

M. Fennema

# **International Networks of Banks and Industry**

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by

M. Fennema



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The idea of this study originated in 1971 when Robert J. Mokken and Frans N. Stokman released a first internal draft of their pioneering study on interlocking directorates in the Netherlands, which was finally published in 1975 under the title Graven naar Macht (Traces of Power).

A group of graduate students decided at that time to start with a similar study at the international level. It soon appeared, of course, that repeating a national study of interlocking directorates at the international level created many problems which are not included in the term 'repetition'. At the time I decided to carry the project to its end I was not aware of all of them, but fortunately I had the active and enthusiastic support of Frans Stokman, and especially Robert Mokken. Mokken worked through the different versions of the book with me, discussing many of the theoretical issues and shaping my thinking on them.

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M.F.

Baard, August 1981

<u>Contents</u>	page
INTERNATIONAL NETWORKS OF BANKS AND INDUSTRY	
0 INTRODUCTION .....	1
I THEMES AND PROBLEMS .....	11
1.0 Introduction .....	11
1.1 The theory of finance capital .....	11
1.2 Interlocking directorates and economic power ...	20
1.3 Financial groups .....	24
1.4 Corporate elite and capitalist class .....	31
1.5 Summary .....	36
II BETWEEN MARKET AND HIERARCHY .....	39
2.0 Introduction .....	39
2.1 The organization of firms and markets: a neo-classical explanation .....	39
2.2 Some definitions of firms .....	46
2.3 Power and control .....	49
2.4 Ownership and control .....	53
2.5 Competition, cooperation and control .....	58
2.5.1 Concentration and centralization .....	58
2.5.2 The level-of-analysis problem .....	61
2.6 Summary .....	63
III IMPERIALISM IN THE SEVENTIES: two models .....	65
3.0 Introduction .....	65
3.1 Theories of imperialism .....	67
3.1.1 Their origins .....	67
3.1.2 After World War II .....	72
3.2 Two models .....	76
3.3 Research design .....	78
3.4 Summary .....	81

	page
IV	THE INTERNATIONAL CORPORATE ELITE..... 83
4.0	Introduction ..... 83
4.1	The organization of the supervising and executive function in different countries ..... 83
4.2	Selection of the international corporate elite . 88
4.3	Network characteristics of the international corporate elite ..... 89
4.3.0	Introduction ..... 89
4.3.1	The finance capitalists ..... 89
4.3.2	The big linkers ..... 92
4.4	Types of interlocking directorates ..... 96
4.4.0	Introduction ..... 96
4.4.1	Multiple interlocks ..... 96
4.5	Summary ..... 101
V	NATIONAL VERSUS INTERNATIONAL INTEGRATION ..... 103
5.0	Introduction to some graph-theoretical concepts ..... 103
5.1	General patterns in the international network .. 107
5.1.1	Compactness of the international network ..... 107
5.1.2	International integration of national networks . 110
5.2	The international network of Western firms ..... 113
5.2.0	Introduction ..... 113
5.2.1	Local centrality ..... 113
5.2.2	Global centrality ..... 115
5.2.3	Overall centrality ..... 116
5.3	Industrial concentration versus economic centralization ..... 118
5.4	Summary ..... 121
VI	DOMINATION AND CONTROL ..... 123
6.0	Introduction ..... 123
6.1	Clusters of heavily interlocked firms ..... 124
6.1.1	The network at multiplicity-level two ..... 124
6.1.2	The network at multiplicity-level three ..... 126
6.1.3	Conclusions ..... 130
6.2	The network of officer-interlocks ..... 132
6.2.0	Introduction ..... 132
6.2.1	Domination and control ..... 134
6.2.1.1	The network of all officer-interlocks ..... 134
6.2.1.2	The network of control ..... 136
6.2.2	Financial groups ..... 141
6.2.3	Constellations of interests ..... 144
6.3	Summary ..... 147

	page
VII	COMPETITION AND COOPERATION: the role of banks . 149
7.0	Introduction ..... 149
7.1	Interlocks among banks ..... 151
7.2	Overlapping spheres of interests ..... 159
7.3	International bank consortia ..... 164
7.4	The American banks ..... 169
7.5	Summary ..... 172
VIII	THE IMPACT OF WORLD CRISIS: changes in the network ..... 175
8.0	Introduction ..... 175
8.1	A new economic world order? ..... 176
8.2	Selection of the 1976 sample ..... 181
8.3	The international corporate elite ..... 182
8.3.1	Finance capitalists ..... 182
8.3.2	Big linkers ..... 183
8.4	International versus national integration ..... 185
8.5	Centrality in the nested networks (1976) ..... 189
8.6	Domination and control in the 1976 network ..... 193
8.7	Summary ..... 197
IX	SUMMARY AND CONCLUSIONS ..... 199
9.1	Introduction ..... 199
9.2	The structure of the international corporate elite ..... 200
9.3	Conflict or cooperation ..... 203
9.4	The meaning of interlocking directorates ..... 206
9.5	The international corporate elite ..... 207
	REFERENCES ..... 211
	AUTHORS INDEX ..... 233
	SUBJECT INDEX ..... 237
	FIRMS INDEX ..... 241
	APPENDIX A ..... 247

List of Tables

Table	page
1.1	Interlocking directorates between banks and industry in Germany, 1902, 1910 and 1927 ..... 13
1.2	Interest groups according to Sweezy, Perlo, Menshikov and Dooley ..... 26
3.1	Number of firms per country in the sample 1970 . 80
4.1	Distribution of international interlocks ..... 91
4.2	Distribution of directorships among the international corporate elite ..... 93
4.3	Distribution of positions over the populations of persons in the interlock networks ..... 94
4.4	Lines in the network according to their multiplicity ..... 97
4.5	Interlocking directorates according to the position of the multiple directors ..... 98
5.1	Adjacency matrix of a completely connected graph ..... 103
5.2	Distribution of isolated firms according to nationality ..... 109
5.3	Densities between the national networks and bipartite densities between national networks and the rest of the Western network (1970) ..... 111
5.4	Top ten percent in component <u>Morgan 127</u> according to the local centrality ..... 114
5.5	Top ten percent in component <u>Morgan 127</u> according to the global centrality ..... 116
5.6	Global and local centrality in component <u>Morgan 127</u> ..... 117
5.7	Relation between industrial concentration and internationalization of industry and banking ... 119
6.1	Top ten percent in component <u>Dresdner Bank 58</u> according to local centrality ..... 125
6.2	Top ten percent in component <u>Dresdner Bank 58</u> according to global centrality ..... 125
6.3	Top ten percent in local centrality of the component <u>Morgan 79</u> (officers-interlocks) ..... 135
6.4	Top ten percent in global centrality of the component <u>Morgan 79</u> (officers-interlocks) ..... 135
6.5	Percentage of the outstanding shares of the company's stock held by the banks and the corresponding interlocking directorates ..... 140



6.6	Group affiliation according to Menshikov (1969).	142
7.1	Bank concentration in several European countries .....	154
7.2	American banks: shares of foreign earnings in total earnings (1970-1976) .....	158
7.3	Scales of three or more banks based on meeting points of industrial firms (in 1970) .....	162
7.4	Scales of three or more banks based on international bank consortia and joint-ventures (1974) .....	166
7.5	American banks: interlocking directorates and international consortia .....	171
8.1	Gross national product and outflow of direct investment for developed market economies 1971-1976 .....	177
8.2	Changes in the share of total foreign investment of the advanced capitalist countries, 1971-1976	
8.3	Euro-currency market size .....	177
8.4	World's largest 50 banks by country of origin, size of total assets and number of foreign affiliates, end 1971 and 1976 .....	179
8.5	Distribution of interlocking directorates (1970-1976) .....	180
8.6	National and international densities .....	184
8.7	Multiplicity of the lines in 1970 and 1976 .....	186
8.8	Top ten percent in component <u>Chase 134</u> according to local centrality (1976) .....	189
8.8	Top ten percent in component <u>Chase 134</u> according to global centrality (1976) .....	191
8.9	Interlocking directorates according to the position of the interlocking director in both firms (1976) .....	195

List of Figures

Figure		page
1.1	Increase of deposits in the three largest British, French and German Banks between 1885 and 1918 .....	16
4.1	Person-cliques .....	92
5.1	Point-centrality .....	106
6.1	Component <u>Dresdner Bank</u> <u>17</u> .....	127
6.2	Component <u>Morgan</u> <u>10</u> .....	128
6.3	Component <u>Brown Boveri</u> <u>7</u> .....	129
6.4	Nested components in the Western network of interlocking directorates at multiplicity-level one, two and more, and three and more .....	131
6.5	Component <u>Chrysler</u> <u>13</u> .....	137
6.6	The grouping around Chrysler and Morgan .....	138
6.7	Strong component <u>Alusuisse</u> <u>4</u> .....	145
6.8	Strong component <u>Morgan</u> <u>5</u> .....	145
6.9	Strong component <u>Volkswagen</u> <u>12</u> .....	146
7.1a	Interlocking directorates between banks (1970) .	152
7.1b	Interlocking directorates between banks (1976) .	153
8.1	Nested components in the international network in 1970 and 1976 .....	194

## INTRODUCTION

Research into interlocking directorates and other organizational ties between large corporations dates back to the beginning of the century. In Germany and the United States interlocking directorates became an important means of coordination and control of large corporations and banks at the end of the nineteenth century and were, as a result, particularly subject to scientific investigation and public debate. Trusts were regarded with mistrust, especially in the United States, where John Moody's study from 1904 was significantly entitled The Truth about Trusts. In Germany much attention was paid to the role of the large Berlin banks in the economic development. The first large study in Germany carried the prolix title The Relationship between the Large German Banks and Industry with Special Reference to the Iron Industry (Jeidels, 1905).

The studies in the United States were predominantly induced and even carried out by committees of the Federal Congress. In Europe, on the other hand, the labor movement soon became interested in the patterns of interlocking directorates. In the Netherlands, for example, Wibaut, a socialist leader, carried out a study on interlocking directorates, copying the research design of Jeidels. Accordingly, two different schools can be distinguished from the start: the Marxian school which developed the concept of finance capital to explain the existing interlocking directorates, and the institutional economists who used the concept of economic power to explain the same phenomenon.

Three separate waves of research on interlocking directorates can be distinguished: between 1905 and 1915 five large investigations took place; between 1930 and 1945 again five large investigations were conducted; and between 1965 and 1980 more than thirty studies appeared. Between 1915 and 1930 and between 1945 and 1965 no research was done, except in rare cases outside the academic institutions. [1]

A similar wave-like movement is found in the number of antitrust cases in the United States. Between 1905 and 1920 there were actions against American Tobacco, Standard Oil, Du Pont, Corn Products, American Can, United States Steel, American Telephone and Telegraph, the 'meatpackers', American Sugar, United Shoe Machinery and International Harvester. In

[1] The figures are based on an extensive survey by Huibert Schijf and the author (Fennema and Schijf, 1979).

the second period, between 1937 and 1952, there were actions against Alcoa, National Broadcasting Company, Pullman, Paramount Pictures, again against American Can, Du Pont (twice), United Shoe Machinery and American Tobacco; and against United Fruit, Western Electric and IBM. Wilcox and Shepherd (1975), from whom we have taken these figures, note that in both periods the last cases were always won by the companies. Finally, there is increasing antitrust activity after 1969 with actions against Cereals, Xerox, and again IBM and American Telephone and Telegraph (Wilcox and Shepherd, 1975: 203 ff.).

How should one explain these different waves, in which scientific research seems to anticipate legal actions against monopolistic firms in the United States? In my opinion these waves coincide with political and economic crises in the capitalist system. The first period is one of a series of economic crises which began in 1873 and led up to various depressions in the nineties and the famous 'rich man's panic' in 1907. It was a period of trust formation, both in the United States and in Germany. Although the crises in the United States and Europe did not coincide (in Europe the depressions in the nineties were shorter, while there was an acute crisis in 1900), there was a strong similarity in economic development. A rapid concentration in industry and banking coincided with the development of a network of interlocking directorates, especially between banks and industry. In the United States this stimulated popular antitrust movements. The Sherman Act of 1890, aimed at the prevention of the 'abuse of economic power', enabled the Federal Government to act against Standard Oil. In this antitrust movement, interlocking directorates also came under attack and the Interstate Commerce Act of 1887 made it unlawful for any one person to hold a position as an officer or director of more than one carrier, unless authorized by the Interstate Commerce Commission after finding that neither public nor private interests would be adversely affected (FTC report, 1951: 9). In 1914 the Clayton Act was enacted to supplement the Sherman Act of 1890. In speaking for the proposed legislation before Congress, Senator Helvering announced that "the practice of interlocking directorates offends laws, human and divine" (FTC report, 1951: 3). The Clayton Act did actually prohibit three types of interlocking directorates: those between competing banks, those between competing industrials and those between railroads and their potential suppliers.

In Europe at the turn of the century, there is no such popular antitrust movement. Here we find a marxist-inspired social-democratic movement, which placed the struggle against

monopolies and trust in the perspective of a socialist revolution. Rather than viewing monopolies as excesses of a capitalist system which can be combated by legal action, the social-democratic movement regarded them as a natural outcome of capitalist development. Besides, socialist writers saw the trustification not as a nefarious development but as a useful planning system, which 'only' had to be socialized to function perfectly (see Wibaut, 1903: 230, 231). The development of monopolies and trusts was regarded as an essential feature of capitalist development, heralding the termination of the capitalist system. Thus, although there was certainly great interest among marxist scholars for the study of interlocking directorates, the socialist studies were not aimed at legal antitrust measures. [2]

In certain business circles, however, there was uneasiness about the concentration in banking. In England, the Treasury Committee on Bank Amalgamations proposed "that legislation be passed requiring that the prior approval of the Government must be obtained before any amalgamations are announced or carried into effect. And, in order that such legislation may not merely have the effect of producing hidden amalgamations instead, we recommend that all proposals for interlocking directorates, or for agreements which in effect would alter the status of a bank as regards its separate entity and control, or for purchase by one bank of the shares of another bank, be also submitted for the prior approval of the Government before they are carried out" (cited in Westerman, 1920: 424). However, these proposals have not led to legislation comparable to the antitrust laws in the United States, either in England or in other European countries.

[2] Such measures were regarded as useless and harmful only to trusts whose control was already in jeopardy. As Hilferding argues, only a control relation in decay is characterized by overtly exercised power. A stable control relation does not show the exercise of power. But the most important argument of Hilferding is that the breaking up of trust is an attempt to turn the clock backwards and therefore a reactionary economic policy (Hilferding, 1914: 149, 150). The latter argument is not of interest to us because it is outside the theme of the book. The former, however, is very relevant indeed. Because if it is true that control is only visible when in jeopardy, the research of control through interlocking directorates might show only those cases.

In antitrust perspective, interlocking directorates are particularly harmful in the financial sector of the economy. Here, it is assumed, a financial aristocracy enriches itself unduly, at the expense of the small shareholder. In 1905 Seno Pratt, an editor of the Wall Street Journal, identified "seventy-six men who make up the 'Business Senate' of the United States - what they control - their cliques and parties" (cited in Bunting and Barbour, 1971: 318). And, according to a more recent study of Bunting, "by 1910, the coterie of dominating corporations and individuals came to be collectively known as the "Money Trust" (...). Noyes dates concern over the Money Trust per se with the rapid ascendancy of holding companies "organized and floated" beginning 1899 (...). On the other hand, the assault on the Money Trust subsided with the advent of World War I" (Bunting, 1976: 8). In a sense it was a movement against the excesses of family capitalism symbolized by the families of such great 'tycoons' as Morgan, Rockefeller, and Vandebilt.

In a marxist perspective, one can also say that the movement was directed against the domination of money capital over productive capital. In many instances the bankers were the target of the popular movement. This movement subsided during and after World War I, but resurfaced in the Great Depression.

Roosevelt's New Deal also included stricter antitrust regulations as part of a program for more state intervention in business. The National Resources Committee started a series of studies in 1936, that were used as evidence in legal actions against several giant corporations. Some of the investigators, like Victor Perlo and Paul Sweezy, had a marxist inclination, but the popular -or populist- antitrust tradition remained dominant, as exemplified by the work of Lundberg (America's 60 Families, 1937).

An offshoot of the New Deal studies was the study on interlocking directorates published in 1951 by the Federal Trade Commission. By then, however, the Cold War had come to a head and the results of the study were never used for antitrust activities.

In Europe there were in the thirties also investigations on the relations between large corporations, again with special reference to the position of the banks. Prof. Verrijn Stuart, director of the Netherlands Economic Institute who was to become president of the Bank of the Netherlands at the end of the thirties, promoted a number of studies on the relationship between banks and industry in France, Switzerland, Belgium and Sweden. Surprisingly, no such study was conducted about the relationship between banks and

industry in the Netherlands. In Germany, there was an extensive study done by Hagemann (1931). The end of the Second World War was again a period of active research in Germany, this time induced by the deconcentration measures taken by the Allies, especially against the chemical and steel concerns. In Japan the Americans proposed to break up the old Zaitbatsu (see Hadley, 1970).

The Cold War brought these investigations and the policy measures based upon them to an abrupt end. Capitalism was to develop smoothly and rapidly for twenty years to come. Marxism was eliminated from the universities and so was the non-marxist school of institutional economists. And with these two theoretical schools the research on interlocking directorates disappeared. Only within the Communist Parties was such research carried on, with small means and, as a consequence, defective methodology (e.g. Perlo, 1957; Aaronovitch, 1961; Baruch, 1962).

At the end of the sixties research on interlocking directorates reappeared in the academic community. Grand Old Lloyd Warner - of the Yankee City studies - conducted with Unwalla an investigation which was pioneering in many respects. But it was not until the seventies that a stream of publications appeared, many of them making use of graph theory to analyze networks of interlocking directorates in a more sophisticated way than before (see for a summary Fennema and Schijf, 1979).

All these studies were restricted to the national level. While this is not surprising of the American studies, which fit into the antitrust tradition and are aimed at legislative actions of the Federal Government, it is surprising of those studies which appeal to the marxist tradition. Indeed, from Hilferding onward, marxist theory has proclaimed a direct relationship between industrial concentration, interlocking directorates between banks and industry, and internationalization of capital. Nevertheless, no systematic study on director interlocks between banks and industry at the international level has ever been undertaken. Such a study can shed light on the international organization of capital, which is the central element in those theories of imperialism for which Hilferding laid the foundation. The differences between the theories of Kautsky, Bucharin and Lenin can partly be traced back to different conceptions of the international organization of capital. Analysis of the international network of interlocking directorates can, therefore, contribute to the theory of imperialism by creating evidence for the theoretical positions in the still ongoing debate.

The study presented here is new in three respects. First, it is a quantitative and systematic investigation of interlocking directorates based on application of the graph-theoretical concepts and an organized set of computer programs for the analysis of graphs, recently developed in the Netherlands (GRADAP, 1980). Second, it is the first monograph on the international network of interlocking directorates. The complete absence of an international perspective has been noted, for example, by Andreff (1976: 231) who stressed its importance for the understanding of global capitalism. Third, the results of this analysis will be used to compare a number of economic theories of imperialism. I will proceed by deducing from several theories the implications for the international structure of corporate interlocks and comparing these "models" with the actual networks of 1970 and 1976.

#### Theoretical approaches in the research of interlocking directorates.

In the analysis of interlocking directorates several theoretical approaches can be distinguished. The traditional sociological approach considers interlocking directorates primarily as an aspect of the economic elite cooptation. Thus, Warner and Unwalla (1967: 121) ask questions like: "(...) what kind of men are the directors of some of the largest corporations in America? How many are managers and how many are outside 'citizen directors', i.e. non-managers? Where do these men come from - large, small or very small companies? How much and in what way are the boards 'interlocked' and how much are these boards connected with small and large American firms?"

Related to the sociological approach is the organizational approach, focusing on the impact of interlocks on organizational effectiveness of corporations. A fine example of such a study is that of Pennings (1980) who has paid special attention to the impact of interlocking directorates with financials on the performance of industrials in the United States. The board of directors is considered as an instrument for dealing with the organization's environment (Pfeffer, 1972; Allen, 1974). The sociological approach is personalistic, while the organizational approach is institutional, but both are actor-oriented; characteristic of both is the frequent use of measures of association. Several variables are isolated and correlated. In more sophisticated studies a causal analysis is introduced; e.g. the question is raised whether interlocking directorates is a dependent or an independent variable vis-a-vis performance of corporations.



Thus both Warner and Unwalla and Pennings use aggregate data on interlocking directorates and associate these data - using conventional statistical techniques - with aggregate data on size, composition of the board, profits, etc. Such an approach, however, says little about the structure of the system of interlocking directorates. The focus on the structure is to be found in the network approach of interlocking directorates. In such an approach, data on interlocking directorates are not isolated and aggregated, but studied in terms of either the organization of organizations if the approach is institutional (Zijlstra, 1979b), or a social network if the approach is personalistic (Koenig and Gogel, 1981).

The network approach, however, lacks a methodological tradition outside the field of sociometric studies. Only recently has attention been paid to the application of graph theory to the study of corporate networks. When R.J. Mokken and F.N. Stokman introduced this type of analysis in the Netherlands, their first (internal) publication (Invloedsstructuren, 1971) created a public debate in which the big linkers of the Dutch network, especially the bankers, participated. In retrospect, it was not surprising that this debate broke out, because it was indeed the first publication of its kind. In the United States, with its long tradition of research on interlocking directorates, the application of graph-theory to this field of research was initiated by Sonquist and Koenig (1975) whose first publication appeared in the Insurgent Sociologist in the same year that the final publication of the Dutch study appeared in Amsterdam (Helmers et.al., 1975). Since then, other studies have been initiated. In the Netherlands, Mokken and Stokman continued their research and stimulated others. Zijlstra (1979a) has investigated the policy-field of nuclear energy in the Netherlands. The investigation presented here was initiated by the author in close contact with R.J. Mokken and F.N. Stokman. The train of research is still moving ahead. [3] In

- [3] A large research project on intercorporate structures in different countries is being carried out by an ECPR research group headed by Frans N. Stokman and Rolf Ziegler. In this project the structure of the network of interlocking directorates between the 250 largest corporations of Austria, Belgium, Finland, France, Germany, Italy, the Netherlands and the United States will be compared. There are also historical studies in preparation that combine the network approach with more traditional historical analysis (Schijf, 1980).