

# Notes on the State of Capital

Shimshon Bichler and Jonathan Nitzan

Jerusalem and Montreal, March 2010

[www.bnarchives.net](http://www.bnarchives.net)

These notes are transcribed from a commentary on a paper by Sean Starrs, titled 'State and Capital: False Dichotomy But Still Inter-Related'. Both the paper and the commentary were presented as part of an [integrated panel series on 'Capital as Power'](#), held at the 36<sup>th</sup> Annual Conference of the Eastern Economic Association in Philadelphia, February 26-28, 2010.

## **Abstract of Sean Starrs' paper 'State and Capital: False Dichotomy But Still Inter-Related'.**

"Nitzan and Bichler's latest book, *Capital as Power*, marks a major advancement in the study of political economy. Their power theory of value, differential accumulation, and conceptualization of capitalism as a mode of power are all fundamental contributions. Where I think their theoretical framework goes astray, however, is in their conceptualization of 'the state of capital'. While I accept their assertion that economics cannot be separated from politics, in this paper I argue that this should not imply that politics cannot be separated from the logic of capital. That is, while capital (and capitalism) cannot exist without the state, the state *can* certainly exist without capital. Thus, I suggest that one can still conceptualize a 'state mode of power', and that this conceptualization does not necessarily have to reproduce the false dichotomy between state and capital. Also, I believe that one should conceptualize the state as representing the balance of social forces within a particular social formation. Today, this balance is certainly in favour of capital, but that does not preclude the existence of other logics, some of which are non- or even anti-capitalist, and the relationship between capital and these other logics is open, dialectical, and dependent on struggle".

## **Introduction**

Sean Starrs claims that we need to discard our notion of the 'state of capital'. The gist of his argument is simple enough. Capitalist societies, he says, involve a myriad of power relations, many of them very important. These relationships, although often linked to the logic of capital, are distinct from that logic and therefore cannot be reduced to it. And since we are talking about separate social processes, we cannot encompass them all under the same rubric. His conclusion: the notion of a totalizing mode of power – which we call the state of capital – must be dispensed with.

The following notes attempt to clarify. They seek to explain, first, what we mean by a 'mode of power', and, second, why we use this concept in the first place. The sequence of our presentation is as follows. We begin by contrasting two spatial conceptions of the state. We then explain the notion of capitalization, which in our view represents the logic of the state of capital. And, finally, we flesh out the argument with a series of historical examples.

## Space

In our 2009 book, *Capital as Power*, we define ‘modes of power’ in relation to the notion of space. Newton thought of space as a container. Space for him is an independent ‘place’, an entity that exists regardless of the items it contains.

What does this independence mean? According to Newton, space acts on the entities it contains – for example, through the law of inertia. But the opposite doesn’t hold: the entities have no bearing on the space within which they are contained. The space and its laws exist whether the space is empty or populated.

This Newtonian notion of an independent space is common in social analysis. The liberal ‘market space’, for example, determines the laws of supply and demand. The entities of ‘market space’ – namely consumers and producers – obey these laws, but they have no effect on them. In this sense, ‘market space’ exists independently of its contained entities. Over time, non-market distortions cause some individual particles to collate into larger bodies – corporate coalitions, labour unions, NGOs, etc. – but these bodies, however large, continue to obey without ever altering the logic of the space in which they exist. Other social spaces, such as gender, ethnicity, race, culture and communication, may have their own distinct logics, whether structural or postist, and these logics continuously impinge on, intervene in and affect what happens in ‘market space’. But the intrusion, coming from the outside, affects merely the entities of ‘market space’, not its inner logic.

Now, the conventional liberal creed – which some Marxists seem to have adopted – is that the government, or the state, is a synthetic entity. According to this view, at any point in time the state reflects the ‘balance of forces’ between the various entities that populate the different spaces of society.

For example, in the United States, where the balance of forces tilts in favour of capitalism, the state is overly representative of the interests of dominant capitalists. By contrast, in China, where the balance of forces is very different, the state is dominated by the oligarchy of the Communist Party.

But then, note the terminology here: *the state as a balance of forces*. The notion of a ‘balance of forces’ is Newtonian par excellence. It was born with the political-scientific revolution of the seventeenth century to reflect the new flat cosmology of interdependent mechanized bodies that act and react on but never dominate one another; it was politicized by Voltaire and others in the eighteenth century to justify the liberal-capitalist revolution; and it was reproduced in the nineteenth and twentieth centuries in numerous concepts, including ‘economic forces’, ‘checks and balances’, ‘countervailing powers’, ‘social equilibrium’ and so on.

So we have a serious problem right from the word ‘go’. We think of the state as a general, universal entity, capable of taking many different forms. Yet we describe this entity as a ‘balance of forces’ – i.e., in terms that are decidedly liberal and capitalistic.

This is where the alternative notion of Leibnitzian space comes into the picture. Unlike Newton, Leibnitz, and later Einstein, described space not as an independent container, but as the positional property of things. The space and its bodies are co-defined and co-determined. This view is both totalizing and dynamic: it is totalizing because the space ‘constitutes’ the bodies and vice versa; and it is dynamic because both space and the bodies it comprises are constantly changing.

Marx’s concept of a ‘mode of production’ is definitely Leibnitzian, at least in principle: the social entities and the societies that these entities make are co-characterized and co-determined by the *changing nature of production*. But there is an important discontinuity. For Marx, the engine of historical society – namely the production, appropriation and use of the surplus – is an ‘economic’ process, and that

classification ends up fracturing his Leibnizian totality. The state, being a ‘political’ entity, is distinct from the ‘economy’, by definition, and that distinction necessitates two different forms of power: ‘economic exploitation’ and ‘political oppression’.

Our own notion of a ‘mode of power’ is also Leibnizian: the entities that make up the society and the society they make up are jointly characterized and determined by the *nature of power*. However, unlike in Marx, here there is no distinction between ‘economic’ and ‘political’ power, so the fracture does not arise to begin with.

### **The Capitalist Mode of Power**

In our view, every hierarchical social order is characterized by a unique mode of power: we call this mode of power the ‘state’ of that society.

The capitalist mode of power – like the feudal and the slave-based modes of power that preceded it – is marked by its particular pattern of power relations: in this case, by relations that are *specifically capitalistic*.

Note that we do not mean to suggest that in the capitalist mode of power ‘all power = capitalist power’, and not even that all power can be ‘reduced’ or ‘translated’ to capitalist power.

Instead, we argue first that as capitalism develops, the logic of capitalist power increasingly permeates the social space; and second that, consequently, every social relationship is gradually imprinted with and to some extent transformed by this logic of power.

### **Capitalization**

Symbolically, the logic of capitalist power is represented by capitalization. Capitalization is the central ritual of capitalism. It is the process through which capitalists – along with everyone else – discount risk-adjusted expected future earnings to their present value.

This ritual has a very long history. It was first invented in the capitalist Bourgs of Europe, probably sometime during the fourteenth century. It overcame religious opposition to usury in the seventeenth century to become a conventional practice among bankers. Its mathematical formulae were first articulated by German foresters in the mid-nineteenth century. Its ideological and theoretical foundations were laid out at the turn of the twentieth century. It started to appear in textbooks around the 1950s, giving rise to a process that contemporary experts call ‘financialization’. And by the early twenty-first century, it has grown into the most powerful faith, with more followers than all of the world’s religions combined.

Contrary to the impression given by finance books, capitalization isn’t a mere technical formula. And contrary to Marx’s pronouncement, it is anything but ‘fictitious’. First and foremost, capitalization is the power algorithm of capitalism, a distilled representation of *organized social power*. Every component of capitalization – be it earnings, hype, risk or the normal rate of return – is driven and shaped by power relations, and only by power relations. And since power is relative, the focus of our analysis isn’t absolute capitalization, but *differential capitalization*.

Second, capitalization is a *universalizing* process. It tends to spread into and penetrate various facets of social life, engulfing more and more power relations into its fold. Any power process that is touched by capitalization gets discounted, and what gets discounted is encompassed into the capitalist mode of power.

Third and finally, capitalization is *self-transformative*. Over time, it alters the processes that it enfold, but it also gets transformed by those very processes.

### **The Embrace of Public Debt**

Let's illustrate these dynamic features with some examples, beginning with the public debt. As noted, most liberals as well as some Marxists think of the state as reflecting the balance of forces of society. From this viewpoint, contemporary states can be characterized as hyper capitalist, social democratic, socialist, communist, theocratic or fascist – all depending on the particular mix of their power relations. And of course there is nothing inherently wrong in such a differentiation.

For us, though, the key issue is not the differences between contemporary states, but their commonalities.

One such commonality is that, nowadays, all states are indebted. According to *The Economist*, the 2010 global sum of all state debt is \$37 trillion. This is a universal feature. There is probably no single government – whether hyper capitalist, social democratic, socialist, communist, theocratic or fascist – that isn't indebted.

Remarkably, this universal indebtedness is a totally new phenomenon. During much of human history, the situation was exactly the opposite: commonly, the debt was held by the ruler, not owed by the ruler.

This historical pattern started to become inverted a few hundred years ago in Europe. Kings and princes, being strapped for liquid cash, began to finance their war expeditions by selling bonds to the financiers of the Bourgs. For the rising bourgeoisie, the bonds constituted an undifferentiated financial claim – with an important twist. The collateral for the claim was not the productive capacity of the ruler, but his power. The price of the bond quantified that power: it denoted the present value of the ruler's future power to tax, confiscate and loot. In this way, the government got bonded to the capitalists, who in turn became de facto 'shareholders': holders of standardized shares in the organized force of society.

Conventional analysis tends to discount this bondage on the grounds that the state is 'sovereign', and a sovereign can always renege on its debt. This claim – an anachronistic remnant of the princely order – is perhaps correct, but only in a formal sense. In practice, default is fairly rare, and it is rare because of its harsh differential repercussions. Governments that default, or even consider such option, find it much harder to borrow, and those that cannot borrow quickly find themselves left behind those that can. For this reason, today's governments, although calling themselves sovereign, have internalized – indeed, have become bounded to – this logic of capital.

### **China: Communist or Capitalist?**

Does this logic apply equally to capitalist and non-capitalist states?

Take China. According to Starrs, in China capital isn't in the driver's seat. Whereas in countries such as the U.S. and the U.K. the government is hostage to capitalist principles, in China, he argues, the situation is reversed: the Communist Party oligarchy uses capitalist principles to advance its own power. And again, on the face of it, this statement may seem plausible, and many Communist Party officials – just like the feudal lords before them – probably love to believe it.

But does it hold water?

Let's examine this case a bit more closely. The Chinese government has public debt obligations of **\$1.1 trillion**. It also holds nearly **\$2.4 trillion** in foreign assets. The sum of these debits and credits – a total of **\$3.5 trillion** – is managed according to the universal principles of capitalization. The **\$1.1 trillion** in debt discounts the ability of the Chinese government to levy taxes and the risk that it may be unable to do so; the **\$2.4 trillion** in assets discount the earnings and risk of the many foreign investments that the Chinese government owns.

In this sense, the oligarchy of the Chinese Communist Party obeys the very same rules as the capitalists. And that obedience makes the Chinese government – regardless of how 'sovereign' or 'non-capitalist' it may otherwise look – part and parcel of the capitalist mode of power.

Of course, the situation wasn't always like that. Recall that a 'mode of power' is like a Leibnizian space: it changes along with the entities that comprise it. Thirty years ago, China had only **\$2.5 billion** worth of reserves. Since then, this sum has increased a thousand fold – an increase that came together with massive social reorganization along capitalist lines. Thirty years ago we could perhaps still speak of a communist mode of power, but can we do so now?

### **New Heroes**

During the Cultural Revolution, the heroes of Chinese communism were peasants and workers. But with the principles of capitalization having taken over, the heroes changed.

In 2009, the Communist Party introduced a new champion: the banking executive. One banker was honoured, to quote the *Financial Times*, for 'helping clients manage their finances and save money', while another was hailed for her 'selfless devotion to financial services during the Olympics'. The official advertisement was careful to reiterate the primacy of the Communist Party: 'Amidst the deepening and spreading financial crisis . . . these financial sector cadres overcame difficulties, strived to maintain growth, protect people's livelihoods, maintain stability and wholly promote socialist political and cultural construction as well as the grand project of constructing the party'.

According to this advertisement, in China capitalism and financialism are merely 'tricks' that the Communist Party uses to promote socialism, although it's doubtful that even the advertisers believe this doublespeak.

### **Workers and Farmers as Investors**

The Communist Party oligarchy likes to see itself as the workers' vanguard, but in matters of capitalization it seems to follow rather than lead the global worker.

In the West, workers have been tempted and forced into the logic of capitalization for more than a century now; they have become bounded to mortgages, car loans, credit cards, pensions, mutual funds and other assorted 'instruments'. The life of a contemporary Western worker is more or less fully discounted – a process that is nicely matched by the fact that finance courses now are taught not only in universities and high schools, but in elementary schools as well.

The Chinese worker still has a lot of catching up to do, but, to its credit, one must say that the Communist Party is **trying to help**. In the late 1990s, the party started to privatize the country's stock of houses. This privatization opened the door to a massive explosion of capitalization and credit on the one hand, and to the transformation of workers into 'investors' on the other. And, then, in the late 2000s, the party took a second leap forward by starting to monetize the country's agricultural land, a move that has

the potential of turning the other part of the population – roughly 700 million peasants – into equally smart ‘farmers-investors’.

The lesson from these examples is rather simple. China’s historical development is certainly different from that of the United States, England, or India. But having been absorbed into the world of public bonds, foreign investment, mortgaged housing and monetized agriculture – in other words, into the world of capitalization – this historical development, although seemingly under the control of the Communist Party oligarchy, is part and parcel of the evolving capitalist mode of power.

Of course, since we are dealing with a Leibnitzian space, the integration works both ways. China gets embedded in the capitalist mode of power, while simultaneously changing this very mode of power. In this sense, the evolution of China today is part of the ongoing *creordering* of the capitalist mode of power.

### **Capitalized Wars**

Another key institution that is associated with the state, and that Starrs points to, is war.

War is much older than capitalism, having existed in all class societies, past and present. But in every mode of power, war tends to assume features that are unique to that mode of power. This uniqueness is certainly true of capitalism, as evidenced by the voluminous research on capitalist wars and imperialism. However, so far little attention has been paid to the fact that modern wars are increasingly conceived, executed and measured specifically in terms of capitalization.

Begin with the national statisticians. Whether American, Swedish or Chinese, they all define and measure weapons as ‘assets’ and ‘wealth’, and they associate with such weapons capitalised quantities, depreciation rates and implicit rates of return.

In line with this definition and measurement, army strategists and commanders now speak of military campaigns as ‘investments’, calculating their current ‘costs’ and future ‘benefits’ with standard discounting practices.

Finally and most strikingly, government and military officials now use the rituals of capitalization to assess the very success of their campaigns. During the Bush surge in Iraq, for example, it was common to compare spreads between Iraqi and global sovereign bonds. These spreads are taken as the market assessment of risk; and since the market knows best, when the spreads fall the surge must be working, and when they rise the surge must be failing. . . .

### **The Ecological Future of Humanity**

Our final example concerns the social implications of climate change.

Obviously, the climate, just like war, isn’t unique to capitalism. Yet, we almost treat it as if it were.

Most scientists agree that human activity contributes to global warming/dimming, but that agreement per se doesn’t tell us what’s to be done. The problem is that the damage of global warming will be inflicted in the future, while the cost of preventing that damage must be incurred now. So we need to compare present and future values, and the way that governments go about doing it, is by using – yes, you guessed it – capitalization.

Now, although the computational ritual itself is universal, its precise application can conjure up very different policy omens, depending on the particular rate of interest being used.

Lord Nicholas Stern, for example, used in his *Economics of Climate Change* a discount rate of 1.4 per cent. According to his computation, a \$1,000 worth of environmental damage a 100 years from now has a huge present value of \$250. By contrast, Professor William Nordhaus, in his *rebuttal* of Stern's work, used a discount rate of 6 per cent. This higher rate reduces the present value of the damage to a miniscule \$3.

So we end up with two very different recipes for how to save humanity from itself. The first recipe calls for massive and urgent action, the second for no action at all, and both are derived from the same power algorithm of the capitalist mode of power: the ritual of capitalization.

### **In Sum**

The definition of the 'state' as the mode of power of society is a broad framework, not a particular theory. Taken on its own, the notion of the capitalist mode of power, just like Marx's mode of production, is not meant to account for any specific entity, occurrence and process: it cannot explain a particular war, a particular set of gender relationships, a particular ethnic context, or a particular cultural trait. But in our epoch, these social processes are all embedded in the capitalist mode of power, and the argument we're making here is that they need to be analyzed within that framework.

Contemporary governments are part and parcel of this capitalist mode of power. They can differ greatly in their composition; they can reflect and represent different social groups; and they can employ different policies. But the power space within which these governments are enfolded is increasingly capitalistic, and that enfoldment makes them elements of the state of capital.

