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Book Review: Capital as Power: A Study of Order and Creorder

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Capital as Power: A Study of Order and Creorder.
Jonathan Nitzan and Shimshon Bichler; New York: Routledge, 2009,
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What is capital? In this impressive work, Nitzan and Bichler argue cogently, carefully, and (to my mind) convincingly that we should reject both the neoclassical and the Marxian conceptions of capital, and embrace instead the alternative conception they offer: that capital *is* power. I admit I was highly skeptical before I read the book, despite my admiration for their previous work, especially their analysis of differential profit rates and other issues in Nitzan and Bichler (2002). I was surprised, then, to find that I was largely persuaded that in some important sense capital *is* power, and that this view implies a rigorous, empirically sound research program that yields highly useful results. This short review cannot hope adequately to convey the depth and rigor of their analysis, or the encyclopedic knowledge of Marxian and other literature on which it is based; my hope is simply that it inspires or provokes the reader to pick up the book and argue with its ideas.

The problem, these authors say, is that both Marxians and neoclassicals view capital as a purely economic concept, in that its value of capital is determined in production, yet they do not and cannot have any valid way of independently measuring the value of capital. In neoclassical theory, capital productivity determines the value of capital, and measuring productivity depends ultimately on measuring the number of utils produced. But utils, the "elementary particle" of neoclassical theory, are unmeasurable, so the researcher cannot independently determine the value of capital, nor the likely rate of capital accumulation over time. Apart from this fundamental problem, the authors also remind us of the intrinsic difficulties in measuring the value of capital that were pointed out four decades ago in the Cambridge controversy (Harcourt 1972), which there is not space to review here.

Marxian theory fares no better, Nitzan and Bichler say: it measures capital in terms of its own "elementary particles," units of abstract labor, and these are equally incapable of independent measurement. All methods to measure the value of capital in these terms suffer from fundamentally circular reasoning. The well-known transformation problem is a central part of the problem, and the authors review both past and recent unsuccessful attempts to resolve the problem.

In short, the neoclassical and Marxian practices of treating capital as if its value arose strictly from economic production, and were unambiguously independently measurable in some independent way, simply fail. In the authors' words, "utils and abstract labour are deeply problematic categories. They cannot be observed directly with our sense, and they cannot be examined indirectly through intermediation. Their 'quantity' cannot be calculated, even theoretically. In fact they are not even logically consistent entities" (6).

The authors' views flow from Thorstein Veblen's distinction between *industry*—the production of useful articles to meet human needs—and *business*—dealings in purely pecuniary values with the aim of increasing those pecuniary values; *business* operates independent of, and indeed often impedes, the functioning of *industry*. Nitzan and Bichler argue that *business* is the essence of capital, *not* industry, contrary to the claims of both neoclassical and Marxian political economy. "In the end," they say, "neither the neoclassicists nor the Marxists are able to answer the question of what determines the magnitude of capital and its rate of accumulation" (5). In chapter 12 the authors discuss Veblen's contribution at length.

Their solution is to understand capital as *capitalization*: "the corporation's expected future profit and interest payments, adjusted for risk and discounted to their present value" (8). These do not reflect productivity nor an accumulation of socially necessary labor time, but rather "the power of a corporation's owners. . . . For any group of capitalists—typically a corporation—the relative level and pattern of earnings denote differential power: the higher and more predictable these earnings are relative to those of other groups of companies, the greater the differential power of the corporation's owners" (8-9).

For those most interested in the implications of these ideas, chapters 10-11 offer fascinating discussions of the stock market and of strategies used by investors, while chapters 14-17 present a detailed historically and statistically grounded analysis of the concentration of power in "dominant capital." These chapters merit especially close attention from Marxians and deserve wide debate. For example, one central argument is that capitalization can be divided algebraically into two separate earnings-related factors: (1) "actual, *ex post* future earnings," and (2) "the hype coefficient" which "represents the *ex post* collective error of capitalists when pricing the asset" (189). The point is that active insiders, the movers and shakers, know "not only how to identify hype, but also how to *shape* its trajectory" (191). That is, they often cause the market capitalization to depart from the apparent underlying fundamentals by exercising power over information, corporate accounting and structure, legislation bearing on a firm's activities, and so on. They tend "to operate not individually, but in loosely organized pacts of capitalists, public officials, pundits and assorted 'opinion makers'" (191).

State power is just one of the kinds of power Nitzan and Bichler discuss, and they review Marxian and "neo-Marxian" literature on the nature of the state and the degree to which it is autonomous. The authors conclude, "The liberals analyse capital *without* power, while the Marxists explain capital *and* power—but what we need is to theorize capital *as* power" (64). The last several chapters explore in detail the kinds of strategies capitalists use to maintain differential profit rates, such as mergers and acquisitions, cost cutting or raising prices, and many other tactics. The brief discussion of the importance of foreign investment in supporting higher-than-average profit rates is useful, and might well benefit from joining with recent important research on the role of offshore financial centers in increasing profit rates for those firms able to take advantage of them.

One way I like to think of the problem with neoclassical theory is that it proves that under competitive conditions economic profits are driven to zero, but shies away from the full range of implications: that those who engage in capitalist activity or trading in asset markets will seek other ways to earn higher than average gains. True, there is a literature on ways to do this through technological innovation, and an IO literature on strategies such as predatory pricing. But Nitzan and Bichler propose to explore, and indeed have begun to explore, a much wider range of strategic ways to achieve higher-than-average profit rates. In principle these could include ways to get favorable legislation that provides tax breaks, subsidies, market expansion, or other benefits to firms; lobbying, campaign donations or bribery; establishing think tanks that influence legislators; creating phony "citizens' groups" that flood legislators with bogus "citizen letters" for legislation that helps certain firms, and so forth. For that matter, they might also include fraud, insider trading, and other questionable practices.

A welcome feature of these authors' approach is that it redirects our attention back to the activities of the capitalist class, and away from the project of applying a labor-value framework to empirical study of current economies, a project whose value has never been clear. Ultimately it is the empirical research program that is most likely to persuade Marxists, and one almost wishes it had a more prominent place in the book, or at least had been more fully covered in the overview in chapter 1.

Some advice also about reading the book: Nitzan and Bichler have very different writing styles; one writes more methodically, carefully defining each term; the other more impressionistically, leaving some terms only vaguely defined. For those inclined toward precision, little is lost by skimming parts of the impressionistic chapters. Along these lines, the subtitle of this work introduces the newly invented word *creorder*, onto which the authors seem to load so much meaning that its meaning ends up unclear, reminding us of Hegel's assertion that all learning is a process of drawing distinctions. In future work I hope these authors will either explain *creorder* far better, or abandon it.

Nitzan and Bichler welcome debate, and have set up the web site "Critical Mass" for this purpose, at http://www.yorku.ca/cmass/forum/index.php. This book has been released at an opportune moment, when the economic crisis is forcing serious rethinking of economic theory. It is to be hoped that it is taken quite seriously, and widely debated; such a debate can only invigorate economic theory and practice for the future, both for Marxist and neoclassical theory and practice.

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Why Not Socialism?

Gerald A. Cohen; Princeton, NJ: Princeton University Press, 2009, 92 pp.

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Why Not Socialism?, the title of which refers to Albert Einstein's "Why Socialism?" (*Monthly Review*, May 1949), was published a few months before its author died, on the 5th of August 2009, at the age of 68. This short book is an updated and substantially extended version of a text he published a few years before (Broadbent 2000: 58-72). It puts an end to the long and rich career