Some notes on Nitzan and Bichler 'Capital as Power'

Broadly, they are trying to understand capitalism by understanding key features of how economies work. Their argument is that you cannot critique capitalism without understanding the mechanisms of the economy – profits, accumulation, corporations, the stock market etc. They are deeply critical of neoclassical economics, which they argue is an 'ideology in service of the powerful' (2009:3) and also of Marx's labour theory of value which they argue to be conceptually flawed. They use the concept of capital and the process of capitalisation as the central anchor to understanding capitalism. They also argue that power is entirely absent from neoc economics and entirely structural within Marx's work and needs to be re-integrated into our understanding of capital and capitalism.

Below is a brief overview of the parts:

Part 1 - outlines what N&B consider to be the key dilemmas in political economy. At a very high level these are dual bifurcations between the economic and political spheres and the real (i.e. utils/value) and nominal (prices) ways of thinking about/measuring output and capital. Chs.3&4 trace a history of overt power in pre-capitalist society to how economics and Marxism have tried to deal with its existence and emerging empirical trends from the end of the 19th century onwards: economics by separating a theoretically competitive micro sphere from a messy macro sphere that post-Keynes justifies state involvement; Marxism through a fragmentation into three neo-Marxian strands - (i) , theories of monopoly capital (Kalecki, Baran and Sweezy), (ii) cultural critique of capitalism, (iii) theories of the capitalist state.

Part 2 - Examines the conceptual issues with the way neoclassical economics and Marxism theorise production, capital and returns to 'factor inputs' or classes respectively. I tend to agree with the critiques, which at one level assume competition between capitalists, but this is not the crucial issue. For neoc. it is impossible to quantify capital independently of its return, which is supposed to depend on its quantity, a tautological situation debated in the Cambridge capital controversies in economics of the 1950s and early 60s. For LTV you need a homogeneous substance of simple abstract labour from which socially necessary abstract labour time can be derived, you need to be able to distinguish productive and unproductive labour and if you want to be able to explain profits and accumulation you have to be able to transform from values into prices. All three of these steps are highly problematic. Essentially N&B's critiques build upon and continue to challenge the real/nominal bifurcation from part 1. They ultimately argue that the real is not helpful because it cannot be independently measured and is based on flawed conceptual foundations, all that we can observe are prices. Deriving the real from the nominal is not helpful if we are trying to use the real to explain the nominal. I believe that following critical realism, we are able to suggest unobservable phenomena – physics does this all the time, but from the theoretical frameworks that these exist within we should be able to make limited suggestions within semi-closed experiments of how these would be observed empirically. Neither neoc or LTV can do this and we have to derive the real from the nominal.

Part 3 – Explains the process of nominal capitalisation – how capital is quantified as a discounted stream of expected future earnings. This is the process that capitalists work with and they argue that it cannot be reconciled with the 'real' productive underpinnings of the theories examined in part 2, obviously elaborated with further examples and discussion. Again, I tend to accept the argument that it is pretty much impossible to reconcile nominal valuations with any notion of the real underneath it and saying that finance is a distortion of the real foundation has all of the problems of the real theories discussed in part 2. One of the unresolved questions that I have is whether you can treat the price of capital goods as an indication of the future income that they are going to generate? Whilst the process of capitalisation makes some sense when considering corporations and their stock-market valuations is the price of a machine really an estimate of its future discounted cash flow. I don't think so and I don't think that N&B really explain how the prices of capital goods are established (p.212). Ch.11 goes through some areas of modern finance theory and how stocks become quantified based on four 'elementary particles' – actual future earnings, hype, a confident rate of return and a risk coefficient.

Part 4 – Is where N&B begin to outline their own theoretical framework. Ch.12 introduces Veblen's distinction between business and industry and his view that powerful corporations are in strategic positions to sabotage production. Power in this view is pricing power which also indicates the ability to sabotage production chains (p.242). There is a theme that profits do not reflect productivity and the emergence of modern corporations was not to facilitate productivity but to prevent 'excessive' production that threatens profits. They see the goal of corporations to be differential accumulation which in the aggregate produces a normal rate of return. This chapter covers a lot of ground including a framework of firms as price makers rather than price takers, a somewhat confusing discussion of the 'normal rate of return' and 'natural rate of employment' at an aggregate level, which is linked back to sabotage, and a discussion of equity and debt financing and their suggestion that the former reflects the power of individual firms to differentially sabotage and the latter the average rate of return derived from the limitation of industry by business. Finally, they challenge Marx's fractions of capital and the idea of the circulation of capital as producing surplus, partly to do with the fact that capitalisation is forward looking and does not depend upon circulation for accumulation in the way Marx theorised it and secondly because many 'productive' firms are now highly financialised. 'All capital is finance, and only finance' (p.262). In ch.13 they make the argument that the end goal of accumulation is to have power over people, so power enables differential accumulation and this results in power over people. After another historical view of pre-capitalist societies' modes of power, they move on to claim that that the logic of capital has become the state (I haven't spent much time on their state theory).

Part 5 – develops N&B's laws of motion for the differential accumulation and capitalisation that they suggest is the imperative driving firms within capitalism. Drawing exclusively on US statistical data, they suggest that 'dominant' capital, which they basically associate with the largest corporations, has done much better than many accounts suggest during the latter half of the 20th century, and has different possible strategies to pursue differential performance. One they label 'breadth' which involves increasing relative size and is best pursued through mergers and acquisitions rather than creating new capacity as that might ultimately undermine earnings. They link the pursuit of breadth to the globalisation of production and the expansion of MNCs beyond their industrial sectors. The second strategy they label 'depth' which I take to mean achieving better margins and hence profits. This is best achieved by an individual firm through increasing prices faster than the average as cutting costs is more easily copied in their view and leads to a race to the bottom. However, at a macro level they argue that you tend to get stagflation as a result and this strategy creates more instability and conflict with smaller capitalists and workers. However, dominant capital can still accumulate through crisis.