Article

Capital Accumulation, the Separation of Ownership and Control, and the Corporate Form: from Imperialism to Financialization

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1. Introduction

Throughout his academic career, Akira Matsumoto has consistently demonstrated that Marx's own writings provide profound insights into economic problems that economists working today have been unable to fully grasp. This paper explores the implications of his article on financialization — one of those elusive current topics — in the *Journal of Economic Issues* in June 2020 (Matsumoto 2020). His article demonstrated that financialization could be understood as resulting from the ongoing separation of interest-bearing and productive capital within the capitalist accumulation process described by Marx in *Capital*. Matsumoto then relates Marx's analysis to Berle and Mean's emphasis on the separation of ownership and control in capitalist firms. Exploring the implications of this dual or 'second' separation — that is, the separation of the local of control over capitalist production from the locus of ownership of the profits thus generated — across the entire history of the corporate form opens new insights into its distributional consequences and institutional evolution through time.

Section 2 summarizes Matsumoto's approach to linking financialization and capitalist accumulation, and contextualizes his surprising analytical conclusion that 'confrontations between capital and wage labor get bigger under financialization, concentrated wealth, [and] expanding inequality' (Matsumoto, 2020, 331). Extending Matsumoto's insight from the 19th Century British factory-centered firm, on which Marx focused his analytical framework, to the origins of the corporate form in British imperial expansion clarifies the deeper meaning of his conclusion. Section 3 recounts Berle and Means' characterization of the separation of ownership and control as a feature of 20th-Century capitalism in advanced economies. Sec-

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tion 4 shows how Berle and Means' own temporal and spatial framing of their key idea destined it, once equilibrium-based economists had established hegemonic control over mainstream economics, to being simply a stepping stone to an agency-based, efficient-market view of the firm that fully endorsed the resolution of Berle and Means' 'second' separation in favor of owners.

Section 5 show that when Berle and Means' historical blinders are taken off, the role of the separation of ownership and control in the corporations that pioneered British imperialism comes into sharp relief. This broadened view of the dual separation principles in capitalist accumulation is readily aligned with an understanding of capitalism as a global system operating at global scale. Section 6 applies the dual separation principle to two financial crises in the US. So doing, by way of stratification theory, clarifies connections between the US's participation in imperial expansion and two financial crises during the Neoliberal era. Section 7 concludes.

2. Matsumoto's Marxian Approach to Financialization and the Separation of Ownership and Control

Since Matsumoto reframes financialization in his 2020 paper, we start by reviewing the meanings assigned to financialization in contemporary discourse. So doing permits us to see why this concept has been so frequently invoked and yet remains so problematic. Epstein's introductory essay to his edited 2006 book *Financialization and the World Economy* led to the explosive growth of a literature exploring the nature and implications of 'financialization.' Epstein suggested this definition:

> "for us, financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein, 2006, p. 3)

Immediately before introducing this definition, Epstein cites that of Greta Krippner, who had written in the previous year that this term denotes "a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production" (Krippner 2004: 14). This concept's ambiguity is already present here: Epstein locates the concept in the institutions and behaviors observed in market economies, whereas Krippner links it to capital accumulation — though not explicitly to a Marxian conception of accumulation. This ambiguity led Brett Christophers, in a 2012 essay, to critique this literature as 'anaemic' (Christophers 2012): it had been used to describe so many different phenomena that it had become empty of meaning.

What Matsumoto does in his 2020 *JEI* paper is to identify financialization as a process that is implicit and clearly seen in the writings of Marx in *Capital,* Volume III: it can be traced back, he argues, to processes inherent in capitalist development that lead to the

separation of money-seeking capital from productive capital. As the firm grows and is capitalized in markets, profits increasingly take a financial form that evidently is independent of the productive process generating value and surplus value. This separation between interest-bearing and productive capital is codified with the creation of the joint-stock company, which establishes a division between the interests of the firm's owners and the activities of those who manage it. In Matsumoto's term, this creation represents the 'personal alienation' of the capitalist-as-owner from the capitalist-as-manager, and enables the former to both participate in 'rampant money games' and to attempt to avoid taxation of their equity-market gains.[1)]

Matsumoto then comments that Marx's insight is picked up in the well-known work of Berle and Means on the distinction between ownership and control in the modern American corporation in the 1930s. That work, rooted in the institutionalist economics tradition then thriving in the US (led by figures such as Thorsten Veblen and John R. Commons), makes no mention of Marx's framework. For Berle and Means, the development of the capitalist form of corporate organization that separates the interests of owners from the activities of managers indicates a new and more mature phase of capitalist development. Matsumoto observes that this separation between ownership and control should instead be seen as Marx did, that is, as a final step in a corrosive process wherein those who own capital are evidently distinct from those who manage its use in production. He asserts that reconnecting the ownership/control distinction with Marx's analysis of the capitalist process permits the roots of contemporary financialization processes to be more clearly seen. He then concludes that 'confrontations between capital and wage labor get bigger under financialization, concentrated wealth, [and] expanding inequality' (Matsumoto, 2020, 331).

Matsumoto's point here, it should be noted, is made in the context of an abstract theoretical argument of the type Marx develops throughout *Capital*. If it is interpreted as applying to a contemporary advanced capitalist formation such as the United States, it appears paradoxical at best, even wrong — for doesn't the advance of financialization processes remove labour and labourers from non-financial production settings, in favour of more abstract ways of generating profits, and thus reduce the possible points of such 'confrontations'?

It is worth asking what Matsumoto means by 'bigger' confrontations; insofar as workers in production sites virtually never come into contact with those who own those sites, the possibility of physical confrontations is, if anything, less. He can only mean structural confrontations involving ultimate interests. For our current era of financialization involves not just firms' owners' and managers' pursuit of gains by financial means — stock-buybacks, leveraged buyouts, and so on — but also rising consumer debt. But financialization also creates instruments that sometimes permit those who start with more wealth to prosper by making investments that may strip others of whatever wealth they do have.

In pointing out the importance of remoteness — of distance between those who own and those who do — Matsumoto is onto something deep in the concept of the separation of ownership and control, which helps explain the spread of capitalist accumulation into every corner of the world. Specifically, modern-day financialization is one manifestation of an ongoing, institutionalized process of the sub-division between money capital and productive capital. This process has permitted capitalist exploitation to unfold over time, in two directions: (1) to use relations of social dominance and asymmetric power to generate new sources of accumulation that take the form of financial income (interest and fees); (2) to exploit the labour of workers in other nations to widen the profit rates earned by multinational corporations chartered in advanced capitalist nations. Matsumoto's powerful insight into the centrality of the ownership/control dynamic in fostering the spread of financialization is also the key to understanding how the historical roots of capitalist development are embedded in the practices and priorities of the firms, banks, and central banks that govern the global economy today.

3. The Ambiguous Separation of Ownership and Control in Berle and Means' *Modern Corporation*

Berle and Means' distinction between corporate ownership and control is given a definite and narrowly defined form in the opening pages of their 1932 book:

> 'Such an organization of economic activity rests upon two developments, each of which has made possible an extension of the area under unified control. The factory system, the basis of the industrial revolution, brought an increasingly large number of workers directly under a single management. Then, the modern corporation, equally revolutionary in its effect, placed the wealth of innumerable individuals under the same central control. By each of these changes the power of those in control was immensely enlarged and the status of those involved, worker or property owner, was radically changed. The independent worker who entered the factory became a wage laborer surrendering the direction of his labor to his industrial master. The property owner who invests in a modern corporation so far surrenders his wealth to those in control of the corporation that he has exchanged the position of independent owner for one in which he may become merely recipient of the wages of capital.' (Berle and Means, 1932, p. 5).

The authors emphasize that the key is not the corporate form itself, which they note has long existed, but the 'multiplication of owners' (*ibid.*). However, in the next paragraph, the authors observe that various patterns exist, observing, 'Frequently, however, ownership is so widely scattered that working control can be maintained with but a minority interest.' (*ibid.*, pp. 5-6)

As discussed in the next section, the corporate form depicted in this volume was not a recent historical invention, and the ownership/control configuration depicted therein — many dispersed owners versus a strong managerial core — has been far from dominant among US corporations. Weinstein (2012) points out that this text contains two radically different visions of the implications of the split between ownership and control: the 'shareholder interest' view, according to which the firm should be understood as primarily a means of maximizing the expected profits of its owners; and a 'public interest' view, wherein large corporations of the type then emerging and populating the American landscape should be understood as responsible to the larger public interest. This ambiguity, Weinstein observes, exists despite the fact that Veblen's last book Veblen 1923) was the only work cited in these authors' core theoretical chapter.[2] Veblen had died in 1929. Veblen, a citation from whom begins the 1930 *American Economic Review* artlcle that first presented Berle and Means' ideas, certainly would not have approved of this ambiguity.[3] Veblen's corpus of work put him solidly on the 'public interest' side of any such divide. Not only did Veblen's numerous books record the evolution of American industry, analyzing in some detail the roles played by credit, interest, and production; but Veblen also was deeply informed about Karl Marx's work and sympathetic to the then-burgeoning socialist movements inspired by Marx's ideas (Veblen 1907[4]).

4. Separation as the Defining Principle in the Agency-based View of the Ownership/Control Relation

The Berle-Mean thesis has generated debates that carry on to this day. These have focused on whose interests should take priority for large capitalist industrial firms, whose factory and distribution sites are assumed to be in Europe or America — the 'global North'. The reason for these debates' prolonged nature and geographic focus becomes entirely clear when it is remembered that this work was an exploration undertaken within a then well-established institutional approach to economics centered on understanding the development of the United States economy.[5] Critiques of the Berle-Means thesis emerged over the years, despite — or perhaps because of — the monumental status of that 1932 volume. Some critics have argued that the alleged pattern of widely distributed ownership was often violated in real-world firms (Cheffins and Bank 2009). Other critics, more tellingly, amassed empirical evidence to the effect that firms under managerial control and with weak guidance from owners often did not maximize profits (Santerre and Neun 1993).

These authors' book did acknowledge the relatively ancient origins of the corporate form — 'the creation of joint stock trading companies which built up the merchant empires of England and Holland in the Seventeeth Century.' They argued, however, that this 'quasi-public corporation [has been] well known, its entrance into the field of industry .. dates

from the early Nineteenth Century'; further '[m] anufacturing industry lay almost wholly outside the corporate field.' (Berle and Means 1932, p. 11) So while acknowledging the prior creation of the corporate form, the authors explicitly rule out any attention to the implications of this form beyond the light it sheds on the operations and consequences of the 'modern corporation' within the modernizing economy.

Thus, the debate was not about whether the corporate form itself was novel, but about the relative influence of managers and owners over large industrial firms' operations, and whether these firms served larger social or public purposes. Aside from disputes over the evolving empirical profile and outcomes of different corporate forms, the Berle-Means thesis was caught up in the larger policy debates that emerged and have continued unabated throughout the post-War period. On one side were Milton Friedman and his co-thinkers, the 'classical' economists who'd been opposed by Keynes. On the other were Keynesian and institutionalist economists: John Kenneth Galbraith (1954), for example, emphasized workers' need for countervailing power so they could stand up to capitalists. But this latter group was, in mainstream economics, living on borrowed time.

The economics profession increasingly prized mathematical elegance as the criterion for model-building. In this context, the mathematical proof of the existence of perfect Walrasian equilibrium in decentralized markets (Debreu 1959) destabilized what until then had been a balanced debate between the private-return and public-mission views of firms' purposes. Debreu's proof, though he did not intend it to be used in this way, established that economic outcomes determined solely by the unrestricted operation of supply and demand could, under ideal conditions, maximize economic welfare. This permanently altered the theoretical and policy orientation of mainstream economics. In the realm of theory, the Walrasian general equilibrium became the unified point of reference for all Neoclassical theorizing.[6)] In the realm of policy, the first suspect whenever inefficient market outcomes occur, in this view, is government interference. In effect, economists pre-committed to the equilibrium (classical) approach could easily attribute the increasing problems of the American macroeconomy to government overreach into problems best left to micro-market mechanisms to resolve.

Friedman, a long-time opponent of Keynesian policies, took immediate advantage of this shift in the terms of mainstream economic debate. He asserted that his approach was Walrasian in his 1968 Presidential address to the American Economic Association (Friedman 1968)[7)]. Robert Lucas, soon to become Friedman's successor as leader of the University of Chicago's economists, was simultaneously developing the rational-expectations theory that would complete the destruction of efforts to use Neoclassical tools to prove that market institutions (large firms) must serve public purposes.

We do not pursue the evolution of debate in mainstream economic theory further here.[8)] Instead, we observe that this theoretical victory by equilibrium-based theory explains why

the dual separations referred to above are invisible or irrelevant in Neoclassical theory. For one thing, the notion of capital accumulation — the progressive separation of capital over the life of a firm (or an economy) into distinct money-seeking and productive components — disappears in that viewpoint. Agents who own assets that might be deployed in production are assumed free to decide on the optimal forms of contract they might enter into in granting access to or use of those assets. If the time-frame over which an asset's use is required is lengthy or especially risky, agents supplying it will require compensation. Their continued commitment cannot be forced. Similarly, every agent is free to sell or buy whatever goods or services she wants; the interests of owners are naturally one thing, and those of managers or workers, another. This complete separation of the sequential and temporally linked activities of the firm follows naturally from the origin story of the Walrasian general equilibrium itself: agents who have pre-formed preferences and pre-given endowments create whatever economic contracts (including 'institutions') will permit them to maximize utility in the moment of equilibrium.

In the absence of transaction costs or missing information, this vision of economic institutions and decisions leads directly to efficient-market theory.[9] Financial markets play a passive role in market dynamics, allocating capital at prices accurately reflecting risk/return characteristics. And since no Keynesian multiplier exists in a general equilibrium setting, the loanable funds available to finance credit flows can be drawn only from prior savings by individual agents. They are fully able to allocate their savings optimally. Firms are understood, per Coase's theorem, as sequences of linked contracts. Owners have the right to allocate their own assets. The job of managers is simply to administer the assets entrusted to them. In this context, then, there should be no ownership/control tension: to own is to control.

Agency theory comes into play once either transaction costs or missing information are recognized as features of financial and non-financial market exchange. Agents are now seen as having to minimize transactions costs to maximize their utility and to compensate for missing information when it might adversely affect their expected returns.[10] Debate about ownership versus control and about the social responsibility of large corporations was shut down via a series of articles taking the market-efficiency view to an extreme conclusion. First, Friedman (1970) denied any responsibility of business other than the maximization of profit. Next, Jensen and Meckling (1976) redefined the firm as not a 'going concern' with working rules, per the institutionalist view of John R. Commons (Chavance 2011), but instead as a series of contracts between different categories of agents interacting in markets. During this period, the technologies of communication and exchange in financial markets were rapidly improving, and the ongoing deregulation of financial firms and markets was creating ever deeper financial markets. Financial markets were thus seen as the ultimate battleground for efficient pricing, since rational (profit-seeking) agents could increas-

ingly move frictionlessly between markets to arbitrage away price discrepancies that might arise in agents' reactions to news.

Eugene Fama then drew two radical conclusions that follow logically. First, not only are firms just bundles of contracts: the terms of these contracts are not set by managers or by owners, but by the workings of efficient financial markets (Fama 1980b). Further, banks have no effect in efficient markets, because they can only make the loans that would be made in those markets in the absence of banks — they are superfluous (Fama 1980a). Any deviations from these conclusions must necessarily be due to interferences that block the efficient operation of financial markets. By implication, the ownership/control debate itself is irrelevant. Markets control what firms can and cannot do; who owns them doesn't matter.

5. The Dual Separation Principle, the East India Companies, and the Rise of Global Capitalism

To recap our argument to this point: Matsumoto's mapping of the Berle/Means ownership/control duality onto a Marxian view of the roots of financialization, considered in light of the contemporary efficient-market theory, gives us an overview of how contemporary financialization processes work: the continual evolution of forces and relations of production grinds out more possibilities for interest-bearing capital to capture profits, privileging owners at the expense of other claimants on firm profits, leading to their increasing share of the surplus. As the previous section has shown, contemporary efficient-market theorists have justified this state of affairs. Aggressively drawing extreme conclusions from Neoclassical equilibrium theory, they assert that the pursuit of financial gain by those who own and manage non-financial and financial firm structures by whatever means is simply market efficiency in action. The separation between the interests of — and outcomes for — firm owners, managers, and workers is a defining characteristic of financialized capitalism. Managers must make decisions that arbitrageurs will otherwise insist on by shorting their equities' prices. Workers have no agency and no voice: they must accept the hand they are dealt.

The ambiguous links between the interests of the stakeholders and the control of work in Berle and Means' industrial factory have rigidified into an absolute separation. In modern financial markets, it is contract law that codifies this separation of interests and outcomes. This is the central point of the 'legal theory of finance' suggested by Pistor (2013). But separation can be, and has been, achieved by other means than legal distance: physical, institutional, and social distance can also seal stakeholders in common enterprises into disparate fates.

The role of distance in accomplishing the separation of interests and outcomes, even within a unified corporate form, is most immediately seen in the origins of the corporation

itself — the joint-stock company — in the age of imperialism. It is well known that the East Indies Company, granted a charter by Queen Elizabeth I in 1600, closely followed by the Dutch East India Company in 1602, pioneered the corporate form. As described in a 2013 paper by Gelderblom, de Jong, and Jonker, the corporate form for which the latter company gained fame emerged only in the course of its early expeditions, initially in response to the need for finance and the risks to which its ships were exposed. A follow-up 2017 publication involving two of the same authors refined this insight:

> 'during the 17th century, the business corporation gradually emerged in response to the need to lock in long-term capital to profit from trade opportunities with Asia. Since contractual commitments to lock in capital were not fully enforceable in partnerships, this evolution required a legal innovation, essentially granting the corporation a property right over capital. Locked-in capital exposed investors to a significant loss of control, and could only emerge where and when political institutions limited the risk of expropriation.' (Dari-Mattiacci *et al.* 2017, p. 193)

The East India Company's corporate organization and activities evolved from that of a trading company to a more substantial form whose bases were capable of functioning as outposts of the British empire (Sen 1998). In March 1773, East India stock was held in 2,826 accounts, with the median holding (43% of the total) in the £1-5,000 range and with only 3 accounts (3.9% of the total) valued at more than £20,000 (Bowen 2006, Table 41, p. 86). Davies (1970) in turn describes the evolving corporate organization of the Royal African Company from its founding in 1660 to its demise in 1762.

In none of these companies was wage labour organized in factory settings. But these companies were undertaking far more than primitive accumulation; they were full participants in an emerging global capitalist extraction-production-circulation-consumption system that needed raw materials, processed materials, foods, spices, and slaves, just as it needed manufactured goods. As Samir Amin put it in one of his characteristically blunt phrases: 'The capitalist system has always been, and remains, globalized.' And while Marx's analyses in *Capital* focused on the self-enclosed logic of capitalist accumulation (as captured in Harvey (1982)), this was because of Marx's relentless, never-finished search to identify whether the instability of this system was endogenous or exogenous (Harvey 2017, Prologue)[11]. Marx understood capitalism as recognizing no limits on its expansion (Amin 2019, p. 8). Marx was quite aware of colonialism (Pradella 2022) and slavery (Foster, Holleman, and Clark 2020), and understood their centrality to the exploitation of labour in British factories and to the prosperity of British capitalists in his era.[12]

Modern scholarship — see Sen 1992, Pomeranz 2000. Amin 1980, and Bagchi 2005 — has demonstrated that the higher historical rate of growth of Western nations in the 18th and 19th Centuries cannot be attributed to Europe providing an exemplary path that the rest of the world should follow, but instead to European (and later American) exploitation of re-

sources and people in colonized and imperalized spaces in Asia, Africa, and Latin America. Europeans' creation of the corporation — these nations' denizens' greater 'rationality' — was not what enabled Europe's success in its expansion to other spaces; it was a byproduct of that expansion.[13)]

Let's consider the pre-20th Century origins of the corporate form in light of the dual separations framework suggested here — the division of control between owners, managers, and workers, on one hand, and the extent of distance between these different claimants on corporations' activities and revenues. Owners and workers (whether enslaved, coerced, or contracted) were separated by oceans and seas, and by originating in societies characterized by vast differences in culture and appearance. Social science and biological determinism (Gould 1981) led to various tonalities of racism that justified any form of treatment of colonial or imperial subjects defined as less than fully human.

These reflections on the historical roots of the corporations forces us to consider the possibility that the deep acceptance of the principal of ownership and control separation in our present day is not just a consequence of the triumph of efficient-market theory. Is it not, instead, rooted in the imperialist origins of the corporate form itself, one which arose due to the exploitation of the labour and the plunder of the resources and lands subjected to colonialism and imperialism at the dawn of Europeans' world conquest? Accompanying this plunder, and providing the vehicles for transfering riches and income from conquered territories to conquering nations, were firms and financial institutions whose corporate form relies precisely on the separation of the rights of those who exploit from the rights of those who are exploited.

If this is the case — and the historical record suggests it is — then we have to turn our understanding of the triumph of efficient-market theory on its head. Fama's aggressive papers, as noted above, deny that anything but market forces can efficiently allocate capital and determine prices; and they assert that only those with a stake in equities traded in markets — the owners — have the right to the returns those assets generate, without limit. It is eminently clear from the perspective developed here that this conclusion of theory is, at the same time, an affirmation of the dual separation logic that apportioned virtually all the gains and takings from imperialist plunder to the plunderers. That is, the efficient-market denial of any social responsibility of capital owners is, in fact, an affirmation of the *status quo ante* embedded in colonial and imperial expansion.

6. The Consequences of the Dual Separation Principle for Two US-based Financial Crises

We have argued that categorical and physical separations encoded into the corporate form provided the justification and opportunities, respectively, for enslavement and pillage

in non-European lands in the imperialist era. We now briefly consider what light this dual separation principle might shed on two recent financial crises that have been experienced in the US: first, the Latin American crisis of the 1980s; next, the subprime crisis of 2008 and afterward. These ideas can be brought into the domestic policy context of the US via stratification theory. Darity defined the core elements of this approach as follows in a 2005 speech:

> Stratification economics examines the structural and intentional processes generating hierarchy and, correspondingly, income and wealth inequality between ascriptively distinguished groups. For the stratification economist, claims about the defectiveness of a group with outcast/caste status are an ideological mask that absolves the social system and privileged groups from criticism for their role in perpetuating the condition of the dispossessed. (Darity 2005: p. 144)

In an overview article, Darity, Hamilton, and Stewart (2015) note that stratification theory 'extends the analysis of intergroup inequality to wider arenas including wealth, health, psychological wellbeing, political influence and social inclusion.' Matsumoto's financialization framework and the dual separation principle developed here differ from stratification theory in several ways: first, stratification theory envisions purposive group exclusionary action as one component of the separation principle at work; second, stratification processes are not assumed to work primarily through corporate mechanisms; and third, these processes may involve conflicts among capitalists or among workers. This said, stratification theory works on the premise that in a setting of ascriptively distinguished groups, those with positional power are likely to use these ascriptive differences to their advantage. There can be exceptions to the rule. But generally, ascriptive group membership — race, gender, immigration status — works as a filter creating statistical regularities in the division between privileged owners/insiders and others.

Combining a stratification approach with the dual separation principle suggested herein sheds some new light on both the outcomes of two US financial crises — the 1980s Latin American crisis and the 2008 subprime crises — and on economists' theoretical explanations of both episodes. Both episodes are linked to the financialization dynamic that has taken hold of US capitalism — the first at its initiation, the second at its mature stage. Herein, we can only present the barest details of these crises and of the context in which they unfolded.[14)]

The Latin American debt crisis. This crisis erupted when Mexico (followed by other Latin American countries) defaulted in August 1982 on its loan obligations in the midst of a global recession driven by skyrocketing interest rates. Large US banks had been the heaviest lenders to Latin American borrowers from the mid-1970s onward: as inflation and interest rates rose, they had lost both deposits and blue-chip borrowers to money markets. Eventually, thanks to the intervention of the Federal Reserve and US Treasury, these

banks were bailed out; doing so and stabilizing the US banking system required declaring the 11 largest banks 'too big to fail' in 1984 (Ioannou *et al.* 2019).

In 1989, US officials effectivey ended these banks' distress by arranging for the packaging and sale of Brady Bonds. There was, however, a question they did not ask: could the large banks losing loan customers have found new lending markets within the US? The answer should have been 'yes'. For more than half a century, US cities had been both profoundly segregated by race (Massey and Denton 1994) in inner-city communities whose cumulative levels of deprivation were sometimes described as the US's 'racial formation' (Baron 1985 and Omi and Winant 2014) or as an 'internal colony' (Barrera 1989). The joblessness and lack of entrepreneurial opportunity in these communities resulted in part from bank 'redlining'—banks' refusal to make residential or commercial/industrial loans there. This denial of access to credit and capital had led to a national urban movement; by 1975 and 1977, that movement had succeeded in getting the US Congress to pass legislation requiring that banks 'reinvest' in these communities (Dymski 2006). However, this path was not taken. The physical and social separation characterizing the racial divide, sometimes reinforced by legal separation (powell, Myers, and Gooden 2021; Stern 2021), combined with bank owners' and managers' collective unwillingness to take risks, was the root of the problem (Dymski 1995)[15].

So how did mainstream economists theorize this double dynamic—the refusal to lend, on one side, and unpaid loans, on the other? Regarding the former problem, the path-breaking article by Stiglitz and Weiss (1981) on asymmetric information in credit markets used racial redlining as an example of an optimal bank solution to the problem of whether to lend to two segregated urban groups with systematically different levels of creditworthiness. And regarding the latter problem, Eaton, Gersovitz, and Stiglitz (1986) published a 'pure theory of country risk' which argued that defaults arising from the realization of moral hazard (as had evidently happened in Latin America) could be solved by imposing higher penalties for non-payment. These two articles were based on principal-agent circumstances very different from Fama's efficient-market scenarios; however, they accepted the right of owners to maximize return, with no consideration of lenders' social responsibilities. Further, both articles implicitly relied on the social separation between lenders and their owners, on one hand, and borrowers, on the other, who were either racial minorities within the US (the redlining case) or were Latin Americans residing in countries in the global (and formerly colonized) periphery. The dual separation principle was at work, if invisible on the page.

The Subprime Crisis. The subprime crisis exploded in September 2008, briefly crippling the global, dollar-based financial system until Federal Reserve and US Congress actions bailed out the too-big-to-fail banks at its heart. Four of the six largest banks saved in the US were the successors (via a series of mergers) of the 11 banks that had been declared

too-big-to-fail in 1984 (Ioannou *et al.* 2019). The source of this crisis was, at root, the disproportionate extension of excessively expensive (subprime) loans to racial-minority borrowers, especially in areas that had previously been subject to bank redlining. An irony — if that is the right term — in the expansion of subprime and other predatory loans in the 1990s and 2000s is that by these decades, capitalist firms' demand for the labor power of residents of racial-minority communities in US cities had dropped significantly. Whereas residents of these 'internal colonies' had previously been needed for lower-wage, residual jobs (Baron 1985), now their labor power went untaken. However, predatory lending, including subprime loans, can be profitable even for loan recipients who lack stable income streams.

Subprime loans to acquire homes or to refinance them were at the heart of this wave of financialization. However, the continued growth of these loans, orchestrated by large banks via a super-leveraged shadow-banking system that securitized these loans and sold them off, was only feasible so long as the bubble in early-2000s US housing markets was sustained.[16] When it collapsed, so did subprime mortgage loan portfolios and the balance sheets of financial firms across the world. Whilst two large investment banks did fail (Bear Stearns and Shearson Lehman), all the 1984 too-big-to-fail banks were bailed out. Virtually no relief was provided for those losing their homes to foreclosure. The result was a collapse of wealth levels in minority communities in the US.[17]

Clearly, the physical and social distance between borrower and lender that had been at the root of the failure to lend prior to the creation of subprime lending now played out in the opposite direction. Banks had, in fact, covered their exposure to loss by designing subprime loan contracts and the securitized instruments built from those loans according to design principles worked out in the creation of Brady Bonds during the Latin American crisis some 19 years before the subprime crisis broke out. Those design principles involved foreclosing any possibility of writing down the value of these loans (to make them more affordable as housing prices fell), and prioritizing the interests of owners of these securitized claims in settlement activity.

This time, in contrast to the veritable explosion of principal-agent models proposed during the Latin American crisis, economists had little to say. Articles describing the social and economic harm from redlining and subprime lending practices, and even predicting the systemic collapse of these practices (see Dymski 2005, Dymski 2006, and Galbraith 2009) had appeared only in non-mainstream outlets. The only significant mainstream analysis, by Calomiris and Haber (2014), put forward the misleading and factually-wrong argument that the anti-redlining directives under which banks had been forced to operate since the 1970s had forced banks to make risky loans to risky, low-income borrowers. The presence of the dual separation principle here is obvious: owners' interests are protected, others' interests are ignored. The social and legal distance between owners and those in affected, often ra-

cially-segregated communities, makes it easy for policy-makers dependent on owners' campaign contributions to ignore the hurt their excessive greed may have caused.

7. Conclusion

Matsumoto's 2020 JEI paper, the point of departure for this paper, has two important implications for our understanding of capitalist accumulation. First, financialization can be understood as one manifestation of a division between money-seeking capital and productive capital that Marx identified in *Capital* Volume III. Second, by linking this division to the mid-20th Century problematic of the separation of ownership and control, Matsumoto has demonstrated the importance of viewing financialization and the ownership/control duality in its historical context.

Following the logic of these crucial insights has permitted us to appreciate the centrality of this 'separation' element in both historical and recent capitalist dynamics. Conceptualizing separation of ownership and control in the imperialist era has shown how a dual separation principle was central to the operation of that era's multi-national corporations: the extreme physical, social, and political distance between owners and those who work for them outside of the physical boundaries of these owners' industrial sites in Europe (and elsewhere) insured that only owners' interests 'counted'. Our brief review of that era has also demonstrated both the importance of racial and cultural difference in the global spread of capitalism, and this era's legacy in the many contemporary societies that are characterized by racial/ethnic diversity and separation to this day. While Sen (2014) and her contemporaries have consistently pointed out that the contours of imperialisms of the past continue to shape capitalist dynamics today, a new generation of political economists has made modern-day imperialism — now conceptualized as encompassing both the unsustainable exploitation of nature and humans — an urgent topic of contemporary research and debate.[18]

The rationale for the separation of the interests of owners of assets and claims from the rights and interests of those subject to the use of those assets is so deeply embedded in law and custom in contemporary society as to be unchallenged. It is embedded in the first welfare theorem of mainstream economics — Pareto optimality, stating that one can redistribute income (or wealth) only if organized in such a way that every agent involved is made at least as well off. It is codified in the right of those who own assets to be treated as the preferential claimants on whatever income is due on them, regardless of the social relations that gave rise to them — as seen in the subprime crisis in the US.

The continuing evolution of capitalist economic relations in Western nations has reinforced the spatial and legal separation of money capital from productive capital, within and

across national borders. Wider separations between asset owners and those exploited are now facilitated by globe-spanning, multi-national dominated supply chains. Financialization and rising inequality are firmly linked: the rise of financial motivations in firm behavior — M-M' — is facilitated by the growth of a globalized complex of empowered and protected banks and financial funds. This growing complex, underwritten by asymmetric global economic power and wielded by those in dominant-currency nations, has permitted the extension of capitalist exploitation to the realm of interest and fees unrelated to the performance of wage labour. Thus even human beings whose labour is not used in physical production processes can and have become objects of exploitation via their participation in financial capital circuits. The profound links between these separations and political dynamics explains the alienation and frustration of voters on both sides of these divides. Whether the political turmoil that has rocked Western democracies since the subprime crisis will have any effect on the ceaseless operation of this era's unstable financialized capitalist dynamics remains to be seen.

Notes

1） Matsumoto's approach, in linking financialization's origins in capitalist accumulation with the financial strategies and incentives that have become so dominant in the past 40 years, is in line with Roberts' (2019) suggestion that a debate over whether financialization represents a 'new stage of capitalism' is unneeded.

2） See O'Kelley (2011) on the strong links between Berle and Veblen. Indeed, Veblen had coined the term 'neoclassical economics' as a contrast to the 'institutionalist economics' with which he was affiliated.

3） That paper begins as follows: 'The late Professor Thorstein Veblen, in one of his moments of sardonic prophecy, once called the corporation (meaning the large or quasi-public corporation) "the master instrument of civilization." Probably questionable at the time, and with due reserves as to the definition of "civilization," the statement probably could be substantiated today.' Needless to say, such tongue-in-cheek phraseology soon went out of fashion in leading American economics journals.

4） Berle himself eventually came to the view that large corporations must be accountable to the public interest (Weiner 1964). Nonetheless, the battle over the legacy of the Berle-Means thesis remains heated. For example, Christophers (2013) cites Berle's later single-authored book, *The 20th Century Capitalist Revolution* (1954) as supporting the need for strong antitrust policies to rein in large corporations' monopoly power. On the other hand, Murray Weidenbaum, a Reagan Administration appointee who had founded the Center for the Study of American Business in 1975, co-wrote an introduction to a 1999 re-publication of this volume, claiming that 'Berle and Means bemoan the changed, more passive, role of the shareholder of the modern corporation' (Weidenbaum and Jensen 1999, p. xiii). And Smith, Tennent, and Russell (2022) emphasize Berle and Means' rejection of industry democracy in favor of managerialism.

5） The institutionalist economics tradition established then is today termed 'original institutional economics' (Stanfield 1999)

6） Dymski (2014) calls the Walrasian general equilibrium (WGE) the 'Neoclassical sink' because

the test of the efficiency of any Neoclassical model is whether it has made as few deviations as possible from the conditions required to achieve WGE.

7) Friedman wrote: 'The "natural rate of unemployment," in other words, is the level that would be ground out by the Walrasian system of general equilibrium equations, provided there is imbedded in them the actual structural characteristics of the labor and commodity markets, including market imperfections, stochastic variability in demands and supplies, the cost of gathering information about job vacancies and labor availabilities, the costs of mobility, and so on.' (Friedman 1968, p. 8).

8) Further elaboration can be found in Dymski (2014) and in Ingrao and Israel (1990).

9) Finance theory proper began with the concept of portfolio equilibrium introduced by Markowitz (1952). From that time forward, it co-evolved with financial markets themselves, as documented by Balling and Gnan (2013).

10) Weinstein (2012) also discusses the collision between Berle and Means and efficient-market theory.

11) See Jessop (2004) on the logical construction of Harvey (1982). In attempting to characterize the dual character of imperialist resource extraction Harvey himself has suggested replacing 'primitive accumulation' with the term 'accumulation by dispossession' (Harvey 2004).

12) A recent paper estimates that in Britain, prior to the abolition of slavery in 1833, 'slavery wealth .. increases local income in places with the greatest involvement in slavery by more than 40 percent.' (Heblich, Redding, and Voth 2023, p. 1)

13) Of course imperial surplus appropriation occurred by other means than just the activity of state-backed corporations; Sen (1992), for example, demonstrates the role of currency manipulation in Britain's extraction of surplus from India.

14) For further elaboration, see Dymski (2019).

15) It might also be noted that the presence of African-American and Latino residents in the US was, in itself, a legacy of previous episodes of US participation in imperialist expansion.

16) Not all US housing markets experienced bubbles; subprime lending was focused in those markets that did, such as California and Nevada. However, subprime loans were also heavily used in areas without housing bubbles but with declining income levels, such as the 'brown belt' in the deindustrializing US Midwest.

17) For detailed analysis of the instruments and risks involved, see Dymski (2013).

18) See, for example, Althouse, Louison, and Smichowski (2023); Hickel (2022); and Magalhães Teixeira (2021).

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