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# Elementary Particles of the Capitalist Mode of Power

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Transcript of a presentation at the  
Sixth International Conference of *Rethinking Marxism*  
University of Massachusetts at Amherst  
October 26-28, 2006



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## The Architecture of Capitalism

*Every “order” – in society as in nature – is articulated, or generated, through categories and forms.*

- The most potent category is numbers.
- The greater our ability to use numbers, the more comprehensive, intricate and accurate our capacity to articulate ‘order.’
- In capitalism, the fundamental “unit of order” is price.
- Capitalism is a system based on private ownership, and “price” is the basic unit in which private ownership is denominated.
- Everything that can be owned can be priced.
- And, in this way, everything that can be owned – from natural objects, through produced articles, to social organizations, ideas, emotions, and, indeed, human beings – can also be measured.
- Moreover, the quantification is uniform.
- It is uniform across time and it is uniform across space.
- By imposing this uniformity, capitalism makes prices in Europe during the Middle Ages comparable to prices in India in the 21<sup>st</sup> century.
- The comprehensive reach and uniformity of the price system has made capitalism the most “ordered” society ever.
- In no prior epoch have numbers been so extensively and consistently used to describe, organize and shape human behaviour.

*Clearly, to theorize the capitalist order is –first of all – to theorize the architecture of prices.*

- And indeed, that is why both theories of capitalism – the liberal, or neoclassical, theory and the Marxist theory – are based on theories of value:
  - Liberalism is based on a utility theory of value.
  - Marxism is based on a labour theory of value.
- Both of these value theories are crucial for the broader frameworks of liberalism and Marxism.
- And, as value theories, both have failed: they can sometimes tell us about what prices should be, but not what prices are.
- They have failed for two reasons.
  1. First, their domain is far too narrow to explain the full range of capitalist phenomena.
  2. Second, they are inherently contradictory.
- And since any theory of capitalism has to be based on some theory of value, both liberalism and Marxism are in deep trouble.

*Today, we'll try to sketch a totally different framework.*

- Instead of a utility theory of value, or a labour theory of value, Shimshon and I suggest a power theory of value.
- This theory is based on the process of capitalization, and more specifically, on differential capitalization.
- Capitalism, we argue, is not a mode of production but a mode of power.
- Differential capitalization is the basic architecture of this mode of power.
- To understand capitalism, therefore, we have to begin with the elementary particles of capitalization.

## **Conventional Theory**

*Before turning to the capitalization principle, however, it is necessary to outline briefly the difficulties with existing value theories.*

- We consider six quandaries that are common to the neoclassical and Marxist theories of value.
- Each one of these predicaments is sufficient to bring down these theories; taken together, they leave them in shambles.

*The first predicament is the duality of economics and politics, or more broadly, the disciplinary fracture of society into different “systems.”*

- Both neoclassicists and Marxists consider value as something that belongs to the “economics system.”
- In this construct, which has been popular since the end of the 19<sup>th</sup> century, society is subdivided into separate subsystems, each monopolized by its own “social science.”

- We have the “economy” that is handled by economists.
- And then we have the other systems: “sociology,” “anthropology,” “politics,” “international relations,” and now also “culture,” “media” and “identity politics” – each with its own experts and textbooks.
- These systems interact with one another.
- In the neoclassical version the interaction is mostly negative
  - Prices are determined on the basis of relative utilities in the economic sphere.
  - And then they get distorted by the corrupting influences that come from the impact of the other systems.
- In the Marxist version, the impact of this interaction is both positive and negative.
  - Here, too, prices are determined in the “economic” sphere, based on abstract labour.
  - But unlike in the neoclassical case, in Marxism the “economic base” is supported by the “superstructure” of politics, the law, ideology and force.
  - In that sense, values can exist only together with the other subsystems.
  - But the outside influence also creates distortions, with the consequence being that price ratios deviate from the underlying ratios of abstract labour.
- In other words, both theories begin with a natural state of things and end with a fractured picture.
- The logic of value originates from the economy, but its appearance in the form of prices gets distorted by the other subsystems.
- Most importantly – and for reasons that we shall elaborate in a moment – neither theory tells us anything about the extent of this distortion.
  - It is unclear whether the distortion of these quantities amounts to 1%, 99% or somewhere in between.
  - Worse still, we don’t know whether the distortion is fixed or changing over time.
- In other words, even if the theory has some truth to it, we have no clue as to how much truth.

***The second predicament is the additional division, within economics, between the so-called real and nominal spheres.***

- There is a firm belief among both neoclassicists and Marxists that “reality” in economics is a matter of consumption and production.
- Everything else – and in particular everything that has to do with absolute prices, money, and finance – belong to the so called nominal sphere.
- This duality, first articulated by David Hume in the 17<sup>th</sup> century, gives primacy to the “real” sphere.
- The real sphere is where relative prices – and therefore the structure of capitalism – are determined.
- The nominal sphere of money, finance and absolute prices is merely a “mirror,” a “reflection,” a “silhouette” on the walls of the cave.
- One should of course pay attention to the nominal sphere.
- But one should never forget that, in the end, this is a sphere of “smoke and mirrors.”
- The ultimate “reality” lies in the material sphere of production and consumption, sweat and happiness, abstract labour and utils.

- Unfortunately, in reality, this separation is entirely unreal.
- Some of you may not know it, but in fact all “real” economic aggregates are very very nominal.
- Take “real GDP”.
  - Supposedly, it should approximate the aggregate product denominated in utility.
  - But in fact, it is merely the addition of money values, money values that the theorists assure us represent utilities.
- The very same delusion underlies all other “real” aggregates – from real investment, to real consumption, to real export;
- The same problem applies to Marxist measures.
  - Value and surplus are denominated in abstract labour time.
  - But the few Marxists who attempt to estimate these magnitudes end up measuring them in dollars and cents.
  - In practice, the surplus and value, like real GDP, are measured in prices.
- Now, you see the problem: we have a circular theory.
  - In theory, the nominal sphere is supposed to reflect the real sphere.
  - But in practice it is the other way around.
  - The real is merely the shadow of nominal!

***The third predicament of neoclassical and Marxist value theories is the assumption of internal equivalence.***

- According to this assumption, the processes of consumption and production contain the quantitative architecture of capitalism.
- In the neoclassical case, this logic is denominated in “utils,” the fundamental atom of the human universe.
  - It is assumed that each commodity, at the margin, generates a certain quantum of utility.
  - If nothing else intervenes, the ratio of these quanta – say 10 utils to 1 between my watch and a hamburger – is what determines the ratio of their prices.
- A similar assumption is made by Marx.
  - Here, the logic is denominated in abstract labour time.
  - Each commodity, on average, takes a certain amount of abstract labour to produce.
  - And, if nothing intervenes, the ratio of these abstract labour times is what determines the ratio of their prices.
- In other words, commodities have intrinsic equivalence.
  - They may look qualitatively different, but in them there is a fundamental quantity – like the proton – denominated in universal units.
  - This quantity – whether counted in utils or abstract labour – makes the commodities comparable.
  - And this comparability reveals itself in their relative prices.
- Now, theories of utility and labour value have been examined for a hundred years, and there is no point reproducing the debates here.
- Just one crucial point.

- The logic of intrinsic equivalence is rooted in the mechanical revolution of the 17<sup>th</sup> and 18<sup>th</sup> centuries.
  - 18<sup>th</sup>- and 19<sup>th</sup>-century thinkers believed that, like matter and energy, value cannot be arbitrary.
  - It cannot be created out of thin air.
  - It had to come from somewhere.
  - And indeed, when Milton Friedman says in the 20<sup>th</sup> century that “There is no such thing as a free lunch,” he is simply echoing the French tax accountant, Antoine Lavoisier, who invented the “Law of Conservation of Matter.”
  - Similarly with the Marxists.
  - The argument that the value of the labour inputs transfers itself to the value of the final product is based on the assumption of “conservation.”
- But utils and abstract labour are not at all like energy and matter.
  - Scientifically, they are completely useless: they fail to explain prices.
  - Whereas energy and matter leave their quantitative mark directly on our senses or indirectly on our instruments, utils and abstract labour do not.
  - Their quantity cannot be observed, directly or indirectly.
  - In fact, it is impossible to demonstrate that utility and abstract labour are quantitative entities to begin with.
  - No scientist will try to build a quantitative theory without quantities, yet that is precisely what neoclassical and Marxist value theories do.

*The fourth predicament is “equilibrium.”*

- This is another legacy of the mechanical/scientific revolution.
- Reality has unique outcomes, and equilibrium is important because it produces unique explanations.
- And, indeed, neoclassical and Marxist value theories – and notice the specific emphasis on value here – work only in “equilibrium.”
- In the neoclassical case, the assumption is that there exists a set of objective forces, or functions, that interact with one another.
  - The most famous are supply and demand, which resemble the Newtonian notion of force and counterforce, and scarcity, which is the social equivalent of Newton’s gravitation.
  - Supposedly, prices emerge from the equilibrium of supply and demand.
- But, then, what if supply and demand are not equilibrated?
  - Well, then we have disequilibrium, and in disequilibrium all bets are off.
  - Everything is possible, and the theory simply breaks down.
- And here we come to the critical bit:
  - As it turns out, neoclassical economics is unable to tell us when we are in equilibrium and when we are not.
  - In other words, neoclassical theory cannot tell us whether the prices we see around us are consistent with the theory, or not.
  - But if that is the case, who needs such a theory?

- Marxism has a similar problem.
  - It is true that, in his larger schemes, Marx emphasized not equilibrium and stability, but historical laws of motion.
  - But paradoxically, these laws of motion work only if prices are equilibrated with abstract labour values.
- Consider processes such as the “tendency of the rate of profit to fall,” the “immiseration thesis,” the tendency of capitalism to generate repeated profitability crises.
  - These tendencies are observed in terms of prices.
  - But they are theorized in terms of values.
  - And this theorizing is meaningful only if prices are equilibrated with abstract labour.
  - But what if they are not?
  - What if, instead of equilibrium, we have permanent disequilibrium?

***The fifth predicament is the time dimension.***

- Essentially, both neoclassical and Marxist value theories are backward looking.
- Prices are anchored in the present or the past, not the future.
- For Marx, value was the sum of dead and living labour that went into producing the commodity.
  - In the 20<sup>th</sup> century, some Marxists started to emphasize value measured in terms of current “replacement cost.”
  - But they stay away from the future.
  - The future is unknown and therefore irrelevant.
  - Values that depend on the future have been given a derogatory name: they are called “fictitious” values – to distinguish them from “real” values that are anchored in the immutable past.
- The neo-classicists are more schizophrenic about the future.
  - On the one hand, they have no problem talking about expected utility and future productive capacity.
  - On the other hand, in order to generate equilibrium outcomes they also insist that the future is known.
  - In other words, they insist that the future is already in the cards, and therefore not a future at all.
- The net result is that, in practice, neither theory of value has much to say about the future or, more importantly, on how the future shapes the present.

***The sixth predicament is the language of both theories.***

- Both theories of value offer a universal/absolute logic.
- In the neoclassical case, the universal logic is the logic of utility, applicable to all “economic agents”

- In the Marxist case the matter is a bit more complicated.
  - Here there are two key classes.
  - Capitalists, driven by the urge of expanded reproduction, follow the logic of M-C-M'.
  - By contrast, workers, who are compelled to merely reproduce themselves, follow the logic of simple reproduction, or C-M-C.
  - But the two logics are still enumerated in the same elementary particle – the unit of abstract labour.
- So, in its own way, each theory imposes a single logic on the entire society.
- And in both cases the unit of that logic is absolute.
  - Neoclassical agents try to maximize utility.
  - In Marxism, capitalists and workers do the same – only that they measure the gains and losses in units of abstract labour.
- This combination of universal logic and absolute units is problematic.
  - It is characteristic of the universal approach to science that dominated the 18<sup>th</sup> and 19<sup>th</sup> century.
  - But it is very much at odds with the science and logic of the 20<sup>th</sup> century – with Einstein's relativity, with Bohr's quantum, with Gödel's incompleteness theorem.
  - And, as we shall see, it is also highly inadequate – if not misleading – when we come to deal with differential social power and the two languages of capitalism.

## The Consequences

*In summary, then, neoclassical and Marxist value theories have squeezed themselves into a very tight corner.*

- First, both theories are rooted in “economics” and treat politics and everything else as a distortion.
- Second, their units pretend to be “real,” but in fact are entirely “nominal”.
- Third, they assume internal equivalence but have never been able to demonstrate it, let alone use it.
- Fourth, they work only in equilibrium but cannot tell us whether the world is ever in equilibrium.
- Fifth, they try to explain a forward-looking world with a backward-looking logic.
- Sixth and last, they impose universal principles on conflicting classes and use absolute magnitudes in a world that is evidently relative.

*The net result is a null, or empty domain.*

- These theories of value can work only in a world that never existed and can never exist.
- And if a theory has a null domain, the range of its explanatory power is correspondingly small.

## A Power Theory of Value

*Instead of a utility theory of value or a labour theory of value, we propose a power theory of value.*

- The architecture of prices, we argue, has little to do with the so-called “material” sphere of production and consumption.
  - Production and consumption do matter a great deal.
  - But they do not contain the quantitative code of prices.
- This quantitative code is not the consequence of some external laws – whether natural or historical.
  - It is entirely internal to society.
- It is not intrinsic to commodities.
  - On the contrary, it is imposed on commodities, by society.
- The price architecture is a manifestation of what the ancient Greeks called the “nomos” – that is, of the broader social-legal-historical institutions of society.

*Now, every social order has its own nomos, based on a mixture of cooperation and power.*

- In Athenian democracy cooperation was paramount.
- In capitalism, power is the governing principle.
- Every mode of power is characterized by its unique features.
- In capitalism, the primacy of power is rooted in the centrality of private ownership.
- “Private” comes from the Latin *privatus*, meaning “restricted,” and from *privare*, which means “to deprive.”
- Marx was right to emphasize the enclosure movement as a central process in the emergence of capitalism.
- Indeed, the most important feature of private ownership is not to *enable those who own*, but to *disable those who do not*.
- Private ownership is wholly and only an act of institutionalized exclusion, and institutionalized exclusion is a matter of organized power.
- And since the power behind private ownership is denominated in prices, we need a power theory of value.

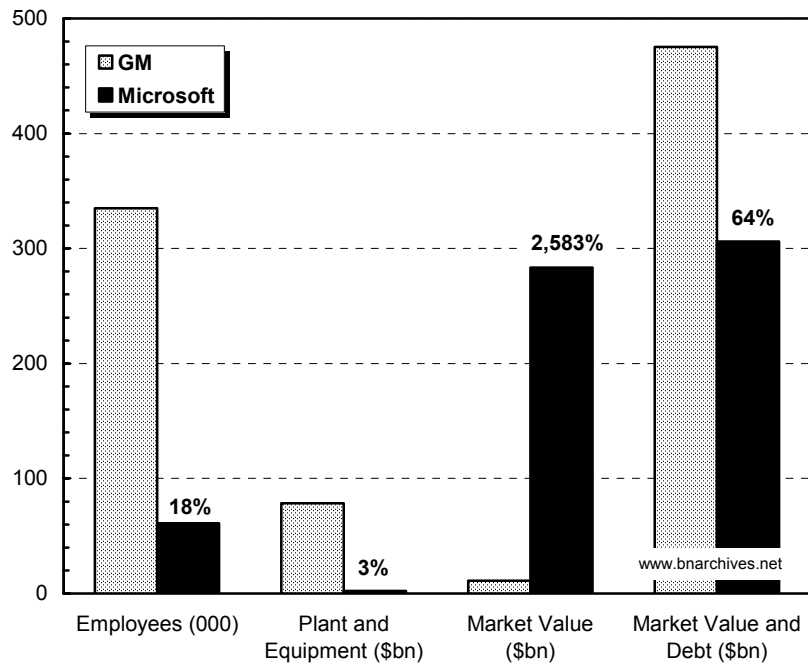
## Capitalization

*The central quantitative logic of capitalism is capitalization.*

- What counts is the price of the asset, here and now.
- And in general, that price has little or nothing to do with the so-called underlying “real assets.”
- Let’s illustrate this claim with two simple examples.



Figure 1  
General Motors *versus* Microsoft, 2005



NOTE: The per cent figures indicate, for any given measure, the size of Microsoft relative to GM.

SOURCE: Compustat through WRDS (series codes: data29 for employees; data8 for net plant and equipment; data24 for price; data54 for common shares outstanding; data181 for total liabilities).

*Figure 1 provides some very basic information on two leading corporations in the U.S. – Microsoft and General Motors.*

- Now, as noted earlier, economic measures of “real” assets are in fact nominal measures.
- But let’s suppose, for argument’s sake, that the dollar value of “real assets” is indicative of productive capacity.
- In terms of relative “productive capacity,” GM is a giant and Microsoft is a dwarf.
  - In 2005, GM had 335,000 workers – 5.5 times more than Microsoft.
  - It had plant and equipment with a book value of 78 billion dollars – 33 times more than Microsoft.
- But when you compare their capitalizations, the opposite is the case: Microsoft is the giant and GM the dwarf.
  - In 2005, Microsoft had a market capitalization nearly 26 times that of GM.
  - And even if you take the sum of debt and market value, GM, still, is only 55% bigger than Microsoft – a far cry from its relatively huge work force and massive plant and equipment.

*Now the usual response to such discrepancy is “technology” and “human capital.”*

- This is the knowledge economy, goes the argument.
- Obviously, Microsoft’s disproportionate market value must be due to its superior know-how, packed as “intangibles”.
- The nice thing about such claims is that they are entirely reversible and totally irrefutable.
- I can say that, in fact, GM has more know-how than Microsoft, and since nobody can quantify technology, how could we know?

*The discrepancy between “nominal” capitalization and “real” assets is further illustrated over time.*

- The top panel in Figure 2 shows the famous Tobin’s Q for the U.S. corporate sector.
- It computes, for every year, the ratio between the market value of shares and bonds and the current replacement cost of the underlying “fixed assets”
- Now, if nominal capitalization indeed reflects real assets, this ratio should oscillate around 1.
- But it doesn’t: over the past half century, it averaged 1.4.
- Moreover, it varied a very great deal – from a low of 0.8 to a high of 3.2.

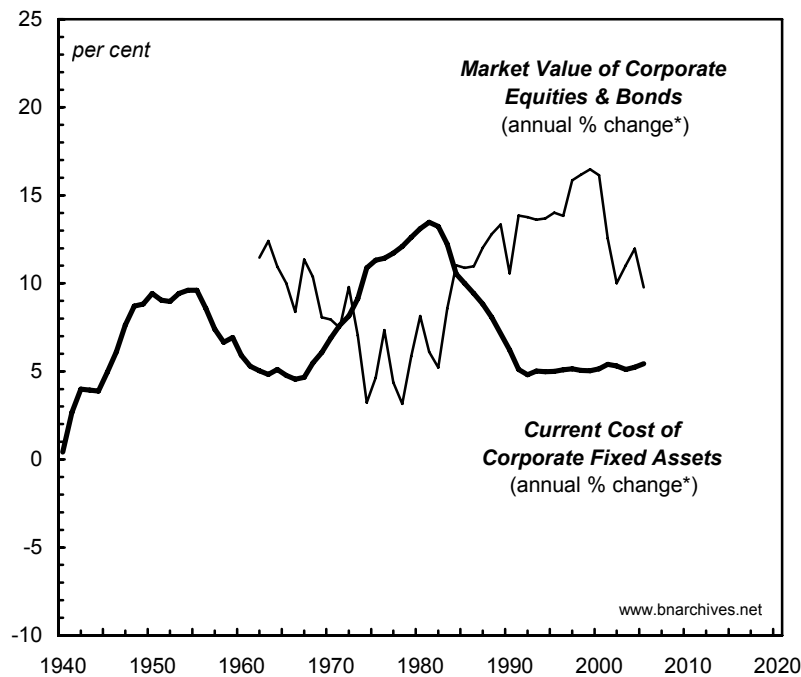
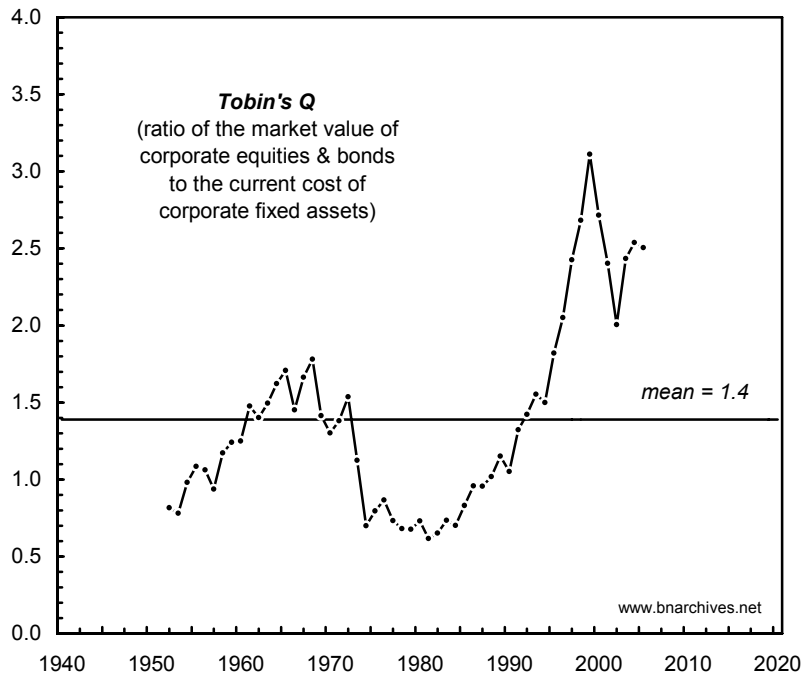
*Now, the response to this “discrepancy” is well known.*

- It’s been given every derogatory name.
  - It’s been called “bubbles,” “speculation,” “manias,” “crashes” “disequilibrium,” “distortions,” “delinking,” “irrational exuberance,” and, of course, “fictitiousness.”
- The basic idea is that the reality of accumulation is determined by the underlying “fixed assets,” and that financial capitalization merely oscillates around that reality.
  - In boom times, financial capitalization is said to delink from reality by inflating a bubble and pushing Tobin’s Q upward.
  - During a bust, the opposite happens: capitalization crashes and Tobin’s Q declines.

*But that is not what the bottom panel of Figure 2 tells us.*

- The graph shows the rate of change of numerator and denominator of Tobin’s Q, each expressed as a 10-year moving average.
  - The thick line shows the rate of growth of fixed assets.
  - The thin line shows the rate of growth of capitalization.
- And surprise, surprise, the difference is not in the amplitude, but in the direction.
- The growth rates of “fixed assets” and “capitalization” oscillate in opposite directions!
- In this situation you have to choose.
  - You have to decide which of the capitals is real and which is fictitious.
  - If you stick with the theory and choose “fixed capital” as the real thing, you have to abandon any attempt to understand the actual working of capitalism.
  - And if you choose financial capitalization, you can no longer rely on value theory and its belief in “material assets.”

Figure 2  
**U.S. Corporate Capital:**  
**Which is the “Real,” which is the “Fictitious”?**



\* Rates of change are smoothed as 10-year moving averages.  
 SOURCE: U.S. Bureau of Economic Analysis through Global Insight (series codes: FAPNREZ for current cost of corporate fixed assets). Federal Reserve Board through Global Insight (series codes: FL893064105 for market value of corporate equities; FL893163005 for market value of corporate and foreign bonds; FL263163003 for market value of foreign bonds).

*Now, at this point, you probably ask yourself why on earth do “fixed assets” and market capitalization move in opposite directions?*

- The answer is rather simple: there is no connection between the two concepts.
- Financial capitalization simply has nothing to do with the value of “fixed assets.”

## **The Elementary Particles**

*So what exactly does capitalization measure?*

- There are numerous ways of conceiving of this process.
- In our theory, we frame it using 4 elementary particles.
  1. The future flow of earnings.
  2. Investor’s “hype” concerning such earnings.
  3. The risk factor associated with the expected earnings; and
  4. The discount rate used to bring the expected risk-adjusted earnings to their present value.

$$\text{capitalisation} \equiv \frac{\text{future earnings} \times \text{hype}}{\text{risk} \times \text{discount rate}}$$

*Let’s briefly examine each of these elementary particles.*

- Future earnings denotes the income that will actually flow to the owners of the asset.
  - This is not a single number, but a stream that can take different temporal patterns.
  - It could flow in perpetuity, or it can end after a fix period of time.
- Of course, here and now capitalists don’t know what these future earnings will be.
- What they capitalize is not the actual earnings, but their expectations.
- Analytically, then, expected earnings are the product of two components: the actual future earnings and what we call “hype.”
  - The hype coefficient is simply the extent to which capitalists are overly optimistic or pessimistic.
  - For instance, if hype is 2, it means that overly optimistic capitalists expect earnings to be twice as high as what they will turn out to be in the future.
- Risk refers to the extent to which capitalists believe they can predict the course of these earnings.
  - The standard basis for such judgment is the temporal variability of earnings.
  - Higher variability is typically considered more risky and vice versa.

- Finally, the discount rate is what capitalists believe they can get by investing in so-called “riskless” assets, such as U.S. government bonds.

*This formula is remarkably general.*

- It is the basic formula of finance – but, then, finance is now the overarching logic of capitalism.
- And that logic in fact turns every commodity into finance.
  - This logic determines the present value of a worker – computed on the basis of her expected lifetime earnings and the risk of her being laid off.
  - It determines the present value of a government – computed on the basis of that government’s ability to levy taxes and the social risks that come with such levies.
  - It determines the present value of any good or service – a value that equals the commodity’s one-shot resale price, discounted for the time it will be sold and the risk that it may remain unsold.

*And last but not least, this formula is inherently differential.*

- Capitalists think of this formula in dynamic terms.
  - Their main goal is accumulation.
  - In other words, they are concerned not with the level of capitalization per se, but with its rate of growth.
- Now, from the viewpoint of power, accumulation is meaningful only insofar as it increases the distributive share of the accumulator.
  - And that happens only if the owner’s rate of growth of capitalization is faster than the average pace of capitalization.
  - In other words, only if there is differential capitalization.
- The basic capitalization formula already has built into it a differential moment.
  - Note that the rate of growth of capitalization can be positive only if the combined rate of growth of earnings and of hype, less the rate of growth of risk exceeds the discount rate.
- Now, of course, the discount rate is a special rate, representing the return on so-called “riskless” assets.
- But we can be more general by defining the differential capitalization of any given owner or group of owners.

$$\text{capitalisation}_D \equiv \frac{\text{future earnings}_D \times \text{hype}_D}{\text{risk}_D}$$

- This formula defines the ratio between the capitalization of their asset and the capitalization of a benchmark asset.

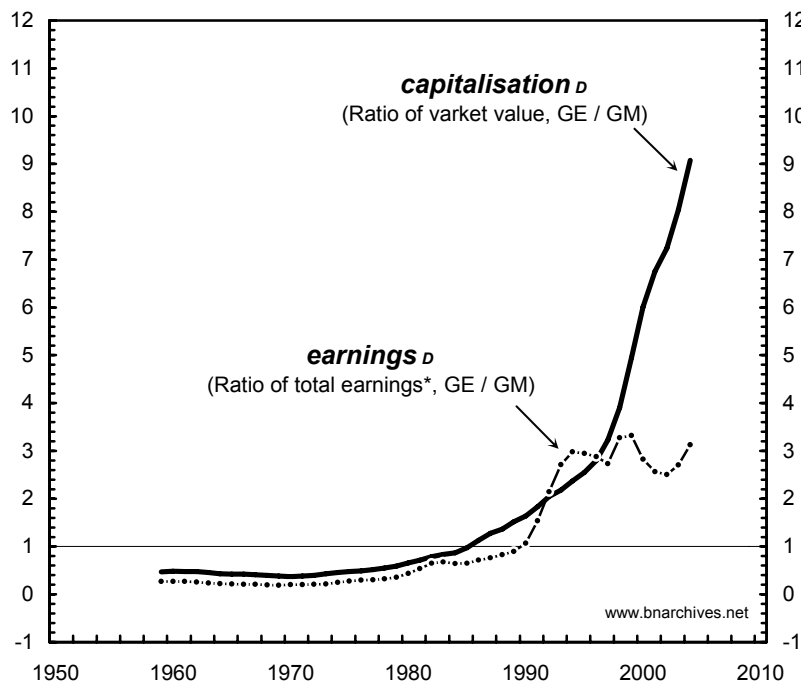
- In this formula, the D subscript represents the ratio between the corresponding capitalization, earnings, hype and risk;
- As you can see, the discount rate drops out, since it is common to both measures.

### Illustrations

*Now let's illustrate the significance of this framework with a couple of examples.*

- Figure 3 shows the path of differential capitalization of General Electric relative to General Motors.
- In other words, General Electric is our focus and GM is our benchmark.

Figure 3  
**Differential Capitalisation and Differential Earnings**  
**GE versus GM**



\* Total earnings excluding extraordinary items, net of taxes.

NOTE: Original series for earnings and market value are expressed as 10-year moving averages. Differential earnings and differential market value are computed as ratios of those moving averages.

SOURCE: Compustat through WRDS (series codes: data25 for price; data54 for common shares outstanding; data58 for earnings per share).

- To simplify matters, we concentrate on very long changes, extending over the past half century.
- First, we express the market value of each company as a 10-year moving average.
- Then we take the ratio of the two smoothed series to obtain GE's differential capitalization.
- This is the thick black line.
- Now, what do the facts tell us?
  - In the 1950s, General Electric's capitalization was less than  $\frac{1}{2}$  of GM's.
  - In the ten years ending in 2004, it rose to 9 times GM's.
  - In other words, over the period the differential capitalization of GE has grown 18-fold.

***What can explain this differential capitalization?***

- We can rule out any reference to "labour values," "technology," "productive capacity," "know how" and other such non-observable magnitudes.
  - But just to satisfy your curiosity, during the 1950s, the value of GE's net plant and equipment was less than a  $\frac{1}{3}$ <sup>rd</sup> of GM's, and that ratio grew to roughly  $\frac{1}{2}$  in the 2000s.
  - So "productive capacity" clearly is not a factor here.
- Now, let's look again at the differential capitalization formula.
  - Since we are dealing here with very long-term moving averages, we can safely ignore the ups and downs in differential hype;
  - Variations in hype are important, but they are shorter term in nature and therefore should not concern us here.
  - What we are left with are differential earnings and differential risk.

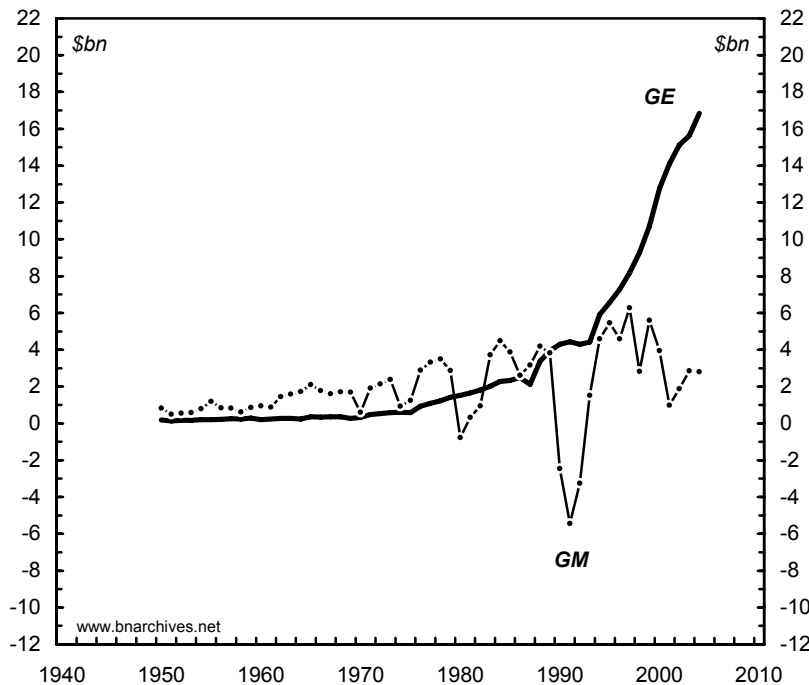
***Begin with differential earnings.***

- These are shown in Figure 3 by the dotted line.
  - They are computed just like differential capitalization;
  - First we take the 10-year moving averages for each company, and then we calculate their ratio.
- Now, the data tell us that in the 1950s, the earnings of GE were equivalent to roughly  $\frac{1}{3}$ <sup>rd</sup> of GM's, and that this ratio gradually rose to 3 in the 10 years ending in 2004.
  - This change represents roughly a 10-fold increase.
- So we have a 18-fold increase in differential capitalization, but only a 10-fold increase in differential earnings.
  - Obviously almost half the story is missing here, and that half is differential risk.

*You cannot see the differential risk in Figure 3, because the data are expressed as long-term moving averages.*

- But you can surely see it in Figure 4.
- This figure shows the net dollar profits of the two firms, year in and year out.
- And the difference is patently clear.
- We have already seen that the profits of GE grew faster than GM's.
  - But now we can also see that they grew much more smoothly and therefore much more predictably.
  - And we can further see that, over time, the risk gap has actually widened.
  - The pattern of General Electric's earnings became even smoother while GM's more volatile.
- In other words, contrary to standard economic and finance theory, General Electric has benefited from both higher earnings growth and lower risk.
- And it was this happy combination of faster earnings growth and lower risk that made its capitalization grow 18 times faster than GM's.

Figure 4  
**Earning Levels and Volatility: GE versus GM**



NOTE: Earnings refer to total earnings excluding extraordinary items, net of taxes.

SOURCE: Compustat through WRDS (series code: data54 for common shares outstanding; data58 for earnings per share).



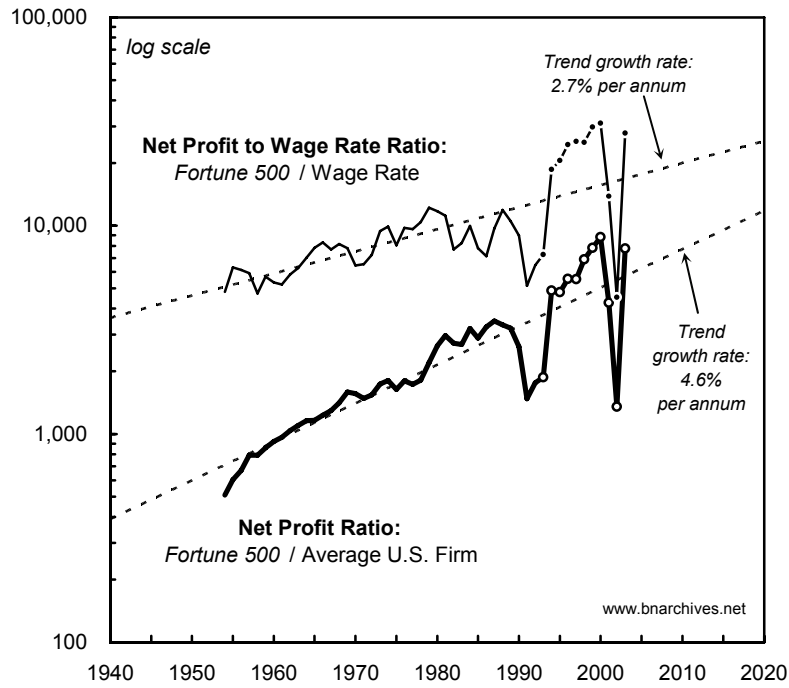
*This simple example already points to a huge gap in existing value theories.*

- Conventional value theories – both neoclassical and Marxist -- are uni-dimensional.
  - In a certain respect, they think only of levels and completely ignore temporal patterns.
  - The conventional view is that earnings – measured either in abstract labour time or utils – get ploughed back through investment, and as they pile up we get accumulation.
  - Now, whether this is true or not is beside the point.
  - The key issue here is that, in the conventional view, the temporal pattern of these earnings is irrelevant.
  - The earnings could grow smoothly and predictably, or they could be very volatile and unpredictable – but as long as they sum up to the same thing, their growth pattern makes no difference to accumulation.
  - Of course, risk can “affect” the pace of accumulation, but the impact is seen as coming from the outside.
  - Other than that, risk and accumulation are thought of as completely separate processes.
- This perception is highly misleading.
  - Conceptually, accumulation and risk are not at the same level.
  - In fact, accumulation already crystallizes within it both earnings and risk.
- In other words, we are dealing here not with one dimension but with two.
- And, in fact, once we bring in hype and the discount rate, we have four dimensions.
- This expansion -- from one to several dimensions -- has huge implications for the study of capital accumulation and capitalist development.

*Consider Figure 5*

- The figure shows the historical pattern of differential earnings for the Fortune 500 group of companies since the mid 1950s.
  - The top series expresses these earnings relative to the U.S. hourly wage rate.
  - The bottom series expresses them relative to average U.S. corporate earnings.
  - Both series are plotted against a log scale, so that their slopes are proportionate to their growth rates.
- Now, if you examine merely the level of differential earnings, you would tend to conclude that dominant capital has become increasingly powerful over the past half century.
- But since the 1980s there has been another side to the story — and that is the growing volatility of differential earnings.
- These conflicting processes do not merely “affect” accumulation;
- Both of them are integral part of accumulation.

Figure 5  
**Fortune 500: Differential Earnings**



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: *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).

## Conclusions

### *To wrap up:*

- We started by arguing that the capitalist order was denominated in prices, and therefore that any explanation of this order must have a theory of value.
- We then claimed that this quantitative order could not be explained by utility or labour values.
- Instead, we offered a new power theory of value.
- We argued that capitalism is not a mode of production, but a mode of power.
- And we suggested that differential capitalization provides the basic architecture and elementary particles of this mode of power.
- Our power theory of value differs from its liberal and Marxist counterparts in several crucial respects.

### *First, differential capitalization breaks the duality of economics and politics.*

- The 4 dimensions, or elementary particles, of differential capitalization – namely earnings, hype, risk and the discount rate – are all political, statist and, indeed, social, in the broadest sense of the word.
- They are all matters of power.
- Of course they involve material reproduction – but also political organizations, international relations, force, violence, ideology, culture, and religion, among other things.
- Clearly, this framework breaks the exclusive franchise of economists.
- But it does more than that.
- It calls for completely removing the very conceptual separation between “economics” and the rest of the social process.

### *Second, differential capitalization makes no distinction between the so-called “nominal” and “real” spheres.*

- The quantitative architecture of capitalism is nominal, and only nominal.
- That doesn't make it unreal.
- On the contrary.
  - As Veblen puts it, “In the business world the price of things is a more substantial fact than the things themselves.”
- Again, tangible production and consumption are very real as well.
  - But they are qualitative, not quantitative.
  - And although they feature crucially in the structure of power, they cannot, in and of themselves, tell us anything about the quantitative logic of that power structure.

***Third, differential capitalization dispenses with the notion of intrinsic equivalence.***

- Commodities have only one quantity, and that is their price.
  - This quantity is not intrinsic.
  - It has nothing to do with “utils” or “abstract labour.”
  - Instead, it is a creature of the *nomos*, an imposition of society.
  - And in capitalism, the *nomos* is based on power.
- For this reason, the study of capitalism must be both quantitative and qualitative.
  - We need to examine the quantitative dynamics of capitalization
  - We need to examine the qualitative dynamics of power.
  - And we need to speculatively link them into one persuasive story.

***Fourth, differential capitalization needs neither equilibrium nor disequilibrium.***

- Capitalist development is subject to certain patterns, some of which are very imposing.
  - But these patterns are not laws of motion, imposed from the outside.
  - They are internal to society.
  - They are instituted, enforced – and most importantly, continuously transformed – by human being, through a power struggle.
  - There is nothing “ideal,” “natural,” or “permanent” about them.
- In this context, the question that a power theory of value asks is not one of equilibrium or disequilibrium.
  - It is not whether reality and history conform or deviate from these patterns.
  - It is rather how and why these patterns persist and change.

***Fifth, differential capitalization is both backward and forward looking.***

- It allows us to consider how the capitalist architecture of power embodies both the past and the future.
- It enables us to examine the historical path of the various dimensions of capitalization, as well as how they are all crystallized into a single present value.
- And it allows us to peer into the future – since it is the future that power is most concerned with, and it is the future that drives capitalists in their quest to reshape their society.

***Last but not least, differential capitalization does not claim to be a general theory of society.***

- Differential capitalization is the architecture of capitalist power.
- It reflects the way that the ruling class thinks about society, the capitalist *nomos* that the ruling class imposes on the rest of us.
- It is the key to understanding the whole gamut of capitalist institutions – from monetary policy, through state finances, to the pension system, the stock market, currencies, capital flow, and the private corporation – to name a few.
- These institutions are neither accidental nor technical.
- They have a clear historical logic: the logic of capitalist power.