

Configurations of Dissent: Fractions of Capital, Class Struggle and the Decline of Britain

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Perry Anderson's resurrection of his analysis of British exceptionalism, first propounded a quarter of a century ago, has brought forth a spirited rejoinder from Michael Barrat-Brown.¹ However, while Barrat-Brown has ruthlessly criticised Anderson's revised characterisation of the British ruling class, he leaves open to Anderson the riposte which Anderson addressed to Edward Thompson's original critique, that 'he did not address himself to the central problem at stake — the origins of the present crisis — at all'.²

The Origins of the Present Crisis was very much a product of its historical moment, the political confrontation between Harold Wilson and the 14th Earl of Home, between a technocratic reformism and an aristocratic amateurism. For Anderson this confrontation was symptomatic of enduring structural features of British society, which had blocked both the revival of capitalism and the advance towards socialism. He theorised these structural features in terms of the persistence of aristocratic rule alongside an implacably reformist working class, which he explained by the premature character of the English revolution. Anderson's analysis of the ruling class was devastatingly criticised in the ensuing debate. Anderson now acknowledges that the aristocracy was essentially capitalist, and that the political dominance of the English aristocracy, and the reformist inclinations of the British working class, were by no means exceptional in a comparative context.

In his recent article Anderson has substantially revised his historical analysis of the British ruling class, to reassert the accuracy of his original diagnosis of the present crisis. Drawing particularly on the work of Ingham, Wiener, Rubinstein and Barnett, he repeats his original claim that the peculiarity of Britain lies in the persistent cultural, economic, social and political exclusion of industrial capital from the centres of power. This conclusion is justified by the claim that although the landed aristocracy, in Britain as elsewhere, was assimilated into the capitalist class, this was a financial and commercial, and not an industrial, class. Correspondingly the aristocratic disdain for industry was reproduced as the locus of power shifted from land to finance. Anderson has given less ground in his analysis of the British working class, but the working class plays an even smaller role in his revised analysis than it did in his original account. Indeed the working class plays no direct role in determining the course of British politics at all. Its defensive industrial strength presents a decisive barrier to the reorganisation of the labour process, and so reinforces the decline of Britain, but

¹Michael Barratt-Brown, 'Away With All the Great Arches', *New Left Review*, .

²Perry Anderson, 'The Figures of Descent', *New Left Review*, 161, 1987, p. .

the working class exists politically only in its absence, as it passively adapts to the vicissitudes of British Liberalism.

Barratt-Brown goes straight for the jugular. Renewing Edward Thompson's critique of Anderson's insistence on the underlying continuity of the class character of the ruling class and the political structures of the British state, Barratt-Brown reserves his most incisive criticism for Anderson's assertion, following Ingham,³ that British capital was predominantly financial and commercial, to the exclusion of production, insisting that British imperialism, centred on banking and commerce, was by no means based on the profits of intermediation and the appropriation of surplus value through trade, but on the production of surplus value on a global scale. The peculiarity of British capitalism lies neither in its agrarian roots, nor in its commercial development, but in its global aspirations.

Powerful as is Barratt-Brown's critique, it still does not strike at the heart of Anderson's diagnosis of the present crisis. Although Barratt-Brown disposes of the manifest absurdities of Ingham's account, and brings out the extent to which the fortunes of landed, financial and commercial capitalists depended on production, he does not seriously dent Anderson's assertion that the peculiarity of British capitalism lies in the political dominance of a financial and commercial aristocracy, with strong landed connections, whose power centres on the City-Bank of England-Treasury nexus, and the relative political exclusion of domestic industrialists from the centres of political power. The crucial feature of the City interest is not its attachment to antediluvian forms of appropriation of surplus value, but rather, as Barratt-Brown argues, its global preoccupations. The fundamental assertion underlying Anderson's diagnosis of the origins of the present crisis is that these global preoccupations have been to the detriment of domestic productive capital, manifested in the consistent failure of the City to invest in domestic industry, and of the state to pursue policies designed to secure domestic prosperity.

1 Fractions of Capital and the Capitalist State

There is no doubt that the political influence of the City has prevailed over that of industry over the past three centuries. There is no doubt that the global aspirations of the City have provided an alternative to the development of closer connections with the domestic industrial base. There is also no doubt that industry has regularly been sacrificed on the altar of money as domestic prosperity has been sacrificed to maintain the global role of the pound. However the fundamental question relates not to the fact of the dominance of the money interest, but to the explanation of this dominance, and to the evaluation of its consequences. Is it the result of the peculiarities of the British social and political structure, which has enabled the City to use its political privileges to secure its economic power? Or is it rather, as I shall argue, that the social and political dominance of the City is an expression not of the dominance of a particular 'fractional' interest, but of the dominance of capital in its most abstract form, the form of money? In this case the conflict between finance and industry is not so much a conflict between fractional interests as an expression of the contradiction

³Geoffrey Ingham, *Capitalism Divided? The City and Industry In British Social Development*, Macmillan, Basingstoke, 1984.

inherent in the capitalist mode of production between the tendency for capital to develop the forces of production without limit, and the need to confine production within the limits of capital. The acuteness of the conflict between finance and industry in Britain, according to this analysis, is not an expression of the archaic structures of British society, but rather of the fact that Britain exemplifies the development of the underlying contradiction of the capitalist mode of production to the highest degree. The acuteness of the British crisis derives not from the incompleteness of the rule of capital in Britain, but from the fact that Britain shows the Janus face of capital in its most developed form.⁴

The ‘fractionalist’ account of the peculiarities of Britain, as narrated by Anderson and Ingham, has an immediate plausibility. The origins of the division between finance and industry can be traced back to the commercial and financial dominance of the City in the eighteenth century. The loss of the American colonies dealt the death blow to the commercial system, and unleashed the forces of popular radicalism against a corrupt state, only for the reforms of Pitt and the repression and reforms during and after the French Wars to restore the fortunes of the commercial and financial interest and to consolidate its political privileges. The dominance of the financial interest was sealed by the 1844 Bank Act, the dominance of commerce by the repeal of the Corn Laws and the wave of trade liberalisation of the 1840s, and the political dominance of the hegemonic block was confirmed domestically by the defeat of Chartism, and globally by British support for the European counter-revolutions.

The Great Depression, following the global crisis of 1873, led in the United States and Continental Europe to a wave of monopolisation, to the integration of banking and productive capital, and to the development of new industries and new methods of production. In Britain, however, the state resisted the feeble demands for industrial protection, the crisis serving only to confirm its imperial preoccupations, and to strengthen the global role of the City, while the domestic economy languished. While Britain’s industrial supremacy was eroded in the decades leading up to the First World War, the war destroyed its financial supremacy. Yet, in the face of an acute depression in the staple industries, the state dismantled the apparatuses of wartime industrial intervention, restored the gold standard, and threw domestic industry to the tender mercy of the world market. Despite the growing cost to the domestic economy, in the form of high interest rates and restrictive fiscal policies, imposed by the defence of the pound, Britain remained on the gold standard until it could be supported no longer. Even when the external constraint of gold convertibility was removed, the British government remained wedded to the bankers’ doctrines of fiscal and monetary orthodoxy and the wisdom of the market throughout the 1930s, failing to develop either corporatist, populist or social democratic forms of intervention to reconstruct the domestic economy.

The period since 1945 has only repeated the inter-war experience. The Second World War left the City prostrate, its foreign assets sold to pay for the war, its massive debt to the United States being matched only by a mass of dubious loans to its allies, its gold and currency reserves being matched by its obligations to the Sterling Area. A Labour government swept into office, determined to curb the power of the City by

⁴Paradoxically Anderson himself indicates such a diagnosis in the conclusion of his recent article, where suddenly Britain holds ‘a mirror to the future of the rest of the world’, *op. cit.*, p. .

nationalising the Bank of England in order to implement a policy of cheap money, and committed above all else to industrial reconstruction. Yet once again the City bounced back. The wartime apparatus of planning and control was again dismantled, the convertibility of Sterling was restored under American pressure, and the programme of reconstruction was subordinated to the global financial interests of the City.

The dominance of the City, once re-established, has been maintained throughout the successive crises of the post-war period, neutralising all attempts to revive the British economy through a programme of industrial intervention, from the liberal interventionism of Harold Macmillan, through the technocratic interventionism of Wilson, to the more radical interventionism of the Alternative Economic Strategy. The failures of such interventionism, far from discrediting the City and stimulating popular opposition to its rule, has fuelled the rise of the monetarism of the New Right, which proclaims once more the pre-eminence of the power of money, and of the market as the instrument of its rule.

The story of the political dominance of the City is all the more remarkable in that the City has not enjoyed the untroubled hegemony, unchallenged by either a supine bourgeoisie or a docile working class, depicted by Anderson. It has rather managed to reproduce, renew, recover and consolidate its dominance in the face of every challenge and through successive crises. The City has withstood popular disorder, insurrection, the rise and fall of political parties, the dislocations of war, and the election of governments committed to more or less radical programmes of industrial restructuring. But if the City represents a narrow sectional interest, whose dominance has been at the expense not only of industrial capitalists, but also of the jobs, wages and welfare of the mass of the population, how can we explain its extraordinary political strength?

Anderson and Ingham explain the dominance of the City sociologically. It is the density and opacity of the cultural, social, economic and political power of the aristocracy of finance, which is embedded in the institutional structures of state and society, which has enabled it to shrug off every challenge and reimpose its authority. But this is to attest only to the fact of the City's strength, not to explain it. If the rule of the City has been so detrimental to industrial capital, why have industrial capitalists shown so little enthusiasm for radical alternatives? If alternative capitalist strategies to that embraced by the City could have secured the industrial regeneration which would provide employment, rising wages, a healthy balance of payments and buoyant public revenues, how has the City always managed to prevent ambitious politicians from pursuing such a course?

The fundamental weakness of the analysis of Anderson and Ingham is not the historical inaccuracy of their accounts, but their theoretical inadequacy. On the one hand, they rest on reductionist analyses of the capitalist state, which lead them to read off the class character of the state from the privileged social and political position of the financial aristocracy. On the other hand, they rest on a superficial account of the relations between the appropriate 'fractions' of capital, which leads them to presume that the policies adopted by the state have secured the fractional interests of finance against those of productive capital. In this article I want to take up these theoretical issues, to argue that the privileged political position of land and finance is by no means exceptional, and that it expresses not the dominance of particular fractions of capital, but the form of the capitalist state. I will then take up the question of the explanation

for Britain's industrial decline.⁵

2 Capital and the Capitalist State Form

Anderson and Ingham quite correctly note that Marx and Engels recognised the failure of the English industrial bourgeoisie to advance politically, or even to constitute itself as a class, in the face of the social and political dominance of the aristocracy of land and finance.⁶ However the significance of this observation derives from their complementary sociological conceptions of the relation between class and state. Such conceptions fail to take proper account of the *form* of the capitalist state. Far from being exceptional, the exclusion of the industrial bourgeoisie from direct control of the state apparatus is the normal state of affairs.

In reducing the class character of the state to the class origins of politicians and the class base of political parties, Anderson replaces the economic reductionism of vulgar Marxism with an even less adequate sociological reductionism. Ingham makes a parallel error in explaining the predominance of the financial and commercial interests of the City in institutionalist terms, on the basis of the independence of the state and the autonomous power of the Treasury and the Bank of England within the state apparatus. Neither is able to explain how the state has managed to reconcile its subordination to a tiny stratum of civil society, and its pursuit of policies which serve the narrow partisan interests of that stratum, with its liberal form as a national state, constituted politically and ideologically on the basis of its separation from civil society and the subordination of all particular interests to the general interest.

Anderson's and Ingham's error is to neglect the form of the capitalist state. The class character of the capitalist state is not determined by its political character, but by its form, based on the radical separation of the state from civil society. The interests of the bourgeoisie are correspondingly secured not by its conquest of state power, but by the transformation in the form of the state associated with the generalisation of capitalist social relations of production. The constitutional privileges of finance are not determined by the social and political power of a particular fraction of capital, but equally express the form of the capitalist state, and in particular the role of money in mediating the relationship between state and civil society.

The paradox of the capitalist state form is that the state secures the interests of a class whose individual members are largely excluded from direct participation in affairs of state. The key to this paradoxical character of the capitalist state is the distinction between particular capitals and capital-in-general. Capital-in-general represents the total social capital that is available to mobilise labour-power in the production and realisation of surplus value. However capital-in-general only exists in the form of particular capitals, and the relationships between these particular capitals are essentially contradictory.

When we consider the capitalist system of production from the physical point of view, as the production and exchange of use-values, the particular capitals are inter-

⁵I have developed the theoretical and historical analysis on which this article is based at much greater length in my recent book *Keynesianism, Monetarism and the Crisis of the State*, Edward Elgar, London, 1988.

⁶Although they do not add that the industrial bourgeoisie plays even less of a political role in Marx's accounts of the other capitalist powers.

dependent, their interdependence expressed through Smith's concept of the division of labour. However, in the capitalist form of production, the production and exchange of use-values is not determined by the planned coordination of production, but by the circulation of commodities as values. The interdependence of capitals does not appear immediately in the particular relations of purchase and sale into which the individual capitalist enters, for each particular relation is one of a conflict of interests, in which each individual capitalist seeks to realise his interests at the expense of other capitalists.

The role of the market is precisely to resolve the contradiction between the individual interests of particular capitals and their interest as parts of social capital. The individual interest of a particular capitalist is expressed in his attempt to realise an increased capital by selling the mass of commodities that he has produced for as high a price as possible. However these commodities have been produced without any regard for the social need for them as use-values within the accumulation of capital as a whole. The market confines the accumulation of capital in particular branches of production within the limits of the social need for the commodities in question by evaluating the contributions of particular capitals in accordance with their contribution to the reproduction of the total social capital. Thus the general interest of capital appears to each individual capitalist as a barrier to the realisation of his individual capital expressed in the competition of other capitals.

Each individual capitalist seeks, by one means or another, to overcome the barrier of the market. However the reproduction of capital as a whole depends on the subordination of all individual capitals to the discipline of the market. Thus the interest of capital-in-general appears not as the sum of the interests of the individual capitals that are its component parts, but as an external force that stands opposed to the interests of all particular capitals and that confronts them as a barrier, in the form of competition in the market. 'The division of labour implies the contradiction between the interest of the separate individual ... and the communal interest of all individuals who have intercourse with one another'.⁷ It is this opposition between the interests of particular capitals and the general interest of capital that underlies the separation of the state from civil society.

The authority of the market cannot be maintained merely by the tacit agreement of individual capitals. Unless the authority of the market is imposed on all particular capitals they will individually and severally seek to overcome the barrier of the market by suppressing competition, by fraud and, in extremis, by force. Thus the authority of the market can only be maintained by an external power that can meet force by force. 'Out of this very contradiction between the interest of the individual and that of the community the latter takes an independent form as the *State*, divorced from the real interests of individual and community.' The state, like the market, appears as an external power to which all individual interests are compelled to submit. 'Just because individuals seek *only* their particular interest, which for them does not coincide with their communal interest, ... the latter will be imposed on them as an interest "alien" to them, and "independent" of them, as in its turn a particular, peculiar, "general" interest ... On the other hand, too, the *practical* struggle of these particular interests, which constantly *really* run counter to the communal and illusory communal interests,

⁷Karl Marx and Frederick Engels, *The German Ideology*, Lawrence and Wishart, London, 1964, p. 44.

makes *practical* intervention and control necessary through the illusory “general” interest in the form of the State. The social power . . . appears to these individuals . . . not as their own united power, but as an alien force existing outside them, of the origin and goal of which they are ignorant, which they thus cannot control, which on the contrary passes through a peculiar series of phases and stages independent of the will and the action of man, nay even being the prime governor of these.’⁸

3 Money, Capital and the State

The state enforces the rule of the market, and so confines the accumulation of capital within the limits of the production and realisation of surplus value. While the law of capitalist property confines the production and appropriation of use-values within the qualitative limits of the capitalist social relations of production, the quantitative limits to the development of social production are imposed by the rule of money. With the development of state money and the modern credit system the subordination of capital to the rule of money is mediated through the state.

The general interest of capital appears to the individual capitalist as an external force, which is imposed on the capitalist through the ‘monetary constraint’, which confines his ambition within the limits of the money at his disposal, with which to buy the commodities required to sustain accumulation. However the development of the modern credit system makes it possible for the individual capitalist to overcome the limits of the monetary constraint, and to sustain accumulation on the basis of credit, enabling him to overcome the barriers to accumulation by freeing him from the need to realise his expanded capital in the money form.

With the development of the modern credit system the monetary constraint appears to the individual capitalist in the form of the cost and availability of credit. Where productive capital is able to overcome the barriers to the production and realisation of surplus value it finds credit freely available, as money-dealers seek secure outlets for their capital, and cheap, as productive capitals realise a rate of profit well above the ruling rate of interest. The relationship between money and productive capital appears harmonious, the only limit to the expansion of credit being the opportunities for its profitable employment.

The pressure of competition, which forces every capitalist to develop the productive forces without limit, soon leads to the overaccumulation of capital, which appears in the form of the overproduction of commodities in particular branches of production. The accumulation of capital may be sustained by the expansion of the market by commercial capitalists and by the continued expansion of credit, to finance increased consumption, the accumulation of unsold stocks, the retention of excess capacity, and investment in more advanced methods of production. However the continued expansion of credit only serves to stimulate the further overaccumulation of capital, which acquires an increasingly inflationary form as money capital seeks to overcome the limited opportunities for the productive employment of capital by diverting surplus capital into ever more speculative outlets.

The greater the overaccumulation of capital sustained by the expansion of credit, the greater the risk of the boom culminating in a devastating financial crisis, in which

⁸ibid, pp. 45–6.

the contraction of credit precipitates a chain of bankruptcies and defaults, and the overaccumulation of capital appears in the form of an accumulation of worthless debt, on the one hand, and the massive devaluation of capital and destruction of productive capacity, on the other. Credit, which had been cheap and freely available, is now expensive and scarce, just when productive capitals have most need of credit to avoid liquidation. Money capital no longer defines a field of apparently limitless opportunity to productive capital, but confines its ambitions within the limits of the market.

The monetary constraint appears in the form of a conflict between productive and money capital, as money capitalists restrict credit, demand rigorous security, and charge high rates of interest, milking the stronger capitals of their hard-earned profit, and forcing the weaker productive capitals into liquidation. However this conflict between money and productive capitals is only the expression of the underlying contradiction of the capitalist social form of production, as the tendency for capital to develop the productive forces without limit confronts the barrier of the capitalist social form of production as production for profit.

Although the driving force of accumulation is the production of surplus value, the pace of accumulation appears to be determined by the cost and availability of credit, and so by the lending policies of the banking system. The only limit to accumulation appears to be the willingness of the banking system to expand credit. However the ability of the bankers to expand credit is not a matter of their individual whim. On the one hand, credit is extended only in the expectation that it will be repaid, the condition for which is that the borrower should employ the credit productively, not merely to produce commodities, but to realise the commodities produced in the form of an increased capital. On the other hand, the ability of the bankers to expand credit is constrained by the size of their reserves of liquid assets, with which to meet demands for cash. With the development of state money and central banking this liquidity is ultimately supplied by the note issue and discount policy of the central bank. Consequently, while the allocation of credit amongst individual capitalists is determined by the lending policies of the bankers, the expansion of credit is determined by the monetary policies of the government and the central bank.

The tendency for the accumulation of capital to take the cyclical form of overaccumulation and crisis is inherent in the contradictory form of capitalist social production. However the cycle appears to be the result of the unstable lending policies of the bankers, and, behind the bankers, the result of the erratic monetary policies of the central bank and the state. The overaccumulation of capital appears to have been stimulated by excessively lax monetary policies, and by the speculative indulgence of bankers and commercial capitalists. The crash appears to have been precipitated by excessively restrictive monetary policies, and by the undue caution of the bankers. The class struggles unleashed by the contradictory form of capitalist production have correspondingly tended to focus on the monetary responsibilities and constitutional privileges of the bankers, and on the monetary policies of the state.

It is ultimately through the monetary policies of the state, mediated through the banking system, that the 'interests' of capital-in-general are imposed on particular capitals, as the expansion of production is confined within the limits of its capitalist social form. However the 'interests' of capital-in-general do not dictate a particular monetary regime, since those interests are contradictory, expressing the contradiction inherent in the accumulation of capital. An expansionary policy gives free reign to the

tendency to develop the forces of production without limit, while a restrictive policy confines accumulation more rigorously within the limits of its capitalist form. While capital is able to overcome the barriers to accumulation, and to realise the growing mass of commodities in the form of a growing mass of money capital an expansionary policy appears entirely justified. It is only in retrospect, when the overaccumulation of capital leads to a chain of failures and defaults, that such a policy is revealed as excessively lax. In the wake of the crisis a contractionary policy appears equally justified in forcing the liquidation of unsound ventures. It is only in retrospect, when capital has proved itself once more able to overcome the barriers to accumulation, that such a policy appears unduly restrictive.

There is no guarantee that the state will resolve this contradiction on the basis of the interests of capital, however contradictory those interests might be. Indeed all the immediate pressures are for the state to sustain expansionary policies as the boom enters its speculative and inflationary phase, in order to postpone a crisis which can only disrupt the state's finances, and lead to an escalation of the class struggle amidst intensified competition, rising unemployment and widespread distress. While the responsible statesman might resist such temptations, the vulgar politician is liable to succumb to partisan influence and populist temptations, and adopt inflationary policies, even at the risk of provoking a devastating financial, monetary and political crisis. The class struggles associated with the formation of the modern state accordingly focussed not only on the day-to-day monetary policies of the state, but more fundamentally on the relationship between money and the state embedded in its constitutional form. It was through the gold standard that the monetary responsibilities of the state were ultimately subordinated to the contradictory interests of capital-in-general, as its monetary and fiscal policies were confined within the limits of the money power of capital.

4 The Development of the Modern State

The class character of the capitalist state is not determined by class interests which arise in civil society, but by the radical separation of the state from civil society, and by the formal character of state power embodied in its enforcement of the disinterested rule of money and the law of capitalist property. Although individual capitalists, like any other member of society, will regularly seek to resist the rule of the market, and may seek to secure their interests by mobilising politically, the state secures the general interest of capital in the first instance not by overriding the rule of the market, but by enforcing its rule by securing the rule of the law of property and the power of money, which are the alienated forms through which the 'communal interests' are imposed not only on the working class, but also on all particular capitals.

Although Marx and Engels were unequivocal in characterising the modern state as bourgeois, they saw the decisive step in the formation of the modern state not as the seizure of power by the industrial bourgeoisie, but as the radical separation of the state from civil society which defines the bourgeois form of capitalist state power. In his earliest writings on the state Marx contrasted the separation of the state from civil society characteristic of modern society with their integration in the Middle Ages. He argued that in feudal society there was no distinction between the state and civil society because civil society was itself organised into corporate bodies (estates, corporations,

guilds etc.) that came together in the state. Political organisation was therefore coextensive with the organisation of civil society.

The development of the modern state was marked by the radical separation of the state from civil society. In modern society the corporate bodies of the middle ages have given way to contractual relationships between property owners, and property has increasingly assumed the form of money. Thus the condition for the rise of the modern state is the dissolution of all corporate forms of property, and of all natural, communal and personal attachments as property assumes the exclusive form of money, the relations between property owners being regulated by the circulation of commodities as values subject to the rule of the market. Thus the revolution that gave rise to the modern state, most dramatically in the French Revolution, was not only a political but more fundamentally a social revolution. The separation of the state from civil society depended on the dissolution of the political element of civil society, its corporate forms of organisation. ‘The *establishment of the political state* and the dissolution of civil society into independent *individuals*— whose relations with one another depend on *law* . . . — is accomplished by *one and the same act*’.⁹

The capitalist state no longer serves as the supreme temporal power, integrating the diverse corporate interests of civil society. The state is increasingly separated from all particular interests, serving to formalise and to enforce the property rights on which modern society rests. The separation of the state from civil society means that it no longer bestows property rights, as it did in the middle ages, it merely gives juridical form to the property rights created in civil society. ‘The true basis of private property, *possession*, is a *fact*, an *inexplicable fact*, *not a right*’,¹⁰ a fact that lies outside the state, in civil society. Correspondingly, the formal separation of the capitalist state from civil society sets limits to its powers. The state merely gives form to social relations whose substance is determined in civil society, which the state regards ‘as the *basis of its existence*, as a *precondition* not requiring further substantiation, and therefore as its *natural basis*’.¹¹ It is civil society that is the precondition and limit of the modern state, so that the state ‘has to confine itself to a *formal* and *negative* activity, for where civil life and its labour begin, there the power of the administration ends’.¹²

The separation of the state from civil society in no way implies the ‘neutrality’, the ‘autonomy’, or the ‘independence’ of the state. The separation of the state from civil society does not simply represent a transformation of their political relationship. More fundamentally, it expresses a transformation in the form of property associated with the rise of capital and the development of the capitalist mode of production, in which the social power of property is no longer based on political power, but on the power of money. The state secures the subordination of civil society to the money power of capital by enforcing the rule of money and the law, which are at the same time its own presuppositions as foundations of its own authority. Thus the relationship between the state and civil society is neither one of subordination nor one of independence, but is a relation of complementarity, based on the mutual subordination of state and civil society to the money power of capital, expressed in the ‘independence’ of the

⁹Marx and Engels, *Collected Works*, vol. 3, p. 167.

¹⁰ibid, p. 110.

¹¹ibid, p. 167

¹²ibid, p. 198.

institutional forms through which this mutual subordination is mediated, the judiciary and the central bank.

The separation of the state from civil society characteristic of the modern state explains the apparent paradox that the formation of the bourgeois state is not associated with the conquest of state power by the bourgeoisie. The revolutionary aspirations of the bourgeoisie were essentially negative, resisting the subordination of the power of the state to vested interests which appeared to the bourgeoisie as corruption, privilege and the abuse of the fiscal and monetary authority of the state. The bourgeoisie sought not the subordination of the state to one vested interest in place of another, although every particular interest sought to enlist the support of the state in its favour, but the subordination of the state itself to the rule of money and the law. Thus the reconstitution of the administrative, legal, fiscal, monetary and financial apparatuses of the state was much more significant for the bourgeoisie than the more dramatic changes in the system of political representation.

The bourgeoisie could unite in its struggle to free civil society from the burden of the state, but when it came to substantive policy issues the bourgeoisie was by no means united, for the relations between capitals are relations of competition and conflict. Moreover the democratic aspirations of the bourgeoisie were severely circumscribed by its fear of popular disorder, a fear reinforced by successive waves of revolution and popular unrest. This explains why the outcome of the revolutionary movements of the bourgeoisie was often a strengthening of the direct hold of the old aristocracy over the state apparatus, as it sought to compensate for the erosion of its social power by clinging to the state apparatus to preserve a social position whose foundations in civil society were being undermined.

The condition under which such a constitutional compromise was possible was precisely the consolidation of the capitalist state form, marked by the subordination of state and society alike to the rule of law and of money, within the framework of an apparently archaic constitution. Such a constitutional settlement was entirely acceptable to the bourgeoisie, the residual powers and privileges of the landowning class being a small price to pay for the essential contribution made by the landowning class to public order and social stability, above all in the countryside, the French Revolution providing an awful warning to those who sought to challenge the privileges of landed property. Adam Smith, hardly a friend of political privilege, saw the preservation of the authority of the landed class as fundamental to the maintenance of 'order and good government'. The political rights of the aristocracy and gentry derived, for Smith, from the fact that landed property gave them 'the greatest interest in the support of the civil authority, because they have themselves the greatest share in that authority'.¹³ The capitalist, on the other hand, had much less of a connection with the lower orders, and so did not enjoy any such natural authority, while the mobility of capital weakened his interest in maintaining order and good government since in the event of disorder he could simply move his capital abroad. It was only with the generalisation of capitalist social relations of production in the countryside, and the consequent liquidation of the peasantry, and with the development of new forms of political integration of the industrial working class, that the privileges of the landed class could be safely abolished and the transformation of the state form completed. The triumph of the bourgeoisie was not the initiator of this transformation, but was

¹³ *Wealth of Nations*, Everyman edition, Dent, London, 1910, vol. II, p. 197.

its culmination.

5 Class Struggle and the Formation of the Modern State

The reconstitution of the state was ultimately determined not by the political triumph of the bourgeoisie but by the transformation of the social relations of production. It was this social revolution that undermined the social basis of the power of the old aristocracy of land and finance, and of the state which gave this power political form. The generalisation of commodity production and the rise of wage labour undermined the patriarchal authority of the landed class, and eroded the commercial and financial privileges of the financial aristocracy, unleashing a rising tide of class struggle and precipitating a crisis in the state form. It was this crisis of the state form, rather than the political strength of the bourgeoisie, which was decisive in the rise of the capitalist state. In the face of a mounting fiscal and financial crisis, and a growing challenge to its constitutional authority, the attempt of the state to preserve the power and privileges of the old aristocracy could only lead to a revolutionary confrontation between the state and civil society.

Whether through revolution or reform, the state could only respond to the erosion of the social foundations of its power by reconstituting itself politically, to develop a constitutional form appropriate to the emerging social relations of capitalist production. Such a reconstitution was not achieved smoothly, but only through long drawn out class and political struggles. The political struggles associated with the emergence of the capitalist state form were primarily struggles within the ruling class. However the outcome of these struggles was ultimately determined not by the power of one or another fraction of the ruling class but by the political priorities of the state, and in particular by the need, imposed primarily by the constitutional challenge of the rural and urban working class, for the state to detach itself from all particular interests in accordance with its emerging liberal form.¹⁴

The historical roots of the political privileges of the aristocracy of land and finance undoubtedly lay, as Anderson and Ingham indicate, in their ownership and control of the state apparatus. However the revolutions which gave rise to the modern state, on the basis of the separation of state and civil society, were primarily directed at breaking this hold of the financial and landed aristocracy over the state apparatus. These changes did not lead to the political displacement of the aristocracy of land and finance in favour of the emerging industrial bourgeoisie, but they did lead to a transformation in the character of these privileged classes and in their relationship to the state, their prosperity no longer depending on their political privileges, but on their role in the expanded reproduction of capital, and their political privileges no longer deriving from their power in civil society, but being determined by the priorities of the state.

¹⁴Ingham is quite correct to stress the role of the state in organising the political representation of class interests. Where he errs is in seeing such a role as an expression of the 'independence' of the state and the 'autonomy' of its apparatuses, rather than as an expression of its contradictory form as a particular kind of state.

The privileges of the landed class were carried over into the modern state primarily because of the need for the state to contain the rural unrest generated by the penetration of capitalist relations of production into the countryside. However the form of these privileges underwent a fundamental transformation, as feudal rent was transformed into capitalist ground rent, with the legal endorsement of patriarchal social relations being replaced by tariff protection for agriculture as the means of securing the subordination of the mass of the rural population.

The privileges of the aristocracy of finance were similarly carried over into the modern state only on the basis of a transformation in the character of the financial aristocracy, and in its relation both to productive capital and to the state. Its privileges in the new order no longer derived from its status as the state's principal creditor, but from the role of financial and commercial capital in opening the world market to productive capital and the role of money, and the institutional role of the banking system, in mediating the relationship between the state and civil society.¹⁵

The transformation of the state was achieved first in England. The revolutions of the seventeenth century laid the constitutional foundations for the revolution in government from Pitt to Gladstone which perfected the liberal form of the capitalist state. However the political crisis required even those autocratic states in which the old aristocracy retained a monopoly of political power to develop new forms of revenue and new foundations for their authority, based on the new forms of social relations and new forms of power embodied in the rule of money. Thus the defeat of the European revolutions of 1848 was nevertheless followed by the revolution in government associated with the names of Bonaparte, Bismark and Cavour.

6 Financial, commercial and industrial capital.

Anderson recognises that the continued political domination of the aristocracy of land and finance was by no means peculiar to Britain. While the political privileges of the British landed class were eroded by the 1832 Reform Bill, and its economic privileges removed with the repeal of the Corn Laws, Continental European landlords were given a new lease of life by agricultural protection and the conservative revival of the 1880s

¹⁵Ingham recognises that post-Napoleonic reconstruction involved a struggle of the state to free itself from the financial interest. He also recognises that this struggle marked the transition from the 'old City' of stockjobbers and monopolistic trading companies, to the 'new City' of commercial billbrokers and merchants (op. cit., pp. 106-7). Although he believes that this interest was opposed to that of the capitalists who produced the commodities traded, against which bills were broked, he nevertheless notes that 'British priority in industrialisation was the essential precondition' for these changes, which they 'further stimulated' (op. cit., p. 98). Ingham is so preoccupied with the supposed conflicts within the ruling class that he completely ignores the most important dimension of the crisis, which was the challenge to the constitution presented by the rise of popular radicalism, rooted in urban and rural distress. The Corn Laws, which were supposed to relieve the pressure on agriculture; financial stabilisation, to relieve the burden of taxation; and monetary stabilisation and commercial expansionism, to relieve pressure on manufacture by providing outlets for domestic overproduction, constituted a comprehensive package of reforms which sought to solve the political crisis by reconciling the interests of all sections of the capitalist class, while relieving popular distress on the basis of agricultural protection, commercial expansion, and the expanded reproduction of domestic productive capital.

and 1890s, their power and privileges only being destroyed in the wave of inflation and revolution after the First World War.¹⁶

The old financial aristocracy was displaced in Britain after the Napoleonic Wars. The 1844 Bank Act finally brought the banking system under control, within the framework of a unified national currency whose issue was limited by the mechanism of the gold standard. On the Continent the old financial aristocracy was only displaced in the wake of the 1848 revolutions, but central banking, unified national currencies and the gold standard were firmly established in the second half of the nineteenth century, the gold standard regime being more restrictive on the Continent, where credit money was much less developed, than in Britain.¹⁷ In the United States populist resistance to the money power of capital prevented the development of central banking until the 1930s, but the commitment to the gold standard was finally confirmed by the Republican victory in 1896. Nor is Britain exceptional in the perpetuation of the privileged position of the financial interest. For example, while the 1945 Labour government nationalised the Bank of England to secure its cheap money policy, the independence of the German Bundesbank was guaranteed by the Fundamental Law of the post-war Constitution, which also prohibited the government from running a budget deficit. In the post-war period it has not been Britain but Germany, Switzerland and France which have been most strongly committed to monetary conservatism.

According to Anderson the peculiarity of the British ruling class lies not in the dominance of the bankocracy, but in the disdain shown by the bankers and, under their influence, by the state for the fate of domestic industry. This is explained, following Ingham, by the global commercial aspirations of British financial capital, and its corresponding failure to establish any connections with domestic productive capital. The result has been the damaging commitment to free trade and the gold standard, and the failure of capital and the state to invest in the restructuring of British industry.

Barratt-Brown has criticised the claim that British financial capital was oriented exclusively to commerce, pointing to the high levels of productive investment in shipping and colonial production. This does not dispose of the claim that finance capital had little interest in domestic production, as indicated by the limited extent to which the City has provided investment finance for industry, and the limited contribution of industrial profits to the income of the City. However the real issue is not that of the financial connections between particular capitals, which relate to the property relations through which profit is appropriated by particular capitalists, but that of

¹⁶The fact that British landowners continued to be wealthier than their European counterparts, and that the landed interest continued to be well represented in Parliament, is irrelevant to the question of their political power. Their wealth and position did not enable them to secure protection from the agricultural depression of the 1880s on the mainland, nor from land reform in Ireland.

¹⁷The brunt of adjustment under the gold standard was borne not by British productive capital, but by the peripheral countries. As Ingham recognises (*op. cit.*, pp. 167–8), increases in British Bank Rate in response to a drain on the reserves had little impact on the domestic economy because of the high liquidity of the domestic banking system. However, in drawing gold to London, they imposed a drain on the peripheral countries, whose less developed banking systems could only respond by contracting credit. The need to prevent such a drain from precipitating a domestic crisis was one reason for the rise of protectionism, to correct payments imbalances, in Continental Europe from the late 1870s, and for the periodic suspension of gold convertibility in the peripheral countries.

the functional interdependence of particular capitals in the production and realisation of surplus value, an interdependence which is imposed on particular capitals, as we have seen, behind their backs. Thus the interdependence of money, commercial and productive capital is not determined by their financial relationships, but by their mutual dependence and complementarity as differentiated functional forms of capital. As Ingham and Anderson recognise, British productive capital has relied from its earliest origins on the world market, for sources of supply and outlets for its surplus product, to a degree unmatched by any other capitalist power. The City, at least until the 1960s, has depended equally heavily on the trade and payments generated by the accumulation of domestic productive capital. The global financial and commercial aspirations of the City have accordingly developed *pari passu* with the global aspirations of productive capital.

Anderson and Ingham recognise that British productive capital has rarely contested the political privileges of the City or the commitment of the British state to monetary and financial stability and commercial expansion. While Anderson explains this absence primarily in terms of the hegemony of the aristocracy of land and finance, Ingham puts more weight on the persistence of divisions between productive capitalists and on the 'weakness of institutional media for the transmission of dissent'.¹⁸ However 'divisions' between productive capitalists is simply another way of saying that the majority of productive capitalists have consistently rejected Ingham's panaceas of inflationism, protectionism, and state intervention. They didn't contest the commitment to free trade, the gold standard and the market quite simply because the overwhelming majority of productive capitalists shared that commitment. It is not the isolation of productive capitalists, but the close functional interdependence of British financial, commercial and productive capital, underlying their relative financial independence, which explains the fact that productive capital has never seriously contested the hegemony of financial and commercial capital. The challenge to the money power of capital has come not from productive capital, but from petty producers and the working class.

7 Fractions of Capital, Class Struggle and the Currency

The global dominance of British commercial and financial capital in the nineteenth century was the basis of the prosperity of British productive capital. In the first half of the nineteenth century the global penetration of British commercial capital provided outlets for the surplus product of the textile industry, and cheap sources of food and raw materials, while British bankers developed the international payments system which lubricated an increasingly multilateral system of trade. As the growth of the textile industries began to confront the limits of the market in the 1840s the leading role in driving forward accumulation was taken up by the global expansion of the railways and by the growth of shipping, largely financed and constructed by British capital, which fostered the penetration of capitalist relations of production on a global scale, and provided outlets for a more broadly based domestic accumulation.

The development of central banking and the opening up of the world market certainly did not remove the tendency for accumulation to take the form of overaccu-

¹⁸op. cit., p. 185.

mulation and crisis. However the institutional separation of banking, commercial and productive capital shielded the latter from the full force of the crisis. The separation of commercial from productive capital meant that the latter was not committed to particular markets, but could exploit new opportunities as they arose and, in the event of a crisis in a particular market, could divert their sales elsewhere. Moreover productive capitalists tended to buy their raw materials as required on the well-developed commodity markets, and to produce to order. Thus they had to carry very small stocks of raw materials and work in progress, while their order books provided solid security for trade and bank credit. The desire to reduce risks in the face of fluctuations in demand and in prices similarly led productive capitalists to increase capacity by piecemeal additions to existing plant, which could easily be financed out of retained profits, so that productive capital had very little need for long-term borrowing and carried only a small burden of fixed costs.¹⁹ The result was that risks were borne primarily by commercial, banking and rentier capital, which financed stocks of raw materials, work in progress and goods in transit, and the heavy costs of railway promotions, shipping and shipbuilding. Such investment provided the basis of large commercial and financial profits and for mercantile and financial fortunes, which dwarfed the relatively small investments of productive capitalists. However it also meant that banking, rentier and commercial capital bore the brunt of commercial and financial crises, while productive capitalists, with a limited burden of debt, were able to contract their order books, lay-off workers, and shut down plant, in anticipation of a commercial recovery once stocks had been liquidated, surplus rentier, banking and commercial capital devalued, and banking and commercial capitalists had opened up new markets.

While the bulk of productive capitalists were shielded from the impact of the overaccumulation of capital, the workers and petty commodity producers were not so fortunate. Even in the boom petty commodity producers faced severe competition from more advanced capitalist producers. With the collapse of prices in the recession petty producers were faced not merely with financial ruin but with starvation, while wages were cut and workers laid off. The challenge to the supremacy of commercial and financial capital, and to the commitment of the state to free trade and the gold standard, came not from productive capitalists, but primarily from small manufacturers and the working class. In the first half of the nineteenth century this challenge arose primarily around the issue of the currency.

Ingham attributes considerable significance to the debates over the currency in the first half of the nineteenth century. However he completely misunderstands the issues at stake, and above all the class character of the contending forces. The debate arose around the issue of the proper regulation of the currency in the face of the cyclical form of accumulation, which was almost universally attributed to the unstable lending policies of the bankers. For Ingham this issue set commercial capital, committed to free trade and the gold standard, against productive capital, whose interests supposedly lay in protection and credit expansion. The leading contenders in the debate were Ricardo and the political economists, on the one hand, and Attwood and the currency

¹⁹The last vestiges of this system were only liquidated in the crisis of the early 1980s. Ironically such a system of 'flexible specialisation', with the 'just-in-time' system of stock-holding, the functional differentiation of capitals and extensive sub-contracting, has recently been acclaimed as the basis of a new 'post-Fordist' regime of accumulation, which resolves the contradictions of 'Fordism'! (M. Piore and C. Sabel, *The Second Industrial Divide*, Basic Books, New York, 1984.)

reformers, on the other. However it is as absurd to see Ricardo, Marx's 'economist of production *par excellence*', as the spokesman for commercial capital as it is to see Attwood as the spokesman for productive capital.²⁰

Ricardo expressed the interests not of commercial capital but of the capitalist class as a whole, in a context in which the accumulation of domestic productive capital was restricted by high wages, which was attributed to the high cost of food and the restrictions of the Poor Law, shortages of raw materials, and the limited market. Free trade, monetary stabilisation and commercial expansionism were seen as the key to relieving the accumulation of domestic productive capital from these constraints. Monetary stabilisation was essential not to provide a stable environment for finance and commerce, which thrived on the speculative opportunities provided by instability, but to avoid the cyclical fluctuations which erupted in periodic crises, disrupting production and provoking popular distress and disorder.

For political economy the cycle was caused by the excessive expansion of credit in the boom, that sustained unprofitable producers, stimulated unsound investments, drove up domestic prices, and undermined international competitiveness. The accumulation of unsold stocks as the boom reached its final stages was the result of overproduction stimulated by the overexpansion of credit, reinforced by the speculative accumulation of commodities in the face of rising prices. The drain on the reserves of the Bank of England bank imposed an entirely appropriate deflationary policy that purged the excesses of the boom, liquidating unsound investments and restoring the stability of the currency by forcing domestic prices back to their normal level, and so preparing the way for renewed accumulation. For political economy the barriers to accumulation could not be removed by the inflationary expansion of credit, but only by removing the barrier of the limited market, the key to which was trade liberalisation.

Attwood initially represented the interests of small Birmingham manufacturers, who had been hard hit by the withdrawal of government contracts and by the post-war depression, and who had little immediate prospect of competing in overseas markets. However the increasing radicalism of Attwood's proposals gave them little appeal even to the more backward productive capitalists once the latter had overcome their immediate post-war difficulties. From the 1820s the issue of currency reform became a central plank in the programme of popular radicalism, appealing primarily to petty producers and, in periods of depression, to sections of the working class, and acquiring an increasingly anti-capitalist form in the Chartist agitation of the 1840s.

For the currency reformers the boom was not marked by the overexpansion of credit, for even at the height of the boom the weaker producers were under fierce competitive pressure, and many fell by the wayside because they could not secure credit. The boom was rather marked by the bankers' diverting credit from productive employment to finance the lavish consumption, foreign investments and speculation of their rich and powerful friends, which stimulated the foreign drain, as luxury imports poured in and capital flowed abroad, and stoked domestic inflation as speculators

²⁰Ingham confuses the issues by lumping together all the critics of political economy. In particular he identifies the Banking School, which represented the traditional banking orthodoxy of Smith's 'real bills doctrine', with the currency reformers, who represented a radical challenge to the power of the bankers. Marx, far from identifying with the currency reformers, was most influenced by the Banking School. It was on the basis of his critique of the currency reformers that Marx returned to his economic studies in 1857 to develop a more rigorous critique of political economy.

engrossed supplies of essential commodities. The crisis was provoked as the bankers contracted credit to exploit their monopoly of the money commodity in the hour of need, sacrificing the productive activity that is the source of the employment and prosperity of the mass of the population to their own selfish greed.

For both political economy and the currency reformers the crisis revealed the need to curb the power of the bankers. For political economy the inflationary expansion of credit could only be curbed by subordinating the profligacy of the government and the irresponsibility of the bankers to the discipline of gold convertibility. For the currency reformers, by contrast, the need was to subordinate the credit-creating powers of the bankers to the needs of production. The currency reformers sought to break the power of the banks by abandoning the fetishistic attachment to the money commodity in order to bring the provision of credit under social control, whether through cooperation or nationalisation, to provide easy credit for productive investment while restraining its speculative expansion.

The currency reformers expressed the needs of production, in seeking to free accumulation from the limits imposed by conservative bankers, while political economy expressed the interests of money capital, in insisting that the expansion of credit should be constrained by the need to maintain the integrity of the currency. However these two perspectives most emphatically do not express the fractional conflict between financial and productive capital, but rather express the two sides of the contradiction inherent in the capitalist social form of production between the tendency for accumulation to develop the productive forces without limit, and the need to confine accumulation within the limits of the expanded reproduction of capital. The currency reformers expressed, therefore, not the interests of productive capital, but the aspiration to free social production from the limits of its capitalist form, in order to subordinate social production to social need. What the currency reformers failed to understand, as Marx argued in the *Grundrisse*, was that the subordination of production to the power of money did not express the subordination of productive to financial capital, nor the subordination of the state to the bankocracy, but the subordination of social production and the state alike to the money power of capital, a subordination which could not be overcome by monetary reform, but only by overcoming the alienated forms of money and the state on the basis of the transformation of the social form of production.²¹ The irrationality of the political economists' attachment to commodity money lay not with political economy but with capitalism.

The struggle between monetary conservatism and currency reform was by no means confined to Britain, but was fought out in all the capitalist countries, with socialists and populists pressing for land banks, labour money, social credit, free banking and bimetallism as the means of freeing production from the tyranny of the bankers, while national governments sought to unify their currencies and to bring its issue under centralised control, leading to the generalisation of central banking and the formal adoption of the gold standard during the second half of the nineteenth century, although the strength of populism in the United States made it impossible to establish a fully unified and centralised banking system there, the destabilising consequences of which are still with us today.

²¹Marx's famous criticism of the 1844 Bank Act as a banker's rump was based on an over-literal interpretation of its operation. In practice it provided the basis for a relatively liberal monetary regime.

8 Free Trade, Protection and the Second Industrial Revolution

Until 1873 crises tended to be localised, their impact rapidly absorbed, and recovery not long delayed. The crisis of 1873, provoked by the collapse of a massive speculative boom which set off widespread bank failures in Central Europe and the United States, was a global crisis which was followed by no such recovery. Massive overinvestment, primarily in railways and agriculture, left as its legacy overproduction, an intensification of international competition, and a sharp fall in the rate of profit, which disrupted international trade and payments and discouraged new investment.

In the wake of the crisis of 1873 the Continental European countries adopted protectionist policies to defend indigenous industry from foreign competition, while Germany and the United States (the latter already highly protectionist) saw a wave of monopolisation, sponsored by bankers and financiers, which led in turn to large scale industrial investment in the development of modern plants and new products with which German and US capitalists were able to launch their assault on the world market from the 1890s. In Britain, by contrast, calls for protection were rebuffed, monopolisation was very limited, and banking capital remained aloof from industry, which relied increasingly on its privileged access to imperial markets to escape from the competition of more efficient German and US producers. If the global pretensions of British banking and commercial capital had been the basis of the mid-Victorian boom, in the Great Depression it appears that their continued domination sowed the seeds of British decline as the needs of domestic production were sacrificed to the conservative cosmopolitanism of the bankers and merchant houses.

There is no doubt that fears that British industry was losing its competitive advantage were beginning to be voiced from the 1880s. However the failure of protectionism to make headway in Britain, as compared with Germany or the United States, had nothing to do with the relative political strength of productive and financial capital in the various countries. Protectionism in the latter countries was primarily a response not to the needs of industrial capital, but to the threat of populism and socialism. In the United States the primary force behind protection had always been the populist petty producers. German industry's call for protection in the face of British dumping made little headway until the economic crisis extended to agriculture, threatening not only the prosperity of the landed class, but also forging a political alliance between the displaced and distressed rural population and the rapidly growing radicalism of the urban working class. Thus protectionism was closely associated with the conservative revival, for which tariffs would provide the barriers behind which patriarchal social relations could be maintained in the countryside, and the industrial working class accommodated through paternalistic industrial relations and social reform. By the time tariffs were introduced the big industrial capitalists who had survived the crisis no longer needed protection from foreign competition. Nevertheless industrial tariffs cushioned the rise in costs imposed by agricultural protection and, in association with a high degree of monopolisation, provided a welcome boost to industrial profits.

The calls for industrial protection in Britain were muted. British industry faced growing competition in foreign markets, but was still largely unchallenged at home, while protection of the few industries which did come to face foreign competition in domestic markets would only invite retaliation, which would worsen the position for the

bulk of industry. Agriculture faced a much more serious threat, particularly in arable farming, but the primary victims of the agricultural crisis were landowners who, despite their continued parliamentary strength, could not hope for any salvation. On the mainland landowners faced falling rents and the collapse of land prices, while farmers responded to the crisis by diversifying. In Ireland the landowners were sacrificed, in the face of the rapid rise in rural militancy, with a radical land reform.

The issue of protection arose again with Chamberlain's Tariff Reform League, whose programme was soundly beaten in the 1906 election. However the defeat of protectionism was by no means a defeat for industrial at the hands of finance capital, for, despite the loss of its industrial lead, British capital still did not face serious competition in domestic markets, beyond the steel industry and those new industries, such as chemicals, machine tools, scientific instruments and electricals, where competing British products were limited or non-existent. Thus the leading branches of British industry, and the workers who depended on them for employment, continued to look to foreign trade and foreign investment, based on Britain's continued financial and commercial dominance, to find outlets for their surplus product and to provide sources of cheap food and raw materials. Such a hope was fully justified as the boom in foreign investment before the First World War provided growing markets, centred on the formal and informal empire, for ships and shipping, cotton textiles, coal and railway equipment, despite the growing pressure of foreign competition.

Although the dominance of British banking and commercial capital continued to provide foreign outlets for the products of British industry, and supplied it with cheap food and raw materials, the technological lag of British industry continued to increase. Unlike Germany and the United States, bankers in Britain provided little industrial finance for productive capital, investment being financed primarily by the reinvestment of profits, with external finance coming from the stock market, and bankers played a minimal role in promoting monopolisation and rationalisation. However the failure of British banks to follow the German and US examples was by no means the result of their neglect of the interests of productive capital, but rather of the dubious profitability of such undertakings and of the determination of productive capital to preserve its independence.

The integration of financial and productive capital in Germany and the United States was the result not of strength but of weakness. Germany and the US lacked Britain's well-developed financial, banking and commercial institutions, and did not have the broad industrial base which could generate the profits required to finance their rapid industrialisation in the mid-Victorian boom. Despite relatively high productivity, and in Germany relatively low wages, the crisis of 1873 had found productive capitalists with a heavy burden of fixed costs and external debt, particularly to the banks and financial institutions, and they were still largely confined to the domestic market, in which they faced British dumping, as British merchants were able to take advantage of the diversified markets at their disposal. However the banks could not simply force their industrial borrowers into liquidation, without risking bankruptcy in their turn. Thus they were compelled to intervene directly to protect their existing investments.

Protection and monopolisation provided a basis on which industrial enterprises could sustain high domestic prices and make large domestic profits for the benefit of their new owners. However sustained accumulation depended on expanding the mar-

ket. In the US big capital expanded its market by developing new forms of managerial organisation, based on vertical integration, which enabled it to wipe out small capitals, expand the domestic market by extending the frontier, and move into world markets. German capital faced greater problems, as it confronted the barrier of the limited domestic market, while Britain's historic dominance of the world market presented a barrier to opening up overseas markets, unless productive capital could develop new products and new methods of production. High domestic profits, the financial resources of the banks, and a well developed system of technical education, provided the means and the incentive to develop industrial research and to make the necessary investments, while providing a strong base on which to pursue aggressive pricing policies in overseas markets.²² Thus protection, monopolisation, and the institutional integration of banking and productive capital laid the foundations for German and US recovery from the late 1880s, and their penetration of world markets from the 1890s.

British capital had neither the means nor the incentive to achieve a similar monopolisation and rationalisation. In the face of chronic and persistent overproduction the transformation of methods of production could only be achieved on the basis of monopolisation. However, the ownership of British productive capital remained fragmented, with large numbers of specialist producers and a wide range of products in each industry, and British productive capitalists jealously guarded their independence by financing fixed investment out of retained profits, and borrowing, as far as possible, only against future income secured by their order books. When British productive capitalists sought external finance they preferred to guarantee their continued control by bringing in new partners, and later by issuing equity while preserving a controlling shareholding. Thus it was primarily the determination of productive capitalists to avoid the fate which befell their German and US counterparts, rather than the reluctance of the banks, which explains the fact that banks had little direct involvement in industrial investment, and tendencies to monopolisation were limited.

The range of markets at British capital's disposal made monopolisation not only impossible and but also unnecessary. Moreover there seemed no justification for laying out large sums of money for industrial research and training, to say nothing of building new plant, when British productive and commercial capital had a wealth of experience of their customers' needs, while their managers and workers had built up a wealth of experience of established methods of production and had developed appropriate forms of industrial and labour organisation. Past experience had shown that the intense competition and low profits of depression was merely a passing phase, which would pass with the recovery of overseas investment and the opening of new markets.

In the event the confidence of the British bourgeoisie in the traditional ways proved

²²The German apparatus of state intervention was a legacy of Prussian mercantilism, designed to serve the state rather than industrial capital. The rise of industrial capital in the 1890s was associated not with increasing state intervention, but with calls for its reduction, including the reduction of tariffs and the privatisation of nationalised mines and railways, which provided valuable state revenues, and handsome profits for financiers and landowners, at the expense of industrial capital. However the brief liberalisation of the early 1890s proved politically unsustainable. Technical education was by no means a sufficient condition for industrial regeneration. Until the 1870s German scientists seeking to develop industrial applications for their discoveries tended to emigrate to Britain. French technical education provided few direct benefits to industry, continuing to be directed to the needs of the military and the state.

fully justified. The new technological and managerial dynamism of German and US industry was not the basis of the boom which led up to the First World War. This was provided by the renewed wave of predominantly British investment in the railways and colonial production to meet the rapidly increasing global demand for food and raw materials. Germany and the US may have offered a vision of the future, but the world economy was still dominated, financially, commercially and industrially by Britain. While British capitalists could make handsome profits using old plant, producing traditional products, and selling in markets dominated by British merchants and investors, there was little point in incurring the enormous costs, running the substantial risks, and provoking the social and political disruption, associated with a second industrial revolution.

9 Finance, Industry, and the State in the Decline of Britain.

The experience of the first half of the twentieth century largely followed the pattern established in the nineteenth. Although the two world wars undermined Britain's commercial and financial pre-eminence, the government's post-war priorities were the reconstruction of the international monetary system, based now on a partnership between sterling and the dollar, and the selective liberalisation of international trade, priorities which were almost universally endorsed by capitalists, who were desperate to reopen world markets to provide outlets for their surplus product. Productive capital continued jealously to guard its independence, and to resist 'rationalisation', whether sponsored by the banks or by the state, maintaining its commitment to established products, traditional markets, and increasingly archaic methods of production in the face of the rise of industrial competitors.

The renewed commitment to the gold-exchange standard after the two world wars was not a vain attempt to recover the past glories of the City, nor to reimpose the authority of the Bank of England and the Treasury, but the only means of reconstructing the international payments system which was the key to the recovery of world trade, and so to the reopening of world markets to productive capital. Moreover the restoration of the gold-exchange standard had a crucial political rationale. On the one hand, it was the key to domestic political stability in providing the only check on the temptation of governments to respond to popular pressure by resorting to inflationary financing, the political dangers of inflation being amply demonstrated by its role in stimulating the revolutionary wave in Europe during and after the First World War, and in undermining the attempt to achieve the political reconstruction of Europe after the Second. On the other hand, the restoration of the gold-exchange standard and the liberalisation of trade was the key to the reconstruction of the international political system, checking the economic nationalism which had led to two world wars by subordinating the nation state to the supra-national authority of world money.

The restoration of gold convertibility after the First World War closely followed the pattern of the post-Napoleonic restoration, although the decision was much less contentious than it had been a century earlier. The leading critic of restoration was Keynes. However Keynes's objection to the gold standard was not based on its deflationary consequences, but rather on his fear that the enormous gold reserves of the

United States would give free reign to domestic inflationism, which would then be communicated throughout the world because of the financial power of the US. For Keynes both political and economic considerations dictated a monetary policy that was directed at domestic price stability rather than the stability of the exchange rate. However Keynes's proposals for a managed currency, although recognised as theoretically sound, were regarded as politically naive, for the removal of the discipline of the gold standard merely extended the inflationary latitude enjoyed by US politicians to all governments. Moreover it was feared that the flexibility of exchange rates carried the additional threat of governments' using currency manipulation as a nationalistic weapon, as they had used tariffs before the war, leading to competitive devaluations and persistent economic and political instability.²³ Thus there was almost universal agreement that a return to gold was the essential foundation of both accumulation on a world scale and domestic order and prosperity.

There was no less unanimity that the return to gold should be at the pre-war parity. Restoration was postponed in the hope that US prices would rise sufficiently to make restoration possible without the bout of deflation necessary to bring British into line with US prices. At the last minute Keynes proposed devaluation, but such a measure was widely regarded as a violation of the rights of property and a renunciation of the government's contractual obligations that was inconsistent with the international role of sterling, which was essential not only to the financial operations of the City, but also to the growth of trade which such operations financed.

The modern revisionists have pinned the blame for Britain's inter-war decline on the decision to restore the convertibility of an overvalued pound. However faith in the gold standard was not altogether unjustified. It was widely believed that the gold standard had been the key to pre-war prosperity and stability, and Britain's ability to manage the gold standard did not seem to have been impaired by the erosion of its commercial and financial position during the war. While it had lost many of its traditional markets to domestic producers or foreign competitors, the balance of payments had been maintained by an improvement in the terms of trade and the virtual cessation of long-term foreign investment, while buoyant exports in the immediate post-war boom held out some prospect of revival. While it had had to borrow heavily from the US to protect its reserves in the later stages of the war, these liabilities were more or less matched by the substantial loans Britain had extended to its allies. While Britain's gold reserves were only a quarter the size of America's, they were very respectable by historical standards. The enormous gold reserves accumulated by the US meant that Britain would have to secure a degree of co-operation from the US authorities, particularly in making US gold available in case sterling came under pressure, but the close working relationship between the two authorities meant that such co-operation was readily forthcoming. Moreover such optimism was not unwarranted in practice. Until the maelstrom unleashed by the 1929 crash the Bank of England was able to manage the gold standard without great difficulty, although at the cost of higher domestic interest rates than might otherwise have been justified.

Nor was it clear that the overvaluation of the pound was a serious price to pay for maintaining the integrity of the currency. The extent of the overvaluation was disputed, but it was small in comparison with the wild fluctuations in prices in the course of the post-war boom and slump. Although the overvalued pound added to the

²³The experience of the last two decades is ample testimony to the soundness of these fears.

difficulties of the staple industries, and prompted speculation against sterling, it kept down the costs of imported food and raw materials and so boosted the newer industries, producing primarily for the domestic market, in the hesitant recovery. Even the staple industries did not favour devaluation, which they feared would increase wage and raw material costs and inhibit the flow of foreign investment that was expected to stimulate exports. Finally, while the restrictive monetary policies required to defend the pound may have provided some discouragement to domestic productive investment, they also limited British participation in the speculative boom of the late 1920s, which is one reason why the impact of the 1929 crash and subsequent depression was much less severe in Britain than elsewhere.

The restoration of sterling in the wake of the Second World War was equally seen as the key to post-war reconstruction, Keynes now being not the critic but the architect of the restoration of the City's world role. The war had seen the power of the dollar, backed by enormous reserves of gold and the industrial strength of the US, displacing that of sterling. However the US lacked the financial institutions and the depth of experience required to manage the international monetary system, while the dollar shortage was a barrier to the dollar assuming the role of world money. The US accordingly sought to establish sterling and the City as the junior partners to the dollar and Wall Street in a new multilateralist world order, a strategy which would have been as detrimental to the interests of British financial and productive capital as it was short-sighted on the part of the US. In the event Britain was able to exploit the contradictions in the US position, and particularly the dollar shortage, to restore sterling to its role as a world currency and to maintain a degree of independence for British imperialism, based on the Commonwealth and the Sterling Area. This strategy was the key to the dramatic success of the reconstruction effort, the restoration of the world role of sterling in the context of the dollar shortage giving British productive capital privileged access to non-dollar markets. Although the attempt to extend the primacy of sterling from the Commonwealth to Europe was thwarted by the Marshall Plan and rearmament, in the immediate post-war period it was the former which provided the booming markets. It was only with the European recovery, culminating in the formation of the EEC and the restoration of the dollar convertibility of the leading European currencies, and the collapse of Britain's imperial ambitions in the wake of Suez, that British productive capital could no longer rely on the commercial and financial power of the City to cover up for its technological, institutional and managerial deficiencies.

As we have seen, concern about the backwardness of British industry began to be expressed as early as the 1880s. Before the First War remedies were sought through industrial protection and social reform. The success of state intervention in rationalising and modernising production during the war raised the question of extending such intervention to deal with the problems of technological and institutional backwardness in peacetime. The 'rationalisation movement' drew on this wartime experience, and on the German example, to propose the concentration and centralisation of capital to facilitate the achievement of continuous and integrated production, the application of modern scientific and managerial principles, and monopolistic control of markets in order to plan capacity as much as to control prices.

Rationalisation made some headway in the new industries, where the centralisation of capital and an orientation to a growing domestic market provided favourable con-

ditions for monopolisation and technical and managerial innovation, but it made little progress in the staple industries. This was not because of the resistance of financial capital or of the state rationalisation, for there was a widespread enthusiasm for rationalisation, which grew in the face of working class demands for nationalisation. The fragmented ownership of capital in the staple industries meant that the institutional and financial basis for expensive rationalisation programmes in the face of chronic overproduction was lacking. Mergers and amalgamations in the staple industries were primarily defensive and limited in scope, involving financial integration but little managerial or technical rationalisation. Trade associations restricted themselves to price fixing, and many collapsed in the slump of 1920–21. The banks had only limited and fragmented exposure to industry and so lacked the power to enforce monopolisation, being restricted to protecting their investments by nursing unprofitable enterprises along.

On the other hand, the owners were strongly resistant to any government intervention to enforce a programme of rationalisation and monopolisation, which they feared was merely one step along the road to nationalisation. Although rationalisation, and even nationalisation, might have benefitted capital as a whole, the political control of capital carried the considerable danger that its management would be subordinated not to the interests of capital but to the priorities of opportunistic politicians.²⁴ The government in turn was reluctant to intervene for fear of setting precedents that would lead capitalists to outbid each other in their pleas for support. The government was also only too aware that the restructuring of the staple industries would involve the massive destruction of outdated capacity, heavy investment in the most modern methods of production, and the sacking of large numbers of workers in a context of high regional unemployment, which would inevitably lead to an exacerbation of the acute industrial and political conflict which had already been generated by the problems of the mining industry.

It was only after the comprehensive defeat of the working class in 1926 that state intervention became a realistic political possibility, and only with the depression of the 1930s that the government was able to overcome the resistance of productive capital to such intervention by offering the bait of tariff protection and substantial compensation. However fear of the political consequences of radical corporatist interventionism, exemplified by Stalin's Russia and Hitler's Germany, continued to limit the interventionist ambitions of the state, while fear of inflation motivated its resistance to the emerging liberal alternative of Keynesian expansionism. In the meantime it suited all parties to allow the staple industries to stagnate, the owners maintaining their profits by milking their plant dry and holding down wages, while they hung on in the hope that a revival of the market, or Empire Free Trade, would save the day. The victims, meanwhile, were not the productive capitalists, but the workers who faced low wages, the intensification of labour, and mass unemployment.

The same pattern of resistance of productive capitalists to rationalisation was repeated after the Second World War. The Labour government's nationalisation programme, which was hardly radical, met with concerted capitalist opposition, particularly where it threatened to extend to industries, such as steel and sugar, which were not already effectively under state control. The government sponsored heavy invest-

²⁴The public corporation was generalised in the 1930s as the institutional form which sought to resolve this contradiction.

ment in the nationalised industries, but its priority was the export drive, and while the non-dollar market lay at Britain's feet the ability to expand exports was limited not by productivity but production.

Although overall manufacturing productivity increased considerably, much of the improvement was due to the scrapping of archaic plant. Some of the new industries achieved high levels of productivity, using up-to-date plant and modern management, but few even approached US standards. This was partly because the dollar shortage limited imports of the most advanced machinery. However productive capital actively resisted even the modest attempts to sponsor industrial rationalisation under the aegis of the Marshall Plan.

British employers were very resistant to the attempt to spread American methods of production and management. This was partly because the fragmentation of production units meant that British manufacturers did not regard the market as being sufficiently large to justify mass production methods, and partly because they felt that attempts to introduce American 'time and motion' methods would undermine the existing system of industrial relations. For similar reasons manufacturers and unions alike were unsympathetic to attempts to attract new American investors to set up in Britain. Moreover the success of manufacturers in increasing their exports in soft markets, where they faced little or no competition, removed any incentive to introduce the most advanced methods of production and management, or to dismantle the apparatus of shop-floor power that was a legacy of wartime collaboration. Indeed while production was the bottleneck employers were often only too glad to concede control over manning levels and job demarcations to the shop floor in exchange for industrial peace and increased production, particularly where management had little knowledge or understanding of the complexities of the production process.

Continental and Japanese capitalists lacked the global outlets for their capital, and the easy access to world markets which this provided. The destruction of war and post-war occupation undermined any resistance of capital in the defeated powers to its restructuring, and to the Americanisation of production and industrial relations, which was came to be seen by the occupying powers as the key to post-war domestic and international political stabilisation, while the defeat of the organised working class in the war and the reconstruction period removed any barriers to rationalisation presented by an established system of industrial relations. The result was that British industry lagged behind its competitors in the adoption of the most advanced production methods, and continued to be marked by a proliferation of producers, competition taking the form of a high degree of product differentiation. This established a vicious circle in which the proliferation of end products presented a barrier to the standardisation of parts, and so to the development of mass production techniques in the component and machine tool industries, which in turn inhibited the development of such techniques in the production of end products.

10 The Origins of the Present Crisis

The 'decline of Britain' can undoubtedly be traced back to the erosion of Britain's industrial lead from at least the 1880s. However this decline has by no means been matched by a decline in the power and prosperity of British capital. British capital has proved extraordinarily resilient in the face of every challenge, overcoming the barriers

of working class opposition and foreign competition, weathering successive crises and the destruction of war, to maintain its position as a pillar of the imperialist world order.

Although there is a sense in which the origins of the present crisis, like those of anything else, can be traced back to the distant past, such a perspective loses sight of the specificity of the present crisis. However much Ingham invents divisions of interest within the capitalist class, he appears to recognise that until the 1960s the strength of the City was inextricably connected with the prosperity of the domestic productive economy, which depended in turn on the ability of productive capital to exploit the strength of the City to compensate for its technological and managerial backwardness. The present crisis lies in the dissociation of the interests of the City from the fate of domestic production, domestic adversity only providing further opportunities for financial profit. However it is again quite wrong to see such a dissociation as an expression of a conflict of interests between the City and productive capital, for productive capital has no more interest in production than does the City, the interest of every capital being not in production but in profit.

From the point of view of capital the production of commodities is merely a necessary, and rather distasteful, condition for the production and appropriation of surplus value. In the face of a decline in profitability productive capital has no interest in sustaining production for its own sake, but only in restoring its profitability. Such a restoration may be achieved by forcing down wages and intensifying labour, or by finding new markets for the product, or by modernising existing plant, or it may be achieved by liquidating existing productive investments in order to find more profitable outlets, whether by relocating production, by diversifying into new branches of production, or by abandoning production in favour of commercial and financial investment. In the face of the crisis which has unfolded since the middle of the 1950s British productive capital has followed all these expedients.

While the City has responded to the decline of sterling by detaching its operations from a reliance on the domestic currency, productive capital has built on the domestic mergers and monopolisation of the 1950s and 1960s, and taken advantage of the global strength of the City, to develop into the form of the multi-national company, the distinctive feature of which is not simply that it plans and executes production on a global scale, but more fundamentally that it internalises the subordination of production to the expanded reproduction of capital by integrating within the corporation the complementary functions of productive, commercial and financial capital, making the division between industrial and productive capital not only theoretically incoherent, but empirically meaningless.

The multinational corporation is essentially a machine which has been developed to seek out and exploit opportunities for profit wherever they may be found, its organisational forms increasingly adapted to maximising the fluidity and mobility of its capital, its interests being best served by the removal of all barriers to such mobility. Far from representing the culmination of the conflict between financial and productive capital, the development of capital in the course of the post-war crisis has seen their most complete fusion. It has not been the banks but the multinational corporations which have closed plant, moved productive investment abroad, and diverted their funds into cash and into financial and speculative investments. Far from being the victims of the crisis of Keynesianism and the rise of monetarism, it was the activities of the

multinationals which were the prime source of the crisis, and the prime beneficiaries of its monetarist resolution.

In the early 1960s it was quite understandable that the crisis should be attributed to the dominance of the City, as the City's attachment to an overvalued pound undermined the competitiveness of British industry, and brought every attempt to stimulate domestic expansion to a halt in the face of a balance of payments crisis. Such a diagnosis underlay the Wilsonian strategy of forging a reformist alliance between productive capital and the working class, to reconcile industrial profitability with growing domestic prosperity and increased welfare provision. It was perhaps understandable that the failure of the Wilson government to achieve the radical restructuring of British industry should be put down to its unwillingness or inability to confront the power of the City, the Treasury and the Bank of England, the lack of enthusiasm of productive capital for Wilson's plans being explained by the government's unwillingness to confront the supposed power of the trades unions.²⁵

Twenty years have passed since Wilson's failure. In the meantime we have seen the concerted and vehement opposition of all sections of capital to the various versions of the Alternative Economic Strategy, which offered a modest interventionist programme of industrial protection and state-sponsored rationalisation, modelled not on the Soviet Union, but on Germany, Japan and, in its more radical aspects, Austria and Sweden. We have seen governments pouring billions of pounds into industrial subsidies and modernisation schemes whose positive impact has been dwarfed by the plant closures of the multinationals. Finally, we have seen the monetarist deindustrialisation of Britain associated with an unprecedented boom in capitalist profitability. If the Left clings to the illusion of the possibility of a reformist alliance between domestic productive capital and the working class, whether in the form of a radical Alternative Economic Strategy, or in the more modest form of schemes to subsidise productive investment out of workers' savings and pensions, the electorate has learnt by bitter experience to know better.

The origins of the present crisis do not lie in the conflict between financial and productive capital, but in the contradiction inherent in the capitalist mode of production between the tendency for capital to develop the productive forces without limit, and the need to confine production within the limits of its capitalist form. The devaluation of capital and destruction of productive capacity which has marked the 'decline' of Britain has only been the counterpart of a world boom which has developed this contradiction to a degree unprecedented in history. However the purgative of crisis is only the means by which capital prepares to scale new heights. This is why Britain, far from being exceptional, only holds 'a mirror of the future to the rest of the world'.²⁶

The constitutive contradiction of the capitalist mode of production is not that between financial and productive capital, but between capital as a whole and the working class. While capital has prospered, it is the working class which has suffered the relative decline in living standards, the intensification of labour, the loss of jobs and

²⁵Although trades unions have resisted the unilateral imposition of rationalisation schemes, they have always tended to show a positive enthusiasm for negotiated rationalisation as the means of securing wages and employment, while employers have preferred to milk old plant dry as a prelude to liquidation. The power of trades unions was no barrier to the radical rationalisation of the old staple industries of coal, textiles and steel through the 1950s and 1960s, despite a substantial decline in employment and relative wages.

²⁶Anderson, *op. cit.*, p. .

the erosion of the welfare state. It is not the City financiers, the Bank of England and the Treasury which are the barrier to the subordination of social production to human needs and aspirations, it is the capitalist mode of production. This is why socialism, based not on a red rose and a genial grimace, but on the socialisation of production under democratic control, has never been more urgent. Capital has exhausted its historic role, and developed the objective conditions for socialism to an unprecedented degree. The tragedy for humanity is that socialists, and above all socialist intellectuals, have not been so attentive to their historical responsibilities.