Second Lecture
Finance: The Architecture of Capitalist Power

What is finance and why is it "political"?

Investors and capitalists – are they the same?
- **Assets and income**
- **Finance and capital**
- **Income and political economy**

Capital
- **Shell and contents**
- **Three views**
- **Distribution and production: top-down or bottom-up?**

The Neoclassical view
- **Bottom-up, power out**
- **Production functions: units; blueprint; productive contributions; competition and distribution**
- **Capitalism: automatic, efficient, just**
- **A very warm reception – but problems arise…**
- **Large firms are efficient but what happens to competition?**
- **Is the logic of production/distribution circular?**
- **Cambridge Controversy: faith, parables and the nail in the coffin?**

Marx
- **Power is key, but still bottom-up**
- **From quality to quantity: the origin vs. the functioning of capitalism**
- **The labour theory of value**
- **Prices are in the value**
- **But problems arise…**
- **Is there a "Transformation Problem"?**
- **Do values exist?**
- **Can value exist in the presence of multifaceted power?**
- **"Fictitious capital" vs. "actual capital"?**
- **Should we abandon Marx?**

Veblen
- **Power is key, but from the top-down**
- **The modern corporation: liberating Marx from the factory**
- **Capital: finance, <u>and only</u> finance**
- **Profit and production: the twisted link**
- **Industry vs. Business**
- **Industry: production through cooperation and integration**
- **Business: profit through limitation and sabotage**
- **Power: absentee ownership and the nation state**
- **Business and industry: Marx vs. Veblen**

Differential Accumulation
- **Commodification of power**
- **The Mega-Machine**
- **Full circle back to Marx, with a couple of twists**
- **Measurement: power over society, relative to others**
- **To maximize profit or to beat the average?**
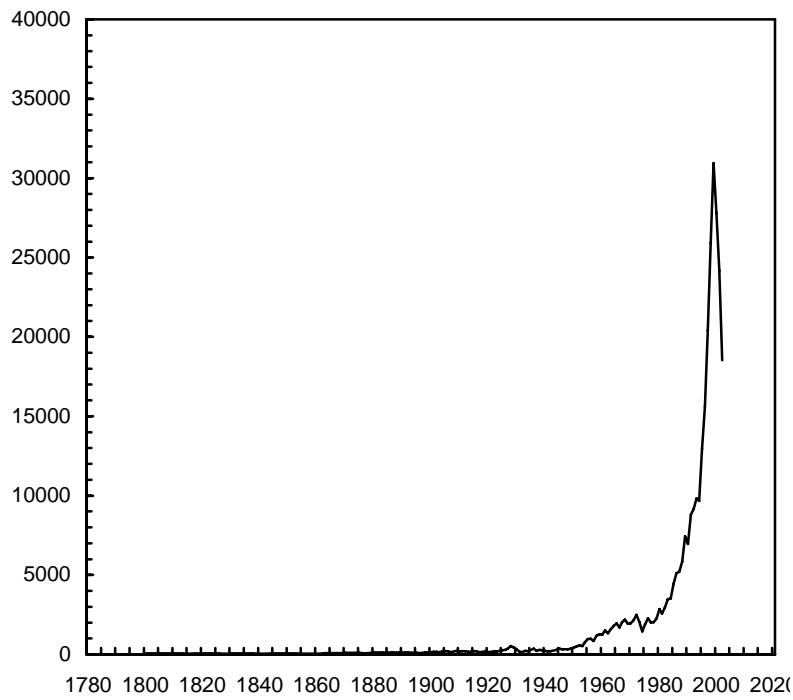- **Differential accumulation and dominant capital**

<u>Calculating present value:</u>

$$normal\ rate\ of\ return = \frac{risk\ free\ interest}{deposit}$$

$$deposit = \frac{risk\ free\ interest}{normal\ rate\ of\ return}$$
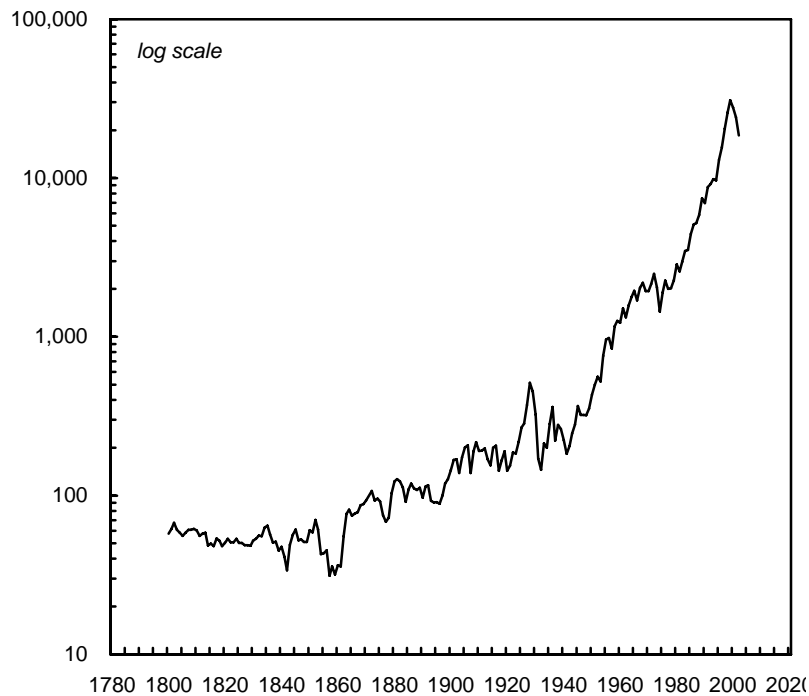
$$capitalisation \equiv \frac{excpected\ earnings}{risk \times normal\ rate\ of\ return}$$
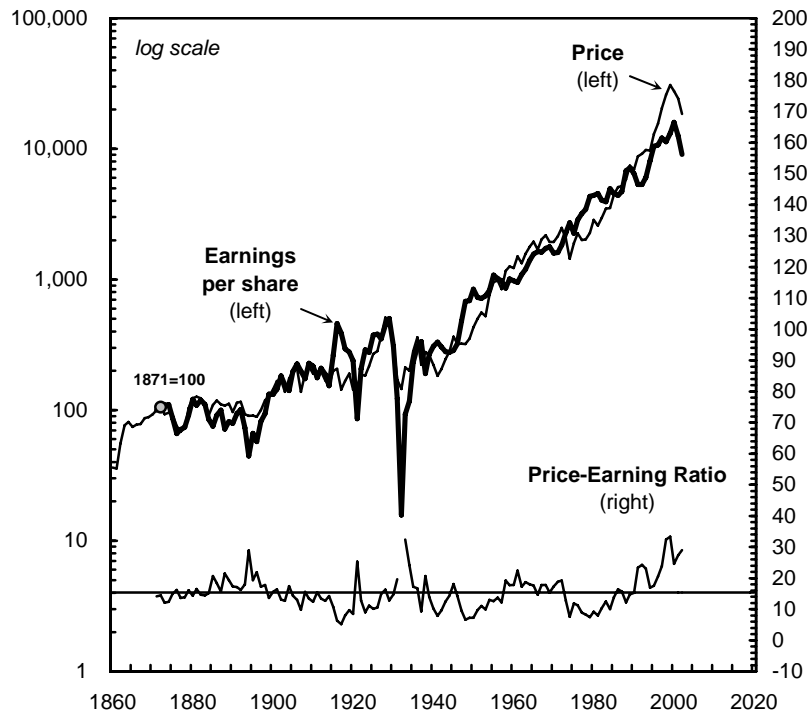
$$\$1bn \equiv \frac{\$60mn}{1.2 \times .05}$$

FIGURE 1   S&P 500 Share Prices (Arithmetic Scale, 1871=100)

SOURCE: Global Financial Data (www.globalfindata.com)

FIGURE 2   S&P 500 Share Prices (Logarithmic Scale, 1871=100)
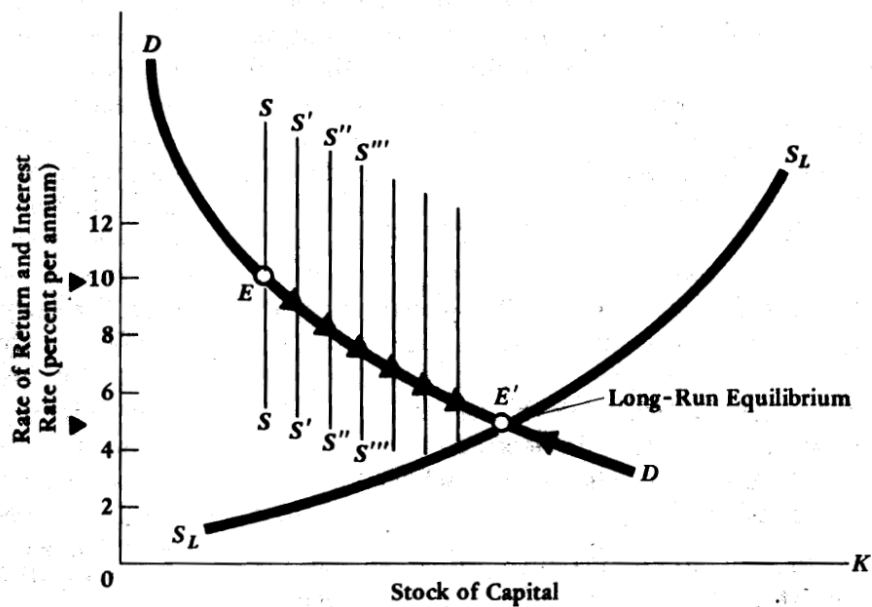
SOURCE: Global Financial Data (www.globalfindata.com)

FIGURE 3   S&P 500: Share Price, Earnings Per Share and the PE Ratio

SOURCE: Global Financial Data (www.globalfindata.com)

The Neoclassical Production Function

$Q = F$ (Labour, Land, Capital)

CAPITAL STOCK AND RETURNS IN THE LONG RUN

FIGURE 4	Did I say "Parable"?

SOURCE: P.A. Samuelson, W.D. Nordhaus and J. McCallum (1988) *Economics*, 6th Canadian Edition (Toronto: McGraw-Hill Ryerson), p. 669

Marx's Accumulation Scheme

Prices (observed)   *Prices (observed)*

$$M \Rightarrow (c + v) \Rightarrow (c + v + s) \Rightarrow (M + \Delta M)$$

Labour values ("shadow")

Value:

$$M + \Delta M = c + v + s$$

If values are proportionate to prices, the rate of profit:

$$\pi = \frac{\Delta M}{M} = \frac{s}{c + v}$$

Define: Rate of exploitation:

$$\varepsilon = \frac{s}{v}$$

Define: Organic composition of capital:

$$\theta = \frac{c}{v}$$

Dividing both sides of the rate of profit equation by *v*:

$$\pi = \frac{\dfrac{s}{v}}{\dfrac{c}{v} + 1} = \frac{\varepsilon}{\theta + 1}$$

**If the organic composition of capital θ does not equate:**

$$\frac{\varepsilon}{\theta + 1} \neq \frac{\Delta M}{M}$$

__The End of Value?__

"As large-scale industry advances, the creation of real wealth depends less on the labour time and quantity of labour expended than on the power of the instrumentalities set in motion during the labour time. . . . Human labour then no longer appears enclosed in the process of production – man rather relates himself to the process of production as supervisor and regulator. . . . He stands outside of the process of production instead of being the principal agent in the process of production. In this transformation, the great pillar of production and wealth is no longer the immediate labour performed by man himself, nor his labour time, but the appropriation of his own universal productivity, i.e., *his knowledge and his mastery of nature through his societal existence* – in one word, the development of the *societal individual*. . . . As soon as human labour, in its immediate form, has ceased to be the great source of wealth, labour time will cease, and must of necessity cease to be the measure of wealth, and the exchange value must of necessity cease to be the measure of use value. . . . The mode of production which rests on the exchange value thus collapses."

> Karl Marx, *Grundrisse der Kritik der politischen Oekonomie*, pp. 592f, trans. from the German by H. Marcuse (1964) *One Dimensional Man. Studies in the Ideology of Advanced Industrial Society* (Boston: Beacon Press), pp. 35-6, emphases added.
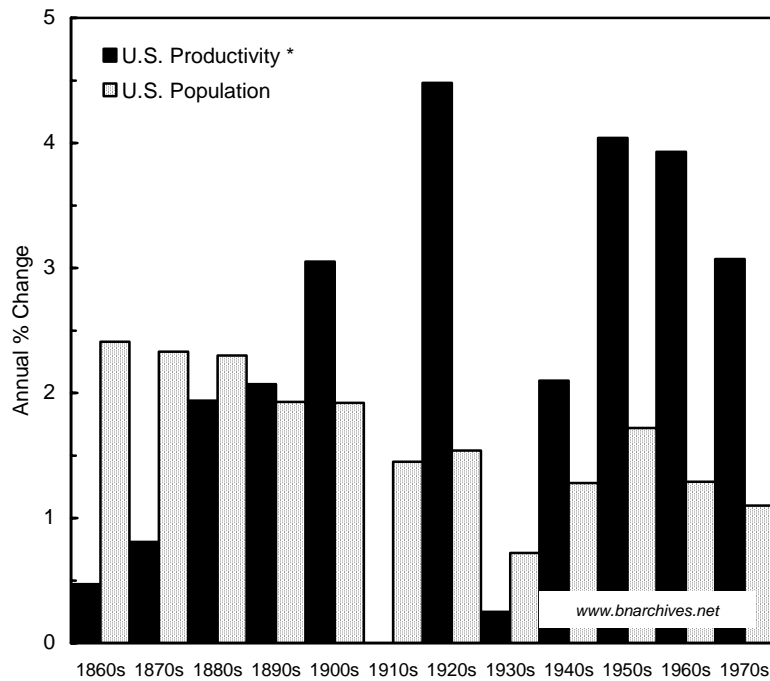
FIGURE 5   The Productivity Threat

* Labour productivity in manufacturing, based on the Frickey index (continued by the FRB index) and divided by the number of manufacturing production workers.

SOURCE: Nitzan, Jonathan. 1998. "Differential Accumulation: Toward a New Political Economy of Capital." *Review of International Political Economy* 5 (2): 169-216. Original data from the U.S. Department of Commerce.
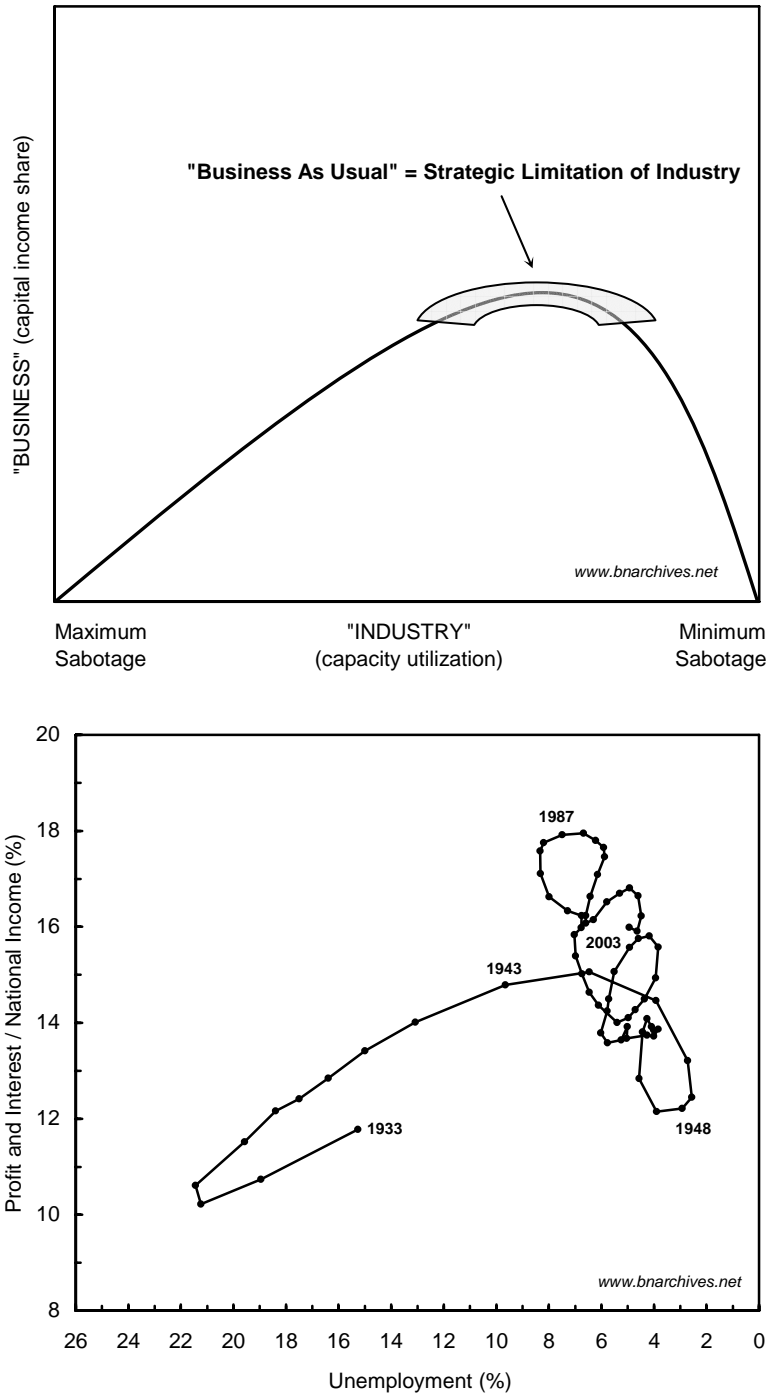
FIGURE 6   Business and Industry in the United States

NOTE: Series are shown as 5-year moving averages.

SOURCE: Nitzan, Jonathan, and Shimshon Bichler. 2000. Capital Accumulation: Breaking the Dualism of "Economics" and "Politics". In *Global Political Economy: Contemporary Theories*, edited by R. Palan. New York and London: Routledge, pp. 67-88. Original data from U.S. Department of Commerce through Global Insight (series codes: INTNETAMISC for interest; ZBECON for profit; YN for national income; RUC for unemployment).
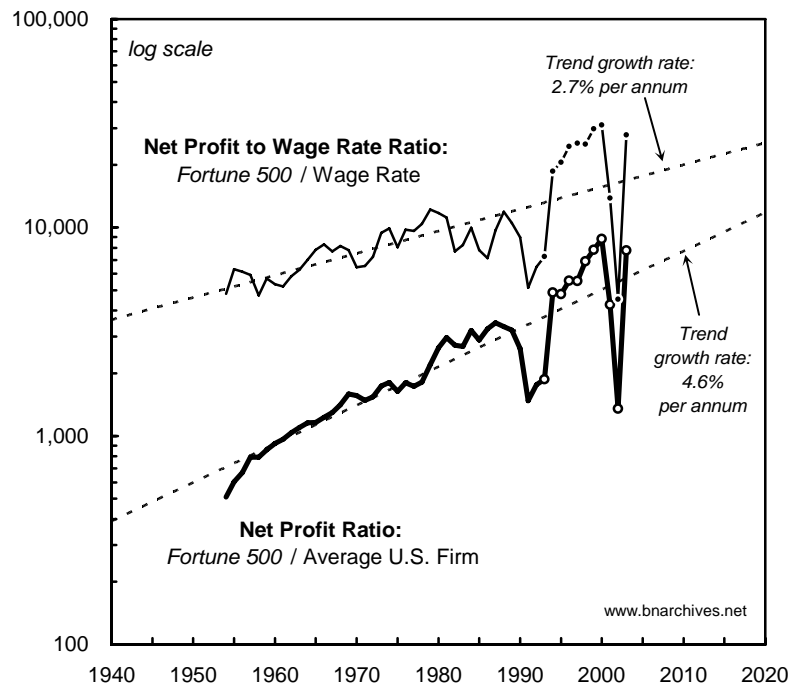
FIGURE 7   Differential Accumulation in the United States

NOTE: Net profit for the average U.S. firm is total after tax profit divided by the number of corporate tax return. The annual wage rate is based on total private average hourly earnings. Until 1993, the Fortune 500 list included only industrial corporations (firms deriving at least half their sales revenues from manufacturing and/or mining). In 1994, the list was expanded to include all corporations. For 1992-3, data for Fortune 500 companies are reported without SFAS 106 special charges.

SOURCE: Forthcoming in Nitzan, Jonathan, and Shimshon Bichler. 2006. "New Imperialism or New Capitalism?" *Review* XXIX (1, February). Original data from *Fortune*; U.S. Internal Revenue Service; U.S. Department of Commerce through Global Insight (series codes: ZA for profit after tax without IVA and CCADJ; AHEEAP for total private average hourly earnings).