

CAPITAL AS POWER

Political Economy in the New Millennium

University of Wollongong

Week 5 2012

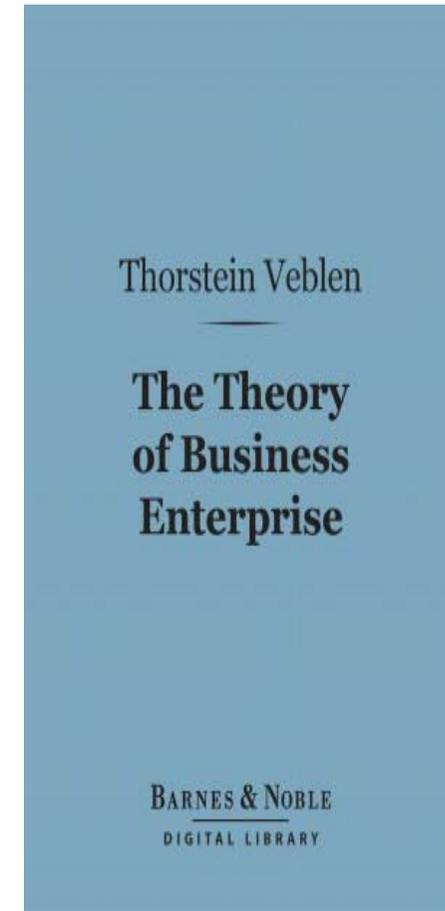
REVIEW

- Origins of Political Economy
 - Transformation to greater market dependence and new social property relations.
 - Production/manufacture/improvement not long-distance merchant trade shifts the focus on the origins of wealth (Smith)
 - Question falls on who is more productive or who contributes 'more' to the wealth of the nation but also on the key question of distribution!
- Marx subverts political economy by arguing that profit is the result of unpaid, and therefore exploited labour.
- Neoclassical economics flees into mathematical formalism and Clark's production function tries to justify the distribution of income.
 - However, the Cambridge Controversy (1960s) showed that the concept of capital used by the neoclassicals was dead wrong!
 - This, of course, doesn't stop the tradition from just ignoring the problem!
 - Harvard Economics 10 student walk-out!
- Meanwhile, outside of the ivory tower: there's two wars and a great depression. Enter Keynes' *General Theory*.



OUTLINE

- Thorstein Veblen (1857-1929)
 - Industry versus Business
 - Profit, Ownership & Sabotage
 - Veblen's 'Capital'
- Nitzan and Bichler
 - Capital as Power
 - Conceptualizing Power
- Capitalization:
 - Capital as commodified differential power measured in pecuniary (money) units.
- Examples
 - The State/National Debt
 - You
 - Advertising Industry
 - Arms Industry + Oil
 - Facebook



VEBLEN: INDUSTRY VERSUS BUSINESS

○ Industry:

- conceptualized as a resonant social process concerned with creativity, cooperation, functionality, effectiveness, livelihood and human well-being.
- It is the potential and capacity of humanity in any given era but is always a social product and only a social product.
- It is the common heritage of all humanity and Veblen terms this heritage/knowledge, immaterial equipment or immaterial assets.

○ Business

- Aims, methods and means are very different than industry and concerned solely with the accumulation of money.
- Rooted not in productivity or creativity but in the sole act of owning / appropriating a part of the community's assets.
- Industry can exist without business but business cannot exist without industry.



PROFIT, OWNERSHIP AND SABOTAGE

- Sounds counter-intuitive but Veblen argues that profit is the result of sabotage and sabotage can be accomplished because of ownership!
- Sabotage does not just mean destruction, but limiting or restricting human capacity or potential.
 - We have to think, not what a firm does, but what it doesn't do!
 - Product sustainability/durability is in direct contradiction with profits!
- Examples abound of strategic sabotage.
 - If you haven't seen it – Google the Story of Stuff and watch the video.



VEBLEN'S CAPITAL



- Veblen is writing during the time of the modern corporation.
- He understands capital not as machines and material goods as do his neoclassical peers but how businessmen/investors understand it.
- Capital is a fund of money invested for profit and capitalization of *expected future earnings* is the great business game being played.
 - Accumulation not of machines and labour values, but of money and only money!
 - Capital is immaterial – it is symbolic – but symbolic of what?



NITZAN AND BICHLER: CAPITAL AS POWER

- Veblen makes an advance and Nitzan and Bichler push this further.
- **Capital is power and only power:** it is the power to shape and reshape the terrain of social reproduction, to control and shape human actions for the sake of profit.
- Accumulating more money relative to others is evidence of business success.



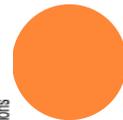
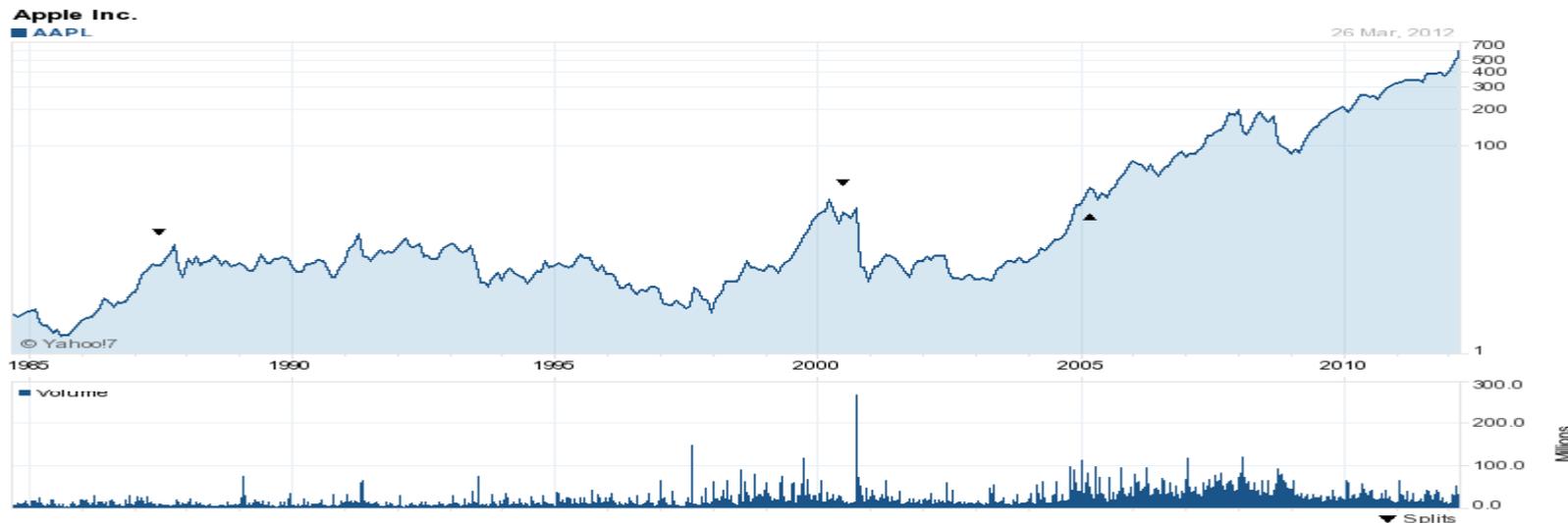
CONCEPTUALIZING POWER

- Different forms and levels of power
 - For power to exist it must be relative or differential
 - ‘Power is nothing but its effects’ – H. Marcuse
 - Capital operates at the highest level of power
 - Most of us don’t have the power to affect reality writ large
- What is this power at the highest level?
 - The power to shape and reshape the terrain of social reproduction – or how we consume, produce and reproduce our lives and lifestyles, how we conceptualize them and how we defend them both materially and discursively or ideologically.
- We are thus concerned with ‘Dominant Capital’
 - That is the largest firms by market capitalization.



SIMPLE EXAMPLE OF DIFFERENTIAL ACCUMULATION

- \$10,000,000 invested in Apple on 1/12/2002
 - \$7.03 per share means you can buy 1,422,475 shares
 - Fast forward to today: \$610 per share X shares you own = \$867,709,815
 - Percent Return: 8755% return...not to shabby!
- Aussie Gov Bonds at 5.75% (compound interest)
 - \$17,490,561 over a ten year period.
 - Percent return: 75% return



DOMINANT CAPITAL

- Many ways to rank firms (by revenue, by # of employees) but what matters the most to investors is market capitalization:
 - The value of 1 share times all outstanding shares.
 - Accumulation is rising capitalization.
- Key indicator: *Financial Times* Global 500
 - List of the 500 largest corporations in the world by market capitalization.
- Why market capitalization:
 - it can be argued that a ranking based on market capitalization contains a forward-looking element in the sense that share prices include a view on investors' expectations.



HISTORY OF CAPITALIZATION

- **Total estimated outstanding securities in 1910: \$US 58 billion, owned by 20 million people or 1% of the population.**
- **Current Global Public Debt: \$US 40.5 trillion**
 - Two countries make up roughly half: USA and Japan
- **Amount outstanding on the Global Bond Market: \$US 91 tr.**
- **Global Market Capitalization: \$US 50.2 trillion**
 - World Federation of Exchanges as of Sept. 2010.
 - Association of 52 publicly regulated stock, futures and options exchanges.



CAPITALIZATION: CAPITAL AS POWER

- Capitalization is the all encompassing power process of capitalist societies...virtually nothing escapes its gaze.
- At its simplest: Capitalization is the discounting of expected future earnings into a present asset value.
 - Capitalists are always looking into the future and greater earnings relative to others will lead to rising capitalization.
 - Anything that generates an income stream can potentially be capitalized.



CAPITALIZATION: CAPITAL AS POWER

- **But...to generate earnings requires that you have power to shape and reshape the landscape of social reproduction.**
 - **Rising capitalization relative to others (benchmark) is indicative of greater power and success (Apple versus Nokia)**
- **So when investors capitalize an asset they are in essence capitalizing differential power.**
- **Since stocks and bonds are vendible assets, this makes capital itself commodified differential power.**
- **Capital can be accumulated because it's not a material thing: it's power measured in money.**
 - **So we need not a labour theory of value, or a utility theory of value but a power theory of value! We have a qualitative and quantitative story to tell!**



QUOTE FROM CAPITAL VOL. 1 (MARX)

- The system of public credit, *i.e.*, of national debts, whose origin we discover in Genoa and Venice as early as the Middle Ages, took possession of Europe generally during the manufacturing period. The colonial system with its maritime trade and commercial wars served as a forcing-house for it. Thus it first took root in Holland. National debts, *i.e.*, the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalistic era. The only part of the so-called national wealth that actually enters into the collective possessions of modern peoples is their national debt.
- Hence, as a necessary consequence, the modern doctrine that a nation becomes the richer the more deeply it is in debt. Public credit becomes the *credo* of capital. And with the rise of national debt-making, want of faith in the national debt takes the place of the blasphemy against the Holy Ghost, which may not be forgiven.



THE STATE / NATIONAL DEBT

- Australia Public Debt: \$254,020,000,000 billion
 - \$11,486 per person (pop= 22,122,139)
 - % of GDP: 22.3%
- What do investors capitalize when they purchase government bonds?
 - Why would I hand over my hard earned money to the government in return for a piece of paper/promise to pay?
- Easy answer: You expect a return...but from the perspective of capital as power:
 - Private ownership claim on the state's right to tax its citizens.
 - Power of the government to set and enforce a tax code with a system of punishments for infringements.



You



- Your capacity to earn a wage is capitalized by banks when you borrow money.
 - What you can borrow (if you have no other assets) depends on your yearly income minus liabilities like rent.
- For example, revolving credit card debt:
 - \$49.6 billion and climbing or \$2227 and climbing for every Australian citizen
 - <http://www.australiandebtclock.com.au/>
- For example, housing debt:
 - \$1.2 trillion outstanding and climbing or \$54,545 for every Aussie citizen



MAD MEN: ADVERTISING

- ❑ **Omnicom Inc.**
 - **US \$13.89 billion in capitalization (US\$ 50.93 per share).**

- ❑ **What are investors capitalizing when they purchase shares in an advertising firm?**

- ❑ **The firm's power or ability to shape and reshape peoples' perceptions, insecurities, subjectivity and identity related to a product or service.**
 - ❑ ABSOLUT, adidas, Apple, Beiersdorf, GSK, Henkel, Infiniti, Mars, McDonald's, Michelin, Nissan, Pernod Ricard, Samsonite, Standard Chartered Bank, Singapore Airlines, Sony PlayStation and Visa.

- ❑ **Global advertising spending: US\$ 500 billion in 2011.**



ARMS INDUSTRY

○ Boeing Company

- Market Cap: US\$ 55.7 billion
- Share price: US\$ 74.81

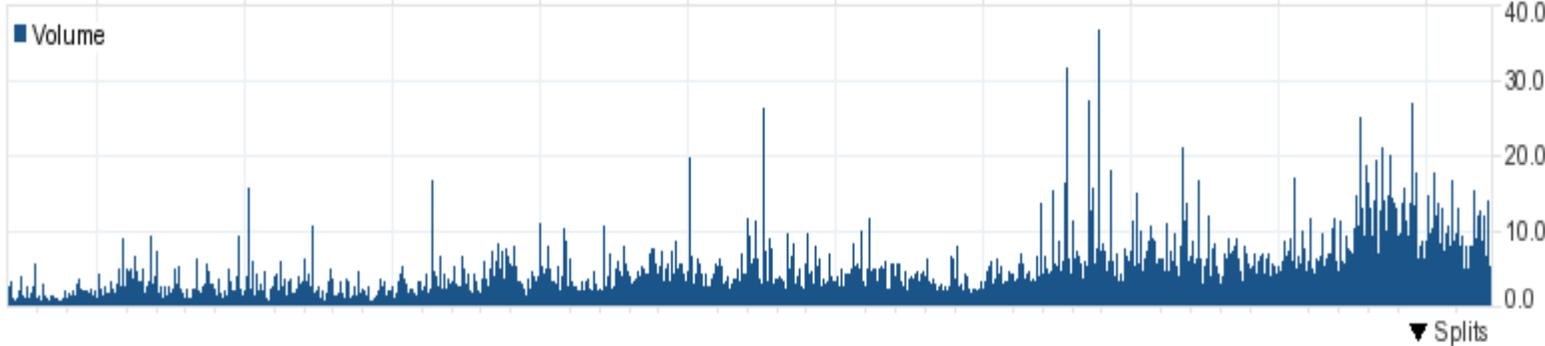
- **What are investors capitalizing when they purchase shares in an arms company?**
- **Easy: they are capitalizing the firm's ability to garner greater earnings relative to its rivals.**
- **From the point of view of capital as power: it's the firm's ability to shape and reshape the landscape of in/security, peace and war-fighting capability.**



Boeing Company (The) Common Sto

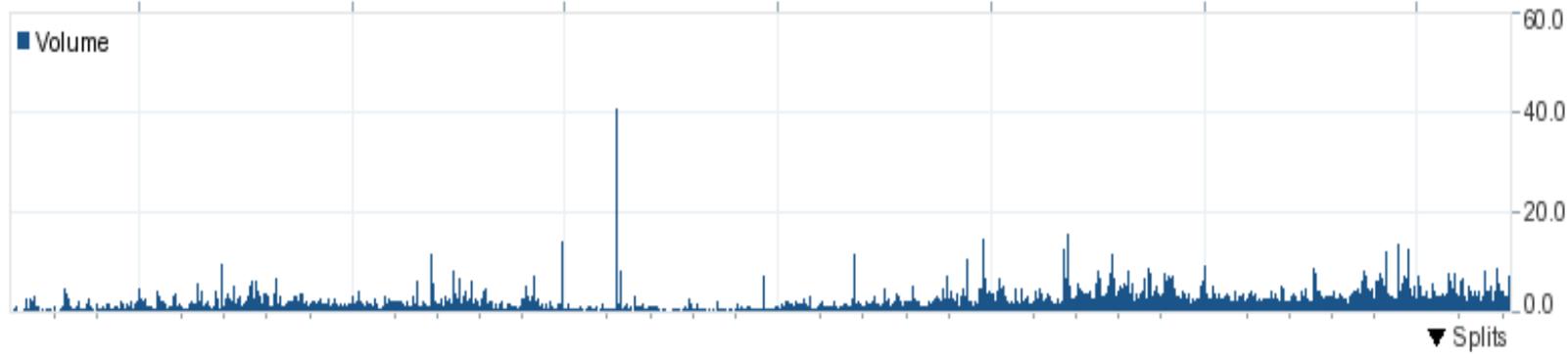
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Lockheed Martin Corporation Com

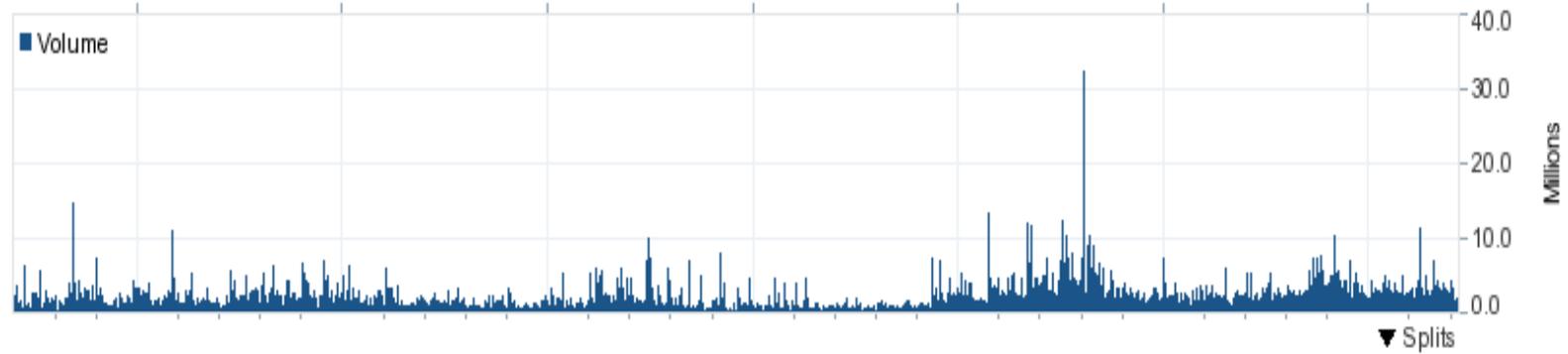
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General Dynamics Corporation Co

GD

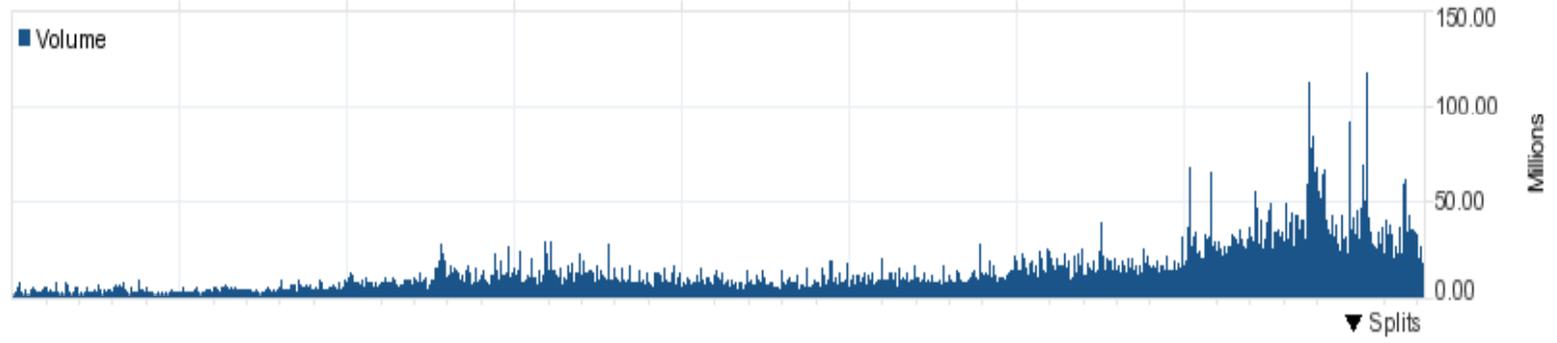
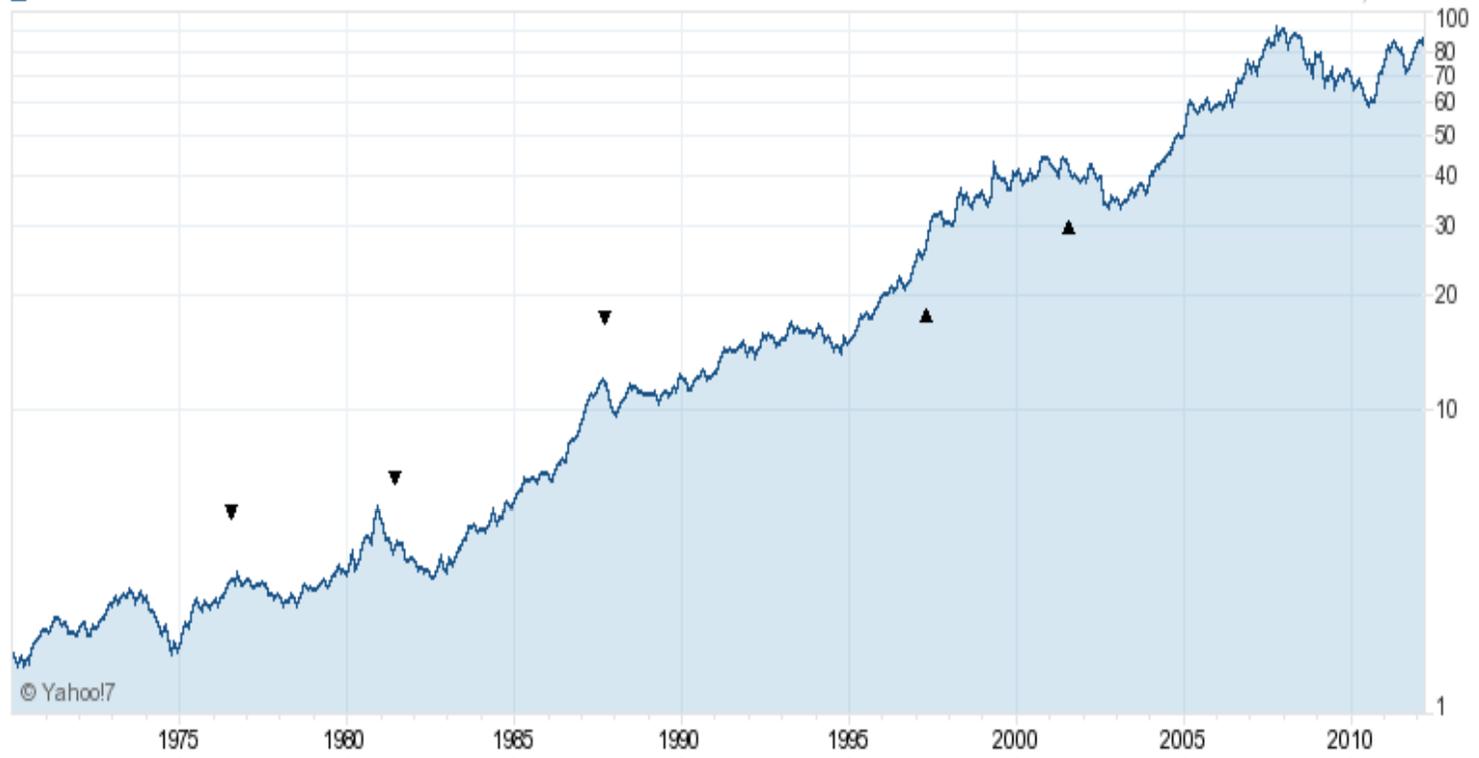
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Exxon Mobil Corporation Common

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CAPITALIZING FACEBOOK

WHAT'S THE STORY HERE?



Click on the chart to view the underlying data.



GENERAL CONCLUSION FOR THIS WEEK

- When we say we live in capitalist societies we mean that we live in a social order where differential forms of power – organized into giant corporations – are commodified and capitalized by absentee owners/investors for profit.
- The goal for firms is to exert more power over the social process writ large to garner evermore earnings in order to boost market capitalization.
- Capitalization is the central mathematical ceremony of our society – governed by Hindu-Arabic numerals...1,2,3,4, etc...

