

Fourth Lecture

A Power Theory of Value:

Capital and Power

- Squaring the circle: from production to distribution?
- Squaring the circle: quantifying qualities?
- Exchange equivalence: utility, labour or the nomos?
- The quantitative order
- The unit of order: price
- The pattern of order: capitalization
- What is capitalization: earnings, risk and the normal rate of return
- What gets capitalized: power
- Why power?
- *Privatus, privare*, private: to restrict, to deprive to rob
- Private property: the power to exclude

Industry and Business

- Thorstein Veblen
- Power vs. creativity, business vs. industry.
- Industry and creativity: workmanship, know-how, cooperation, integration
- Industry as a hologram.
- Can “factors of production” exist?
- Technology: a “measure of our ignorance”?
- Business and distribution: ownership, exchange, power
- The two languages: what is “real”?
- Top down: business control of industry
- Absentee ownership
- The natural right of investment
- Strategic sabotage
- Can one profit from knowledge and production?
- Intellect or intellectual property rights?
- Can one profit from growth?
- Institutions of power: the corporation and the state

The corporation and “Big Business”

- The rise of the corporation
- Economies of scale?
- The productivity threat
- Incorporation: capitalist amalgamation
- The forgotten revolution of the 1930s
- Market prices or administrative prices?
- Profit maximization or markup pricing?
- Prices and sabotage: earnings and risk

The state and “Big Government”

- What is the state?
- The government “bond”: the first capitalization of power
- High tech profits and the state: intellectual property rights
- Financial profits and the state: monetary policy
- Automobile profits and the state: highways, public
- Oil profits: Middle East wars
- Can there be capital without a state?

Corporate Finance: Productive Wealth or Power?

- Assets and liabilities
- Equity: “immaterial” assets or differential power?
- Debt: “material” assets or normal power?
- The normal rate of return: where did it come from?
- The “normal rate of return” and the appearance of “unemployment”

The Mega-Machine

- Power for the sake of power
- Mechanized society and the first machines
- The two technologies: Neolithic vs. “civilized.”
- Capital as a Mega-Machine: capitalization of power

Capitalization

$$\text{capitalisation} \equiv \frac{\text{expected earnings}}{\text{risk} \times \text{normal rate of return}}$$

$$\text{\$1bn} \equiv \frac{\text{\$60mn}}{1.2 \times .05}$$

The origin of private property

“The first man who, having enclosed off a piece of land, got the idea of saying ‘This is mine’ and found people simple enough to believe him was the true founder of civil society.”

Rousseau, Jean-Jacques. 1754. *A Discourse Upon the Origin and the Foundation of the Inequality Among Mankind*.

The production function, with a “measure of our ignorance”

$$Q = F(\text{Labour}, \text{Land}, \text{Capital})$$

$$Q = F(\text{Labour}, \text{Land}, \text{Capital}, \text{“Technology”})$$

The “real” thing

“Under the price system, men have come to the conviction that *money-values are more real and substantial than any of the material facts in this transitory world*. So much so that the final purpose of any businesslike undertaking is always a sale, by which the seller comes in for the price of his goods; and when a person has sold his goods, and so becomes in effect a creditor by that much, he is said to have ‘realized’ his wealth, or to have ‘realized’ his holdings. *In the business world the price of things is a more substantial fact than the things themselves.*”

Veblen, Thorstein. 1923. *Absentee Ownership and Business Enterprise in Recent Times. The Case of America*, pp. 88-89 (emphases added)

The natural right of investment

“. . . any person who has the legal right to withhold any part of the necessary industrial apparatus or materials from current use will be in a position to impose terms and exact obedience, on pain of rendering the community’s joint stock of technology inoperative for that extent.

“Ownership of industrial equipment and natural resources confers such a right legally to enforce unemployment, and so to make the community’s workmanship useless to that extent. *This is the Natural Right of Investment*. Plainly, ownership would be nothing better than an idle gesture without this legal right of sabotage.

“Without the power of discretionary idleness, without the right to keep the work out of the hands of the workmen and the product out of the market, *investment and business enterprise would cease*. This is the larger meaning of the Security of Property”

Veblen, Thorstein. 1923. *Absentee Ownership and Business Enterprise in Recent Times. The Case of America*, pp. 66-7

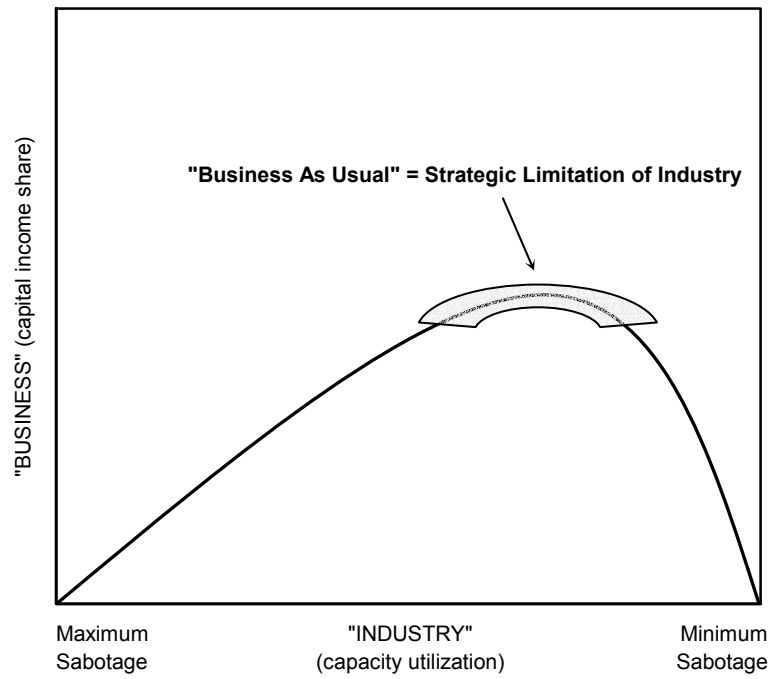


FIGURE 1 Business and Industry

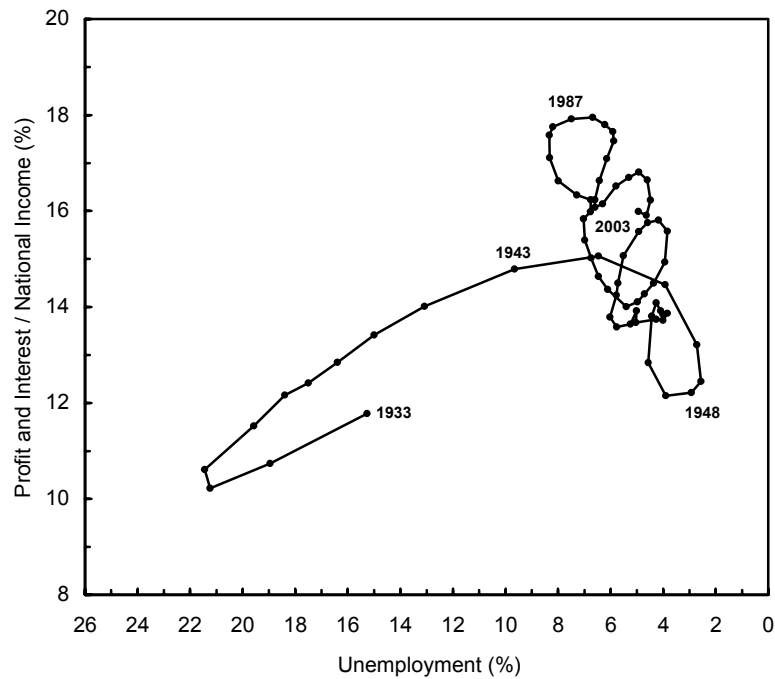


FIGURE 2 Business and Industry in the U.S.A.

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

SOURCE: U.S. Department of Commerce through Global Insight (series codes: INTNETAMISC for interest; ZBECON for profit; YN for national income; RUC for unemployment).

U.S. Firms and Establishments by Size, 2001

Employment Size of Firm	Total Number of Firms	Total Number of Establishments	Total Number of Employees	Average Number of Establishments per Firm	Average Number of Employees per Establishment
<i>All firms</i>	5,657,774	7,095,302	115,061,184	1.3	16.2
<i>less than 20</i>	5,036,845	5,093,660	20,602,635	1.0	4.0
<i>less than 500</i>	5,640,407	6,079,993	57,383,449	1.1	9.4
<i>500+</i>	17,367	1,015,309	57,677,735	58.5	56.8
<i>0</i>	703,837	705,612	0	1.0	0.0
<i>1-4</i>	2,697,839	2,703,984	5,630,017	1.0	2.1
<i>5-9</i>	1,019,105	1,033,719	6,698,077	1.0	6.5
<i>10-19</i>	616,064	650,345	8,274,541	1.1	12.7
<i>20-99</i>	518,258	670,477	20,370,447	1.3	30.4
<i>100-499</i>	85,304	315,856	16,410,367	3.7	52.0
<i>500-999</i>	8,572	102,229	5,906,266	11.9	57.8
<i>1,000-2,499</i>	5,161	131,911	7,894,226	25.6	59.8
<i>2,500-4,999</i>	1,770	103,347	6,063,596	58.4	58.7
<i>5,000-9,999</i>	934	120,158	6,456,068	128.6	53.7
<i>10,000+</i>	930	557,664	31,357,579	599.6	56.2

Source: U.S. Census Source: U.S. Census Bureau, Statistics of U.S. Business 2001

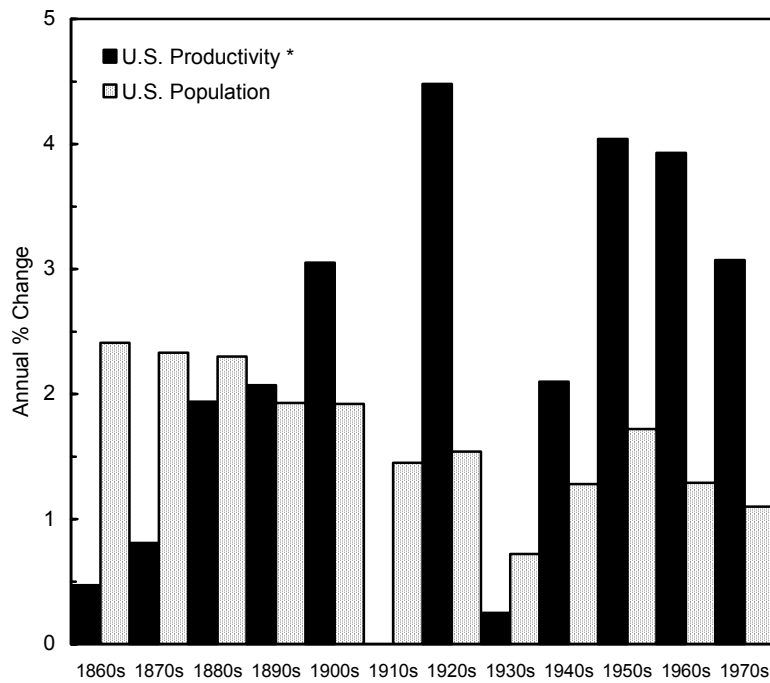


FIGURE 3 The Productivity Threat

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

SOURCE: U.S. Department of Commerce.

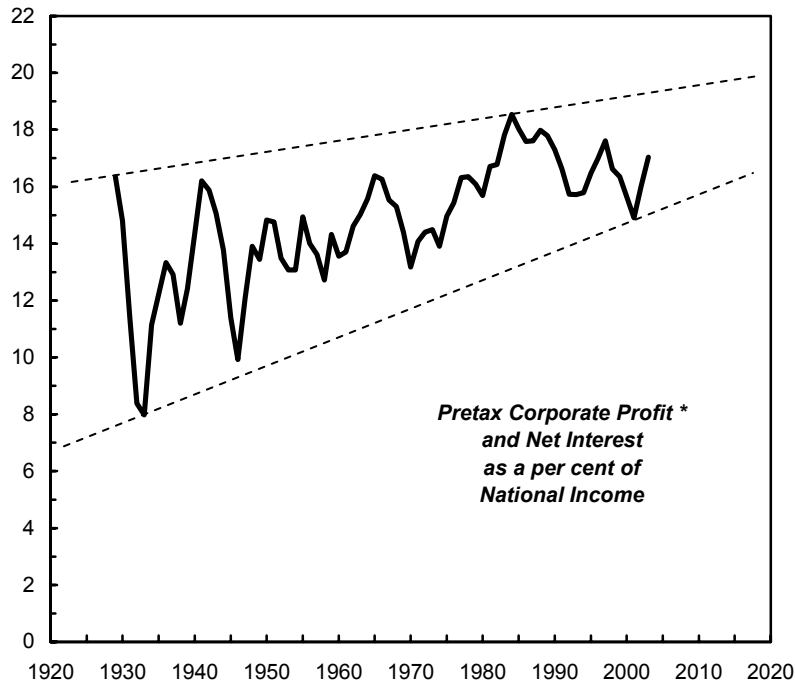


FIGURE 4 Capital's Share of Income in the U.S.A.

* Including capital consumption allowance and inventory valuation adjustment.

SOURCE: U.S. Department of Commerce through Global Insight (series codes: ZBECON for pre-tax corporate profit; INTNETAMISC for net interest; YN for national income).

State power and the birth of capital

“The different momenta of primitive accumulation distribute themselves now, more or less in chronological order, particularly over Spain, Portugal, Holland, France, and England. In England at end of the 17th century, they arrive at a systematic combination, embracing *the colonies, the national debt, the modern mode of taxation, and the protectionist system*. These methods depend in part on brute force, e.g., the colonial system. *But they all employ the power of the State*, the concentrated and organized force of society, to hasten, hothouse fashion, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society pregnant with a new one. *It is itself economic power*. . . .

“National debts, i.e. the alienation of the state – whether despotic, constitutional or republican – marked with its stamp the capitalist era. . . . Public credit becomes the credo of capital.”

Marx, Karl. 1909. *Capital. A Critique of Political Economy*. Chicago: Charles H. Kerr & Company, Vol. 1, pp. 823-824, 827 (emphases added)