approach adopted is first to suggest briefly why the recent history of capitalism warrants a new focus on money and its relation to production, especially on an international scale, and why a new set of questions must be asked about the relationship between money and production in a period of economic crisis. The concept of 'finance capital' is then applied in relation to the internationalisation of capital accumulation in Australia. Here the account concentrates on three issues: the growth of external funding; the relative significance of debt and equity; and the degree of concentration in external funding.

THE NEW ROLE OF MONEY

Since the 1970s the money form of capital has assumed a new importance. This contrasts with the first three decades after World War II - a period dominated by Keynesian ideology. Keynesian theory emphasised not money, but production; monetary aggregates could be manipulated so as to guarantee the level of production. Accordingly, states could run budget deficits and regulate both interest rates and exchange rates, all to promote production. Monetarist ideology, by contrast, emphasises money rather than production. The role of the state is to ensure the integrity of money values; thus deficits are seen to debase the value of money, while interest rate and exchange rate regulation is seen to distort the price of money. Monetarism argues that production will only expand once the integrity of the money system is guaranteed.

The shift to the dominance of monetarism in economic policy since the 1970s has been the symptom of a major transformation in the organisation of capital accumulation. This involves a renewed dominance of money in the determination of production. In the international response to the protracted recession of the 1970s and 1980s money capital is playing a central organising role.

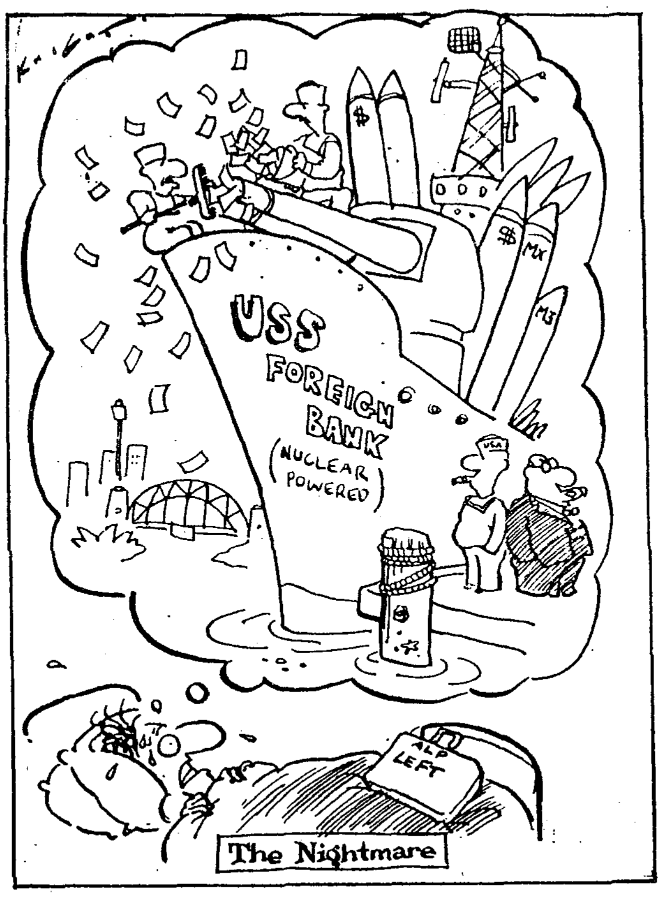
Why this should be so is a detailed and complex question. Some brief explanation is, however, warranted here, for it relates to issues to be addressed later in this article. The essential answer lies in the fact that capital is now more internationalised than was the case in previous major recessions, with the result that the restructuring or reorganisation of capital that develops in recession is now far more comprehensively an **international** reorganisation. In previous large recessions, most notably the 1930s, the reorganisation of capital was predominantly national. Certainly, capital did move internationally, particularly as debts were called in, but the way in which capital climbed out of recession was mainly by the reorganisation of productive capital on a **national** scale. In accordance with the rising Keynesian theory, this involved the promotion of (initially) domestic industry. In Australia we saw the development of domestic manufacturing behind tariff barriers.

The long boom of the post-war period in itself generated a dramatic internationalisation of capital accumulation: the expansion of international trade, investment, credit and, of course, the prominence of transnational corporations. This internationalisation was a logical consequence of a protracted boom: it displayed the inherent requirement for capital to keep expanding itself. The national basis of restructuring became increasingly transcended. The effect was not just to increase the economic links between national economies, but increasingly to break down the very notion of a national economy as an entity with an internally definable logic and dynamic. Capital thus entered the current recession in a highly internationalised form. Accordingly, a process of national restructuring of capital now has little meaning except as a component of international restructuring.

Herein lies the importance of money (and the rise of monetarist ideology). It is the money form of capital that most ably transmits the internationality of restructuring. That is, the reorganisation of capital on an international scale requires the existence of a mechanism by which the commensurability of different value-producing activities throughout the world can be accurately established. This is precisely the role of money.

Money leads the process of international restructuring for two interrelated reasons. First, money is the most mobile form of capital. It enables capital value to be relocated in space and time simply by decisions made within capital markets. The capacity to buy and sell money (and near-money) throughout the world, and access to futures markets for currencies, make money, and thus command over material resources, highly mobile. While commodities and production are costly to transmit over space (and time), money capital can be transmitted over the telephone!

Second, as Marx established, money is the universal equivalent form of value; all commodities can express their relative values through the medium of money. The international



The Nightmare

movement of money therefore secures an **international** equivalent form of value and thus a means to compare internationally the relative profitability of different productive activities.

The international movement of money is thus the key to a systematic and comprehensive international process of restructuring via the market mechanism. It also warrants emphasis that this restructuring is most efficiently achieved for capital when the international mobility of money is unimpeded. The less the nation state intervenes in money markets by exchange rate controls, interest rate controls, or 'inappropriate' supply of money (e.g. budget deficits), the more accurately can capitalists verify the international value of particular national currencies and the more stable will be the international commensurability of capital value in the money form. The relatively recent tendency of nation states, including Australia, to deregulate their financial sectors can therefore be understood as expressing the requirements of international restructuring and thus the interests of internationalised capital. The libertarian policies demanded by the IMF of loan recipients express the same interests. In both cases the guaranteed value and international commensurability of money is the **lever** by which the international conditions of profitable accumulation are re-established.

In general, it can be concluded that the category of money deserves renewed attention because the free international movement of money coheres discrete processes of accumulation and subjects them to international criteria of profitability. It is thereby **only** money that can lead the systematic restructuring of an **already** internationalised economy. For this reason, finance capital, as the articulated relation between the money form and the productive form of capital, becomes a key category in contemporary political economy. It is important in locating the internationality of capital and accumulation and thus in identifying the internationalisation of the class struggle.

FINANCE CAPITAL: AN INSTITUTIONALIST ORIGIN

Having indicated **why** finance capital is an important subject for contemporary analyses, we can now inquire more deeply into its meaning. The term 'finance capital' was coined at the turn of the century by Rudolf Hilferding[1] and soon after popularised by Lenin in his **Imperialism: The Highest Stage of Capitalism**. It was a concept posed within a marxist framework although, in the case of Hilferding, one that explicitly rejected marxian value theory.[2] Both Hilferding and Lenin focused on a significant and observable change taking place at the end of the nineteenth century: the growth of credit as a source of money capital to be advanced for production. Marx had earlier noted the importance of the joint stock company (involving the sale of equity interests) in promoting the centralisation and concentration of capital. For Hilferding and Lenin, the new role of the credit system further promoted this tendency. No longer was the bank a place where capitalists went as a last resort, when facing a short-run crisis of profitability. Banks were becoming providers of large volumes of long-term credit to finance **expansion**, not just to stave off bankruptcy. Thus banks could no longer be seen as the enemy of industry, extracting interest from vulnerable enterprises that had no alternative source of money. Rather, banks and industry could expand together, with banks putting up the money and industry generating the profits.

By the beginning of the twentieth century this was producing a new period of concentration and centralisation, with a distinct tendency for individual capitals to expand internationally. Indeed, Lenin described the results of this tendency as a new 'stage' of capitalism, which he believed would be capitalism's highest and thus final stage: the stage of capitalist imperialism.

These were important observations. They raise a whole range of theoretical questions for marxism: for example, about the relationship between money and production; the distribution of surplus value between the forms of profit of enterprise, interest, and rent; and the process of internationalisation of the operation of the law of value. Largely neglecting these issues, Hilferding and Lenin chose to construct their analyses at the institutional level of the relationship between **banks** and **corporations**. They posited the dominance of money over production in the particular form of the dominance of the banks over corporations. The point they focused on (which was one of conjunctural political significance associated with the forces leading towards World War 1) was the fact that the relationship between banks and corporations was generating ever more powerful monopolies whose growth was going to dominate the world and, in so doing, lead to a major political clash between these monopolies on a world scale. In this they were right.

The problem with this formulation of finance capital as the development of links between banks and corporations is that it addressed a specific and, for Hilferding and Lenin, contemporary political and economic issue. Seventy years on, however, the developments identified by Hilferding and Lenin have lost any specific impact. 'Finance capital' as they used the term has become a blunt concept. That is, if 'finance capital' simply refers to symbiotic links between banks and corporations, a current application of the concept can only confirm that the links remain real to this day. Similarly, if 'finance capital' is used, as by Lenin, to characterise the transition to capitalism's 'highest stage', it does not offer a conceptual approach to analyse the important changes **within** that stage that clearly have occurred since the second decade of the century.

While acknowledging the contributions of both Hilferding and Lenin, we need from the concept of finance capital a means by which we can identify and understand contemporary changes in the relations between the financial sector and productive industry - changes that are central to an explanation of current developments in political economy. This requires that the concept be taken out of its institutionalist shell, as developed by Hilferding and Lenin (and also as utilised in Australian analyses of finance capital during the 1970s).

While the analysis of institutions is important, it should always be remembered that institutions display the form but not the content of capitalist social relations. The transformation of the role of and relations between institutions must be explained at the level of the social forces that the institutions express. That is, marxism is not a theory of institutions **per se,** but an explanation of the social relations of which institutions are an expression. The danger of focusing a theoretical concept (like finance capital) at the institutional level is that we start to seek the logic of the concept within the institutions themselves. Accordingly, social relations lose their class content and come to be explained just in terms of the conscious decisions of institutional directors. Lost, then, is the essential notion that such decisions are circumscribed by the contingencies of capitalism as a system of commodity relations which we can say, for shorthand, adhere to the operation of the law of value.

It follows that the reality of finance capital should not be sought in the interlocking directorships between industrial companies and financial institutions. Certainly in Australia these personal links on boards of directors are strong, as the work of Tsokhas and Nowicki[3] shows, but such links are a product of finance capital, not its substance. They are the effect, not the cause, of the relationship between money capital and productive capital. To move beyond institutionalism, we must go back and reformulate the concept of finance capital in value categories.

FINANCE CAPITAL AND ACCUMULATION

The concept of finance capital can be posed in terms of the circuit of industrial capital formulated by Marx at the start of volume 2 of **Capital.** This provides a mechanism for representing the relationship between the money form and the productive form of capital within the process of accumulation.

Since capital moves in a continuous circuit, the starting point of an explanation of the circuit is somewhat arbitrary. However, the principle can be most clearly seen if we commence with capital in the form of money. Money is transformed into money capital (M) when it is utilised for purchase of inputs in the process of production. Money is exchanged for commodities (C) made up of the physical means of production (MP) and labour power (LP). When labour power is combined with the means of production in the capitalist production process, capital assumes the form of productive capital (P). The significance of production is both that it is a break in the process of circulation of value and that it generates output or new commodities, which are owned by the capitalist and are thereby commodity capital (C'). This commodity capital has a value greater than the commodity capital that entered the process of production because the commodity capital that emerges out of production has its value expanded by the amount by which the new value created in the production process exceeds the value of labour power. That is, the value of capital is now expanded by the extent of surplus value. Hence, when this commodity capital is transformed back into the money form (M') by the act of exchange, the quantity of money is greater than that which entered the circuit. This process (identified by Marx as the circuit of money capital) can be presented as:

$$M - C\begin{cases} LP \\ MP \end{cases} \ldots P \ldots \; C' - M'$$

in which M' at the end of the circuit can now commence the circuit anew, on an expanded scale.

This movement of value from the money form to the commodity form, to the productive form, etc. depicts both the movement of total capital and the movement of each individual capital. That is, the process of reproduction of individual industrial capitals, through the acts of exchange and competition that link each capital to the other, sums to the reproduction of total capital.

The question of finance capital pertains to the relationship between M (money capital advanced) and M' (money capital as revenue) on the one hand and P (the process of production of surplus value) on the other. We must now establish what aspects of this relationship warrant denotation as 'finance capital'.

We can start with M at the 'beginning' of the circuit and see how this impinges on production. Three sources of M can be identified. One is retained earnings: some part of M' from the 'previous' circuit which is used to purchase new inputs into the production process. A second source of M is the sale of equity (company shares), and a third source is credit (loans from financial institutions). The second and third sources are collectively called external funding, and it is here that the existence of finance capital can be posed. However finance capital involves more than just external funding - it involves the **dominance** of external money capital over productive capital.

Before examining this element of dominance it is useful to describe the basic symbiosis between money capital and productive capital. We start with the dependence of money capital on productive capital. Money capital is advanced for production so as to provide a return - either as interest on credit or as dividends and/or capital gains on equity. These returns come out of M' at the 'end' of the circuit, in which some part of surplus value accrues as interest and dividends. In this respect money capital's return is directly contingent upon production, because it is only in production that surplus value is generated. Without the expansion of value created in production there would be no basis for a return to money capital and thus no advance of money capital in the first place.

The dependence of money on production is therefore one that involves the analytical primacy of the production process and the economic primacy of the exploitation of labour by capital, insofar as this involves the appropriation of the surplus value on which capital accumlation is contingent. In this respect, the dependence of money on production is a fundamental dependence, implicit within the capitalist mode of production itself.

The other side of the symbiosis, the dependence of production on money, is also fundamental, insofar as the commodity inputs into the production process (labour power and means of production) must always be purchased with money. This dependence however takes historically specific forms. For example, the formation of the joint stock company, as discussed by Marx, involving the advance of money capital through the sale of corporate equity, entails a different form of dependence from that involved in the advance of credit, as identified by Hilferding.

In general, the existence of a relation of finance capital can be identified only when external funds (credit and equity) are advanced in **significant quantities from single sources,** for it is only by existence in large denominations that money capital can exert systematic dominance within production. For individual capitals, money capital when advanced in large units has the capacity at least to veto and sometimes even to determine the process of production. In the case of money capital in the form of credit, production processes can be deprived altogether of external funding. Short of this, such money capital demands that productive capital should demonstrate the capacity to generate surplus value sufficient to guarantee repayment of debt. Thus particular production processes dependent on credit are subject to the scrutiny of those who advance money capital in the form of credit.

In the case of money capital in the form of equity, owners of large quantities of equity have the capacity to exercise legal rights of ownership so as to determine decisions in production. Here we should note the central importance of the size of equity holdings in the identification of finance capital, for it is only the larger shareholders who can use their money capital to this effect. In institutional terms this can generally be associated with the shareholdings of life offices, pension funds and superannuation funds: the so-called 'institutional' investors. These will be discussed later in the context of finance capital in Australia. At this stage, however, we can simply note an increasing willingness on the part of these institutional equity holders to use their money capital to exert influence within production. This is illustrated in the following statement by the investment managers of National Mutual Life (NML), Australia's second largest life office:

> It is clear that the potential now exists for the managements of collective investment institutions, prominent among them the life offices and pension funds, to influence the direction of corporate strategies in circumstances where they consider the interests of their policy holders will be best served by such action.[4]

There cannot be a clearer expression of the operation of finance capital at the level of individual capitals.

At the level of total capital, the macro level, the power of money capital over productive capital is its overall capacity to determine in which sectors, in which regions, and indeed in which parts of the world, production will occur. It is in this respect that the whole concept of structural adjustment, on both a national and an international scale, centres on the movement of money capital and the relation of finance capital.

Capital in the form of commodity inputs into the productive process (labour power and means of production) only changes industry and location if it is 'drawn' by money capital: the offer of payment for their participation in production. The market-sensitive movement of money capital determines the movement of commodity capital and thus productive capital. This is the sense in which, at the level of total capital, money capital dominates productive capital.

In summary, the analysis to this stage has sought to draw out the relationship between money capital and productive capital as the basis of finance capital. Lenin's analysis of finance capital posited the dominance of money over production (in the form of banks over industry). This analysis has sought to establish a more complex and symbiotic relationship between the two, although conceding, in the context of recession, the dominance of money capital. In essence, money depends on production for the creation of surplus value, while production depends on the advance of money for the acquisition of inputs into the productive process. It is the manner in which this two-way relationship is articulated in concrete circumstances that specifies the historical role of finance capital. The proposition of this article is that, within the current international recession, a crisis of productive capital is being 'resolved' by the relocation of money capital in a process that is generally termed 'structural adjustment'.[5]

We have now developed the notion of finance capital into a 'workable' concept within the context of marxist categories, albeit not totally divorced from institutional forms. In the following section, in identifying developments in and transformations of finance capital in Australia, this article is obliged to focus on the relationship between money capital and productive capital at the aggregate level of total capital. Very little of a general nature can be said about the relationship at the level of individual capitals. That is a matter specific to each individual capital and so requires particular case studies. The analysis does, however, provide a broader framework within which such studies might be undertaken. Individual capitals must always be understood as component elements of total capital.

At the level of total capital the foregoing analysis points to three issues which are central to charting the development of finance capital:

1) the growth of external funding within the advance of money capital;

2) within external funding, the relative significance of debt and equity; and

3) the extent to which this external funding is highly concentrated in origin.

We now turn to recent Australian evidence on these three issues.

AUSTRALIA : THE EVIDENCE

The growth of external funding

A general, although inconsistent, increase in the aggregate rate of utilisation of external funding of capital accumulation in Australia can be identified over the recent period (see Table 1).

Table 1

Enterprises in Australia: Sources of Funds, 1966-67 to 1978-79 (%).

Year	66-7	68-9	70-1	72-3	74-5	76-7	78-9
Sources							
Internal	64.6	53.3	47.4	56.9	42.4	54.8	49.7
External	35.4	46.7	52.6	43.1	57.6	45.2	50.3

Source: Australian Financial System: Interim Report of the Committee of Inquiry, (AGPS, Canberra, 1980), p.33.

This table provides only highly simplified information and several additional points should be noted. First, this is an aggregate trend for all trading enterprises and it is by no means uniform across industries. A shift towards the use of external funding is most pronounced in the mining and manufacturing sectors, while an **opposite**, although weaker, trend is apparent for the retailing and service sectors. This indicates that not all sectors respond to economic conditions in the same way. More importantly, it also says something about the relationship between sources of funds and international restructuring of production. Those industries that are the primary focus of international restructuring, manufacturing and mining, are the ones relying increasingly on external funding, while the more insulated industries tend to be more reliant upon internal sources of money capital.

The significance of this overall growing share of external funding should be reiterated. It means that production decisions (what, where, and how to produce) are increasingly subject to the scrutiny of those who supply the capital market: domestic and international investors and creditors. Further, the growing share of external funding has as its corollary the growing external accrual of surplus value in the forms of interest and dividends. Since surplus value is the source of expansion of capital accumulation, it is these external sources of money capital which increasingly determine where this expansion will take place. How this affects capital accumulation in Australia will be discussed shortly. At this stage, the significant factor is that the growth of external funding, particularly in manufacturing and mining, represents the precondition for the capacity of finance capital to determine the pattern of accumulation in Australia in a way which internationalises accumulation.

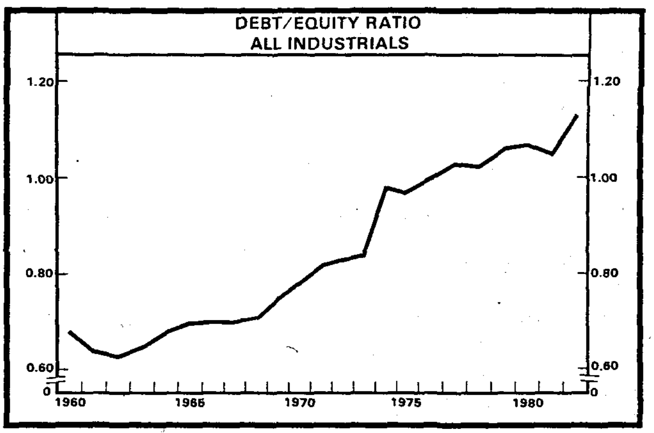
The relative significance of debt and equity.

Within the category of external funding, both debt and equity capital provide the potential for the exercise of the dominance of money over production, although each achieves this dominance through different processes. The changing balance between debt and equity financing reveals important factors about the change in the form of finance capital.

For Australia, the current recession has seen a significant shift from equity to debt in the composition of money capital advanced. This shift is illustrated in Figure 1.

Figure 1.

Enterprises in Australia: Debt-Equity Ratios, 1960-83.



Source: Reserve Bank of Australia, Statistical Bulletin, Financial Flow Accounts, 1953-54 to 1979-80, June 1981.

Here, as with the evidence on the growth of external funding, caution is needed in the interpretation of simplified and highly aggregated figures. For example, aggregate debt-equity ratios do not distinguish between the uses of short-run and long-run debt. Also, for the purpose of this analysis, our concern is with the relative significance of debt and equity within money capital advanced, not within company assets. This creates problems to do with how the value of equity should be measured: should equity be measured by the paid up value or the par value of shares?[6] There is no need to dwell on the matter, for we are more concerned with trends than with absolute ratios. Despite the problems of measurement of absolute gearing ratios, the relative trend towards debt is clear. This indicates that credit agencies should be seen as the cutting edge of finance capital.

Significantly, the expansion of credit has not involved simply the growth of the 'traditional' credit agencies: the so-called 'local' trading banks. This point was noted and documented most clearly by the Campbell Inquiry. During the 1970s and 1980s there has been a clear decline in the importance of trading banks in the funding of production. Instead, credit is being increasingly advanced by non-trading banks, with merchant banks being the fastest growing source of credit. The specialised role of merchant banks is in arranging loans to fund Australian production in **international** money markets. This growing role of merchant banks is the institutional evidence of the growing international mobility of credit and of the fact that capital accumulation in Australia is increasingly funded out of **internationally mobile** credit.

It is sometimes contended that 'foreign' companies in Australia are draining 'Australian' sources of credit, but it is forgotten that this credit is itself internationally mobile and much of it is not of Australian origin. Borrowing through 'Australian' credit agencies does not, in itself, mean the borrowing of Australians' savings.

For our analysis, the key point to be noted is that the tendency for debt-equity ratios to increase coincides exactly with a tendency for credit itself to internationalise, as seen in the increasing integration of the Australian capital market into international money markets and the increasing willingness on the part of local producers to borrow directly from overseas. The result is that money capital advanced for production (M) is increasingly international in nature. This means that an increasing proportion of money capital at the end of the circuit (M'), whose value has been expanded by the extent of surplus value generated within Australia, directly enters into **international** circulation.

Equity holdings of financial institutions.

The increasing share of debt in money capital advanced does not mean that the influence of equity capital over production correspondingly declines. Companies heavily reliant upon debt still need directors, and equity capital remains the legal means by which directorships of public companies are determined. This legal power of equity holders exists irrespective of the actual gearing ratio of money capital advanced.

The major development which can be noted in relation to equity holdings is the extent to which they have become concentrated in the hands of financial institutions over the 1970s and 1980s. This period has seen a handful of financial institutions (particularly life offices and pension funds) become the major net buyers of shares in companies in Australia, while households have become major net sellers[7]. By the end of the 1970s, financial institutions were providing almost one third of new money raised in Australia through share and debenture issues. The result has been an increasing tendency for financial institutions to become major shareholders in a significant number of companies in Australia.[8]

As emphasised earlier in this paper, it is when equity is held in concentrated ownership that the capacity to engage in the determination of production decisions becomes a reality. Thus, the increasing concentration of share ownership in the hands of financial institutions, is indicative of a growing command by finance capital. This is despite the relative decline of equity to debt in money capital advanced, which itself indicates the same trend.

The current analysis, however, is not intent upon documenting the growth of this concentration. Rather, the point to be emphasised is that with the growth of financial institutions' share ownership has come a tendency for them to **internationalise** shareholdings. Particularly since 1981, when the Federal Government dropped its limitations on Australians' portfolio investments overseas, 'Australian' life offices and pension funds have shown a distinct inclination to purchase equity interests in overseas markets, particularly North America. For these institutions, whose investments had formerly been largely confined to Australasia, the freedom to purchase equity internationally is a significant opportunity. But it also has implications for our internationalisation thesis. It means that some portion of the surplus value generated within Australia and appropriated by so-called 'local' financial institutions in the form of dividends and capital gains is being transmitted internationally for the purchase of equities on overseas stock markets. This portion is higher the greater the extent to which financial institutions own shares in companies which produce value within Australia and the greater the extent to which their **new** purchases of equity are located outside of Australia. Both tendencies have been prevalent in the 1980s.

It can be noted in passing that this dimension of internationalisation coexists with so-called 'Australian' ownership of enterprises. That is, the life offices and pension funds, which are identified as 'Australian' by official governmental criteria of nationality are themselves internationalising Australia's accumulation. It is not a process which we can simply 'blame' on so-called 'foreign' capital.

Summary.

The highly generalised empirical evidence presented in this section can now be summarised. First, the proportion of external funding in money capital advanced in Australia is growing in those sectors of the economy that are most directly involved in the process of international restructuring - manufacturing and mining. Moreover, it is **because** enterprises in these sectors rely upon external funding that they are most susceptible to the effects of the international reorganisation of capital.

Second, external funding has become increasingly internationalised due both to increasing access of industry in Australia to international sources of credit and to the fact that Australia's largest equity holders, the financial institutions, are increasingly internationalising their equity portfolios. It is precisely because external funding is significantly more internationally mobile than internal funding that those industries most reliant on external funding become directly subject to international criteria of profitability in their search for money capital advanced. The evidence on Australia supports the proposition that the international mobility of finance capital is securing a restructuring of the Australian economy in line with international conditions of profitability. Finance capital secures the international mobility of both capital in the form of money and surplus value in the forms of interest and dividends.

A NOTE ON THE ISSUE OF FOREIGN BANKS.

A discussion of finance capital in Australia cannot ignore the current issue of the entry of foreign banks, for these banks are sometimes, falsely, characterised as the essential expression of international finance capital. Their entry into Australia is seen, in some leftist circles, as likely to have deleterious effects on the Australian economy: decisions about credit, banking and even the balance of payments are viewed as liable to come under the control of these international banks. This argument is banal, not merely because of its institutionalist focus, but because its radical nationalist premises fail to grasp the real processes at work.

The critique of the institutionalist dimension of the argument is straightforward. It revolves around the simple point that so-called 'foreign' banks already have well-established indirect mechanisms for servicing the Australian capital market. The desire for and pending reality of foreign bank **direct** operations in Australia are the effects, not the causes, of the internationalisation of credit and money. Foreign banks will not create the international mobility of money; they will simply administer it.

The danger of foreign bank operations in Australia comes not from those banks themselves, nor from their likely practices, but from the regulations that are to be imposed upon them by the Australian Government; regulations which, ironically, have been demanded by the radical nationalists. One regulation requires that, wherever possible, 50 percent of the equity in new banks should be in 'Australian' hands. This requirement is proving a godsend to those non-bank financial institutions, especially the life offices such AMP and NML, which are designated as 'Australian' by the state's foreign investment criteria. The restriction imposed upon foreign ownership of new banks is the means for these non-bank financial institutions to enter the banking sphere, and they have been prominent in the consortia applying for licences.

N is for NUANCE

The important point is that these non-bank financial institutions, which have earlier been identified as major holders of corporate equity in Australia, are about to become major suppliers of credit too. These institutions will thereby come to exert an overwhelming influence on the direction of advance of money capital within Australia. Thus, the effect of the demands of radical nationalists is not to constrain the power of finance capital, but to centralise it; and the fact that it may be centralised under predominantly Australian ownership does not at all diminish its internationality.

The entry of foreign banks should be a non-issue for marxists. Concern should focus, not on state control over the ownership of banks, but on the direction in which credit is advanced.

CONCLUSION

This article has not sought to pass judgement on the role of international finance capital. Finance capital has been presented here as a logical development in the process of accumulation. The objective is not to moralise about the development, but to emphasise that economic and political strategies in Australia must recognise the reality of the development. In particular, it is necessary to leave behind the anachronistic conception of a discrete national economy which operates according to internally delineated economic forces. It is also necessary to move beyond the ideology which equates Australian ownership with national economic sovereignty.

A focus on the process of finance capital, the relationship between money and production, and the associated spatial mobility of the process of accumulation, highlights the complex international processes which determine the structure and vicissitudes of the Australian economy. The question is whether any attempts to obstruct the expression of international finance capital within Australia can be socially progressive or will simply create an increasingly backward capitalism. It is a question which the Left in Australia has failed to confront in the current period.

NOTES

1. R. Hilferding, Finance Capital (London: Routledge and Kegan Paul, 1981).

2. Ibid, p.228.

3. H. Nowicki and K. Tsokhas, 'Finance Capital and the Australian Ruling Class', Intervention, No.13, 1979; and K. Tsokhas, 'The Bank of New South Wales: A Case Study of Finance Capital', Arena, No.51, 1978.

4. B. E. Laws and B. J. Stagoll, 'Life Office Equity Investment in an Era of Change', Australian Insurance Institute Journal, 4, No.5, 1981, p.38.

5. It should be noted that the analysis here only deals with productive (industrial) capital. Clearly, money will also be advanced to non-productive activity such as property speculation (i.e. activity which generates profits without producing surplus value). While this application of money has proved important in recent years, it does not detract from the analysis at this stage to recognise the existence of 'leakages' in the symbiosis between money and production.

6. The Reserve Bank of Australia estimates used in Figure 1 calculate equity value by an average ratio of paid up capital to shareholders' funds. ABS data, by contrast, utilise paid up share values. The result is major divergences in their calculation of debt-equity ratios.

7. See Reserve Bank of Australia, Statistical Bulletin, Financial Flow Accounts, 1953-54 to 1979-80, June 1981.

8. G. Crough, 'Small is Beautiful but Disappearing: A Study of Share Ownership in Australia', Journal of Australian Political Economy, No.8, July 1980; P. H. Davies, 'Equity Finance and the Ownership of Shares', Australian Financial System Inquiry, Commissioned Studies and Papers, Part 3, Business Taxation and Financing for Industry (AGPS, Canberra, 1982).