

Topic 5

Organs of Capital: Corporations and Government

Enter the corporation

- The “capitalist” transformed: from a person, to an organization, to an institution
- Karl Marx’s “socialization of capital”
- Thorstein Veblen’s resolution
- Jack London’s *Iron Heel*
- Neoclassical efficiency

Some basic facts

- Corporate concentration: industrial and aggregate
- Corporate merger: consolidating the top
- Ownership: from direct to roundabout

New questions

- Governance: ownership vs. control.
- The corporation: boundaries, corporate structure, business organization
- Political economy: motivation, competition, pricing/output, politics, state/capital

Corporate ownership and control: the “separation thesis”

- Berle and Means’ *The Modern Corporation and Private Property*
- Implications: the end of profit maximization?
- Implications: pricing, employment, growth and democracy
- Zeitlin’s “pseudofacts”: have the capitalists really been dethroned?
- Leveraging the inactionary owners

Corporate size: the neoclassical take

- Economies of scale and risk reduction
- The end of “competition”?
- Politics in the backdoor?
- Marshall and the net benefit of caste
- Organization as a “factor of production”
- Internalizing the market: Coase’s “Transaction Costs”

The corporation and “Big Business”

- The rise of the corporation
- Firms vs. establishments
- 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”

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

Corporate finance: productive wealth or power?

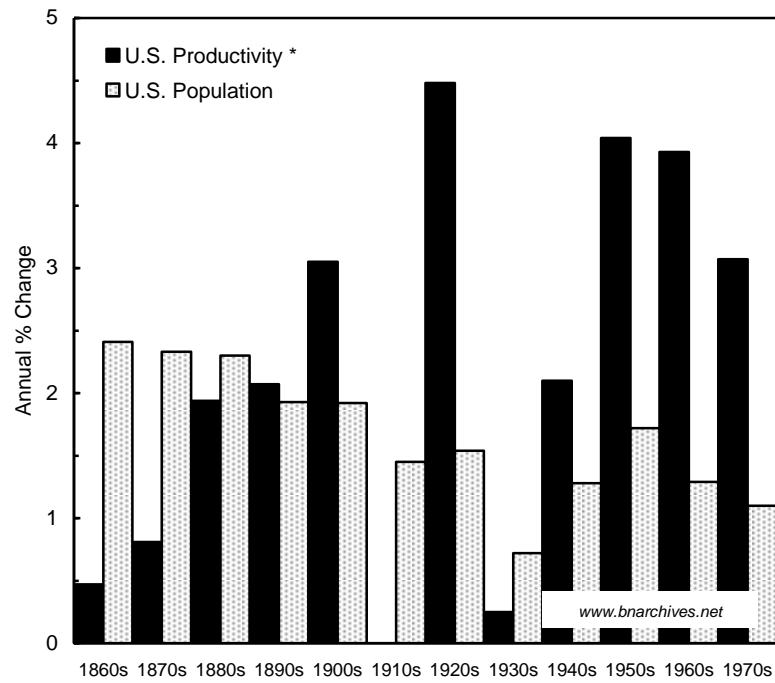
- Assets and liabilities
- Equity: “immaterial” assets or differential power?
- Debt: “material” assets or normal power?
- The “normal rate of return”: where did it come from?
- The “normal rate of return”: the appearance of “unemployment”

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

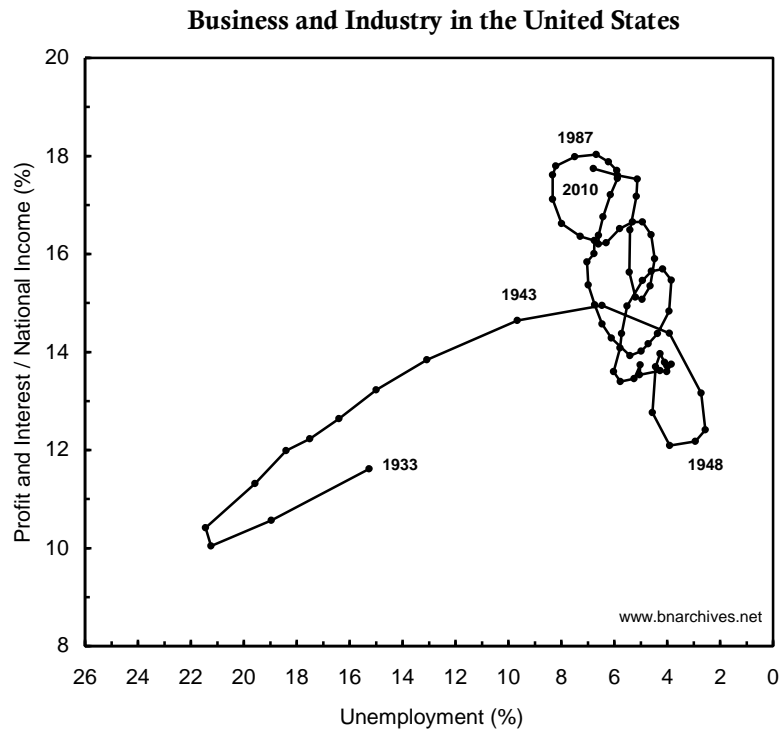
Source: U.S. Census Source: U.S. Census Bureau, Statistics of U.S. Business 2001

The Productivity Threat



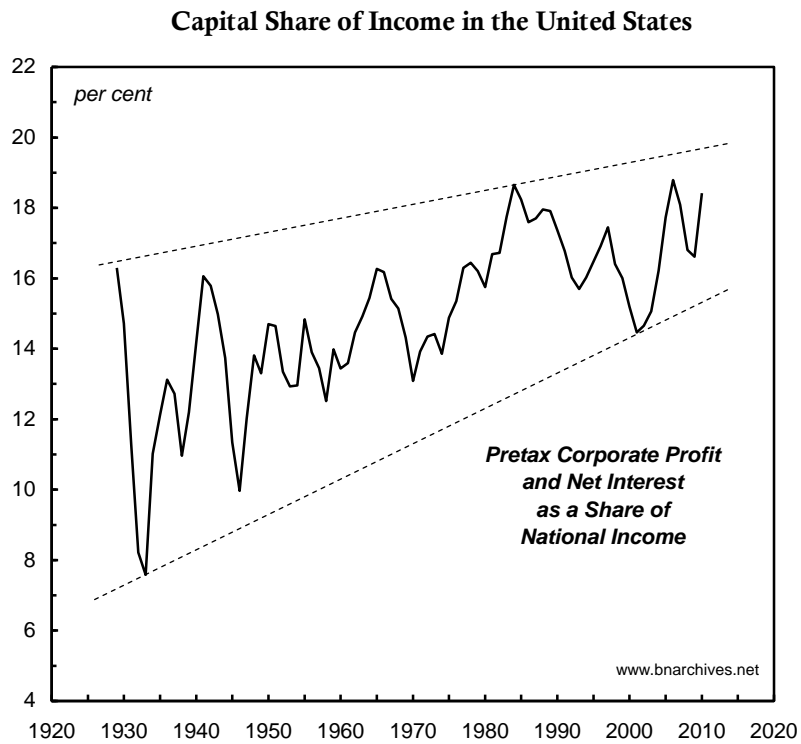
* Measured labour productivity in manufacturing, based on the Frickey Index spliced with the FRB index and divided by the number of manufacturing production workers. The average productivity during the 1910s was zero percent.

SOURCE: Nitzan, Jonathan. 1998. [Differential Accumulation: Toward a New Political Economy of Capital](#). *Review of International Political Economy* 5 (2): 190. Original data from U.S. Department of Commerce.



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

SOURCE: Updated from Nitzan, Jonathan, and Shimshon Bichler. 2000. [Capital Accumulation: Breaking the Dualism of "Economics" and "Politics"](#). In *Global Political Economy: Contemporary Theories*, edited by R. Palan. New York and London: Routledge, pp. 67-88. Original data from U.S. Department of Commerce through Global Insight (series codes: INTNETAMISC for interest; ZBECON for profit; YN for national income; RUC for unemployment).



* Including capital consumption allowance and inventory valuation adjustment.

SOURCE: Updated from Nitzan, Jonathan. 1998. [Differential Accumulation: Toward a New Political Economy of Capital](#). *Review of International Political Economy* 5 (2): 203. Original data from U.S. Department of Commerce through Global Insight (series codes: ZBECON for pre-tax corporate profit; INTNETAMISC for net interest; YN for national income). Last data point: 2010.

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)