

# **Crisis of Capital, Crisis of Theory**

## Dominant Capital and Differential Accumulation in Canada

\*DRAFT PAPER: WORK IN PROGRESS\*

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### **ABSTRACT**

The unfolding global political-economic crisis has brought both orthodox and heterodox theories of political economy into question. The dominant mainstream framework, neoclassical economics, blames the crisis largely on speculative excesses in the financial system while Marxist accounts of the crisis attribute it to the stagnation tendencies within the 'real' economy. Despite the manifold theoretical differences, both frameworks agree on this: there is indeed a crisis, and if we dig deep enough, at the root of it we will find some imbalance between the 'real' economy and nominal finance. This paper will suggest that both mainstream and Marxist explanations of the current crisis are off the mark because they ask the wrong questions. Instead of looking at absolute outcomes in the accumulation process—based on either utility (neoclassical economics) or abstract labour (Marxism)—this paper will employ the capital as power framework (see Nitzan and Bichler, 2009) to query *distributional* outcomes. The paper will begin with a brief review of the mainstream and Marxist accounts of the crisis and from there will examine the crisis in Canada at three levels: first, the redistributive character of crises; second, the performance of dominant capital relative to the corporate universe; and third, the distributional winners within dominant capital itself. Using disaggregate measures and with a view to differential and distributional outcomes, we will be in a better position to determine *whom* this has actually been a crisis for.

## INTRODUCTION

This paper was born out of two related questions: first, what makes this a crisis?; and second, who is this a crisis for? The task of this paper is to demonstrate that these questions have different answers depending upon the theoretical framework one employs. That is to say, the assumptions, concepts and measurements that one uses heavily influence how one answers the preceding questions. The paper is broken up into four sections: the first section presents the crisis as it is understood by mainstream and Marxist political economists; the second recounts some of the key concepts and assumptions that inform their analyses; the third will briefly detail some of the key concepts and assumptions of an alternative theoretical framework, the capital as power framework pioneered by Jonathan Nitzan and Shimshon Bichler; and the fourth section will employ this new framework in assessing the crisis as it has unfolded in Canada.

In the way of a final preamble please note that in order to cover as much ground as I intend to I will have to proceed rather quickly, bypassing the nuances and complexity that many of these concepts, assumptions and measurements would otherwise require. I don't have firm answers for you here but I think these are some of the right questions to ask. Also note that the crisis is still unfolding and, as such, the best I can hope for here is tentative suggestions.

## THE CRISIS ACCORDING TO THE ESTABLISHED FRAMEWORKS

### The Mainstream Account

The Great Recession, as it is coming to be called, has two dimensions for the neoclassical economist: there is a 'real' recession in the form of unemployment and idle productive capacity (the result of a lack of demand) and there is the financial meltdown. It is this interplay of the 'real' recession and financial crisis that has made this into a *great* recession.

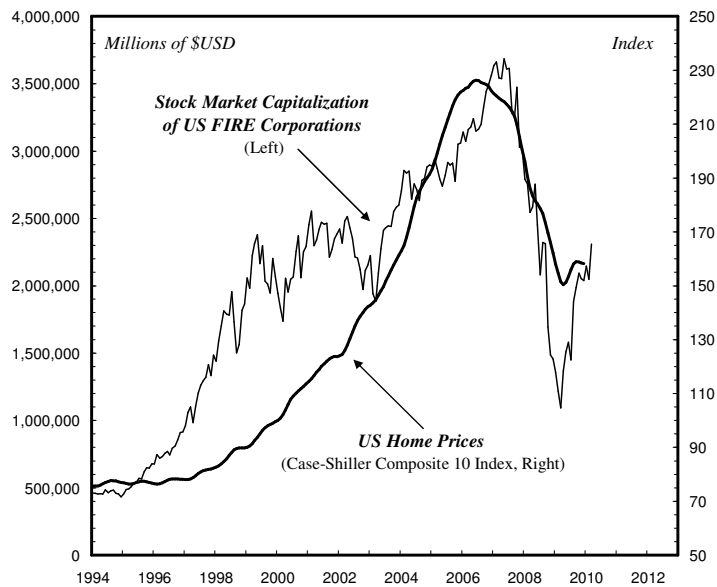
The inherent problem is this: a free market is able to regulate itself most of the time through the automatic operation of the price mechanism. Furthermore, thanks to government policy, the economic system has additional stabilization mechanisms in the form of unemployment insurance, social assistance, etc. These mechanisms enable the system to handle minor shocks without the need for serious market intervention. That said, there are features of market economies which tend towards

*destabilization* such as asymmetric information, elaborate financial engineering and market imperfections.

The mainstream story is as follows [the account here is adapted from Solow 2009]. The 1990s witnessed a boom in housing construction. Come 2001, the Federal Reserve lowers its interest rate in order to help alleviate the recession of that year. Low interest rates mean a number of things: businesses can borrow cheaply to finance expansion; consumers can finance the cost of a home more cheaply; and for bankers, financiers and investors it means they can borrow on the cheap and leverage their borrowings to pursue profit opportunities more aggressively. They borrow because they can invest more than their own capital, earn more profits, and only have proportionately little to repay in interest (on top of the principal). The issue here for investors is leverage. Investors have an additional incentive to borrow a lot of money – to take on a lot of debt – in order to make a quick profit. Whereas a 10-1 ratio would have been on par for normal interest rates, with low interest rates the leverage ratio reaches 30-1 (for every dollar of capital, 30 dollars in debt).

Part of the issue here is that money wasn't being ploughed into what's called 'real' investment like expanding industrial capacity, running longer production lines, etc. More on this when we get to the Marxist account. Now, why would so many large institutions take on so much debt? Isn't it very risky? Well, yes. But it had always worked out in the past, and if your competitors are doing it you have an added incentive to participate despite the risks. What were they investing in? The mainstream account was that the housing market was becoming inflated (a 'bubble' formed). Low interest rates also meant that purchasing a home (and financing it through a mortgage) became more affordable for many people.

Many people were able to purchase homes even though they didn't really have the capacity to finance the mortgage (NINJAs). The only way they could stay in their homes was for housing prices to rise. Rising housing prices induced many people to purchase homes they couldn't afford on the expectation that housing prices would rise. But those purchasing the homes then drove the prices higher. Expectations were confirmed through action; prices rose because they had been rising. The regulators (like Moody's and Standard and Poors) faced a conflict of interest because they were paid by the same institutions whose securities they were supposed to be appraising. Many of these mortgages were packaged and sold off as mortgage-backed securities. And so long as prices were rising the investors purchasing these securities didn't question the riskiness of the security (the chance of mortgage default). See Figure 1 and Figure 2 for the relationship between the FIRE market capitalization and housing prices in the US and Canada.



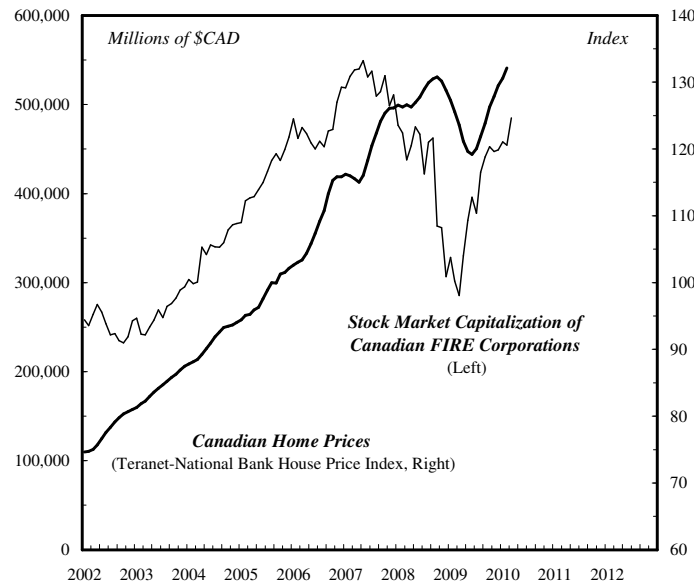
**Figure 1: Housing and FIRE in the US**

SOURCE: Datastream for the stock market capitalization of US FIRE corporations and Global Insight for the S&P Case-Shiller Home Price Index (composed of average resale prices for homes in 10 metropolitan areas).

So hedge funds, banks, insurance companies and so on bet a lot of money they didn't have (debt) on these exotic financial securities, importantly securitized mortgage derivatives [clarification on this point was obtained from Campbell 2009]. They borrowed this money from each other. And when housing prices started to stall or fall, things went bad. These 'toxic assets', as they came to be called, weighed down balance sheets. No one knew for sure what anyone else was worth: assets had uncertain value, including the debts of other institutions that owned each other's assets. All the lending institutions then became unwilling to lend to one another for fear that the potential borrower would be unable to repay. So credit markets froze. The commercial paper market seized up in September 2008 (the market for daily business borrowing). Ordinary businesses that wanted to expand production or maintain day-to-day operations were unable to borrow. So a financial crisis induced or exacerbated a 'real' recession.

Now, both the euphoria and the sickness spread to the stock market. Stock prices doubled in the five years 2003-2007. And when the implosion came something like \$13 trillion dollars of perceived wealth (financial wealth) simply disappeared. It is important to note that the neoclassical view holds that nothing concrete had changed. Buildings still stood, factories were still just as capable of operating, people hadn't lost their ability to work or their skills and knowledge, and societal technology had not disappeared. So the 'real' wealth of society—its 'real' wealth

generating capacity—had not been lost. Just the financial wealth ('perceived' wealth) of the stock market. The 'real' economy is still in good shape. Much of the vanished wealth was 'fluff' to begin with, or so Nobel Laureate Robert Solow would have us believe.



**Figure 2: Housing and FIRE in Canada**  
 SOURCE: Datastream for the stock market capitalization of Canada FIRE corporations and [www.housepriceindex.ca/Default.aspx](http://www.housepriceindex.ca/Default.aspx) for house prices.

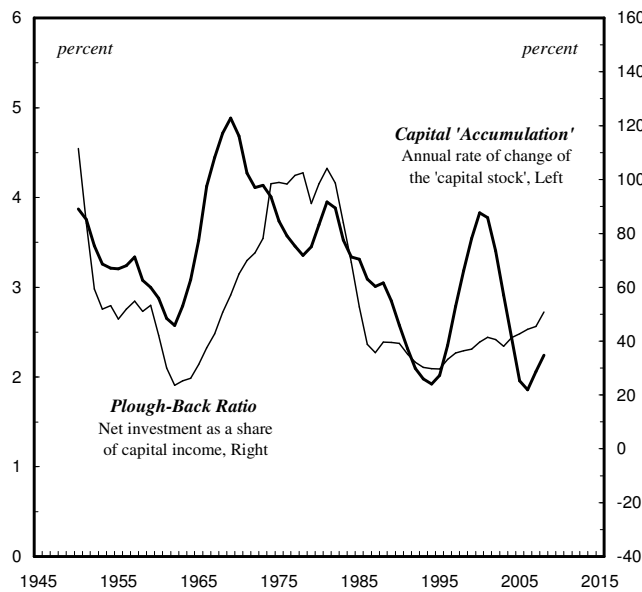
The causes of the Great Recession, then, are poor financial regulation combined with a housing bubble (itself spawned by low interest rates) and excessive financial speculation, all of this premised with the aforementioned tendencies toward destabilization. So we saw a breakdown of the entire system because of the breakdown of numerous sub-parts of the system.

### The Marxist Account

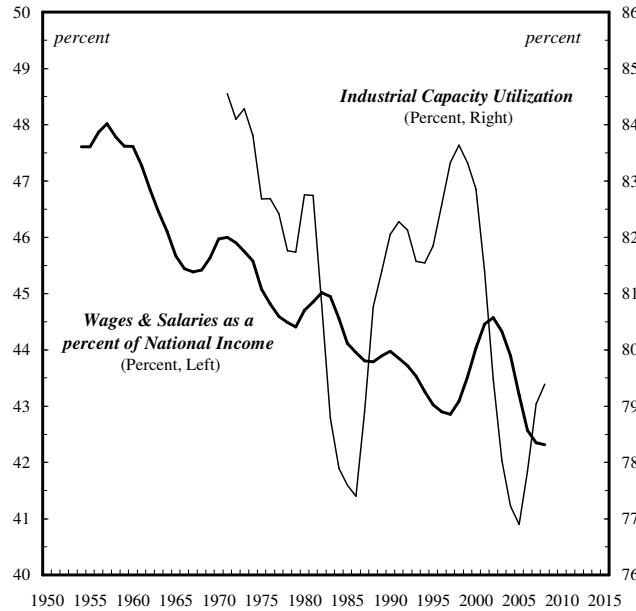
The central claim of the Marxists (and here I take the Monopoly School as an example) is this: the root of the financial crisis can be found in the stagnation of production and investment. The financial superstructure has outgrown its base, otherwise known as the 'real' economy of goods and services. Here's how they tell the story. They agree with the neoclassicists that the spark of the crisis was the deflation of the housing bubble in 2006. However, the underlying structural causes can only be found further back in history [the account here is adapted from Foster and Magdoff 2008].

One of the working assumptions of Marxists is that stagnation is the normal state of monopoly capitalism. Barring special historical forces, the system will tend towards stagnation in the form of slower growth,

rising excess capacity and unemployment and/or underemployment. There are always counter-tendencies to relieve the stagnation threat, however. Over the last 70 years these include the build-up of consumer saving during WWII, the second great wave of automobilization in the US, the rebuilding of Europe and Japan after WWII, the Cold War arms race and the regional wars in Asia, the expansion of FIRE, the rise of advertising society and Madison Avenue, etc. In other words, nearly everything acts as a 'counter-tendency'. All of this acted to absorb the economic surplus and so spawn or induce further growth that otherwise wouldn't happen. Figure 3 and Figure 4 looks at the stagnation tendencies of American capitalism in the post-war era.



**Figure 3: The Stagnation of Capital Accumulation in the US?**  
 SOURCE: Bureau of Economic Analysis for Private Fixed Assets in current and constant prices, Corporate Profits (after-tax, including IVA and CCA) and Net Interst, all through Global Insight Series smoothed as 5-year moving average.

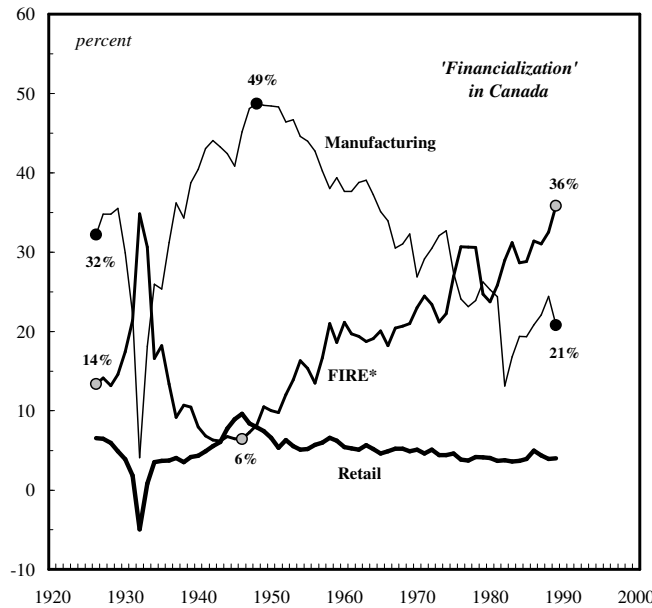


**Figure 4: The Stagnation of Expanded Reproduction and the Class War in the US**  
 SOURCE: Bureau of Economic Analysis for Wages and National Income; Federal Reserve Board for Capacity Utilization, both through Global Insight. Series smoothed as 5-year moving averages.

One of the main ways that slower growth (stagnation) has been avoided in the past few decades is through an enormous expansion of debt and the ‘financialization’ of the US economy. Capital has sought to leverage its way out of stagnation by expanding debt and gaining speculative profits. These profits are speculative in that they don’t match or correspond to the underlying productive capacity of the economy, measured in the capital stock, re-investment, capacity utilization, etc. And so financialization refers to the shift in gravity from production to finance within the economy as a whole (this process is charted over the 20<sup>th</sup> century in Canada in Figure 5). Because surplus value is not being absorbed in an expansion of ‘real’ industrial production more of it is being channelled into the ‘fictitious’ money capital of high finance. Instead of building up hard (real) industrial capacity that will generate ‘real’ wealth in the form of goods and services (to meet actual human needs), more money is ploughed into paper (fictitious) assets like stocks and bonds which don’t generate ‘real’ value. So we have an inflation of the speculative sector of capitalism and a move away from the production of real value. This is speculative capital run amok because it is not grounded or anchored in real assets but is mere ‘fluff’, to revisit Rob Solow’s term.

So the growth of financial and speculative capital depends upon rising prices (in this case housing prices and debt-financed household consumption), despite the stagnation of GDP and the capital stock, and declining re-investment and capacity utilization. This means an economic downturn was inevitable because eventually the speculative profits of

fictitious capital must return to the underlying base of 'real' values associated with industrial capacity. In the end, financialization is the symptom of the stagnation tendencies of the real economy, and so a financial crisis represents an inevitable return to the underlying stagnation tendencies of the economy (they resurface in the form of crisis). Crisis is the corollary of the move away from the growth of real industrial capital towards the growth of fictitious finance capital.



**Figure 5: Sectoral Share of Total Corporate Profit in Canada**  
 SOURCE: Cansim I, Matrix 6656: D11821; D11828; D11829  
 \* FIRE stands for finance, insurance and real estate.

To sum up, the neoclassicists emphasize the internal and self-stabilizing features of the system, combined with tendencies towards growth and expansion; crisis is the product of deregulation, poor monetary policy and speculative finance. The Marxists emphasize the tendency towards de-stabilization as the system responds to the inherent stagnation tendencies, with crises the product of excessive movements away from real (industrial) capital towards fictitious (finance) capital.

## THEORETICS BEHIND THE ESTABLISHED FRAMEWORKS

### The Major Dualisms of Political Economy

#### *Economics/Politics*

The separation or distinction of economics and politics does not begin with emergence of political economy as a field of study, but has a long history that stretches back to the Ancient world. Aristotle, you will recall,



makes the distinction between *oikonomia* or household management and *politeia* or politics. The former is analytically prior to the latter and has all the parts of society operating within it (slaves, children, women and men). But the former is also incomplete and so, in Aristotle's teleological conception, subservient to the latter, because the latter is self-sufficient and is an end – the process of coming-into-being is completed there and so only those with rational foresight can participate in that sphere (it is exclusive: children, slaves and women to not partake).

In medieval Europe a distinction existed between rulership and material provision (though no such thing as 'the economy' or 'politics'). This was an ecological distinction that organically separated the monarch, the gentry and the clergy from their producing subjects (power was at a distance from production). However, classical and contemporary political economy, mainstream or Marxist, conceptually and analytically separate the one from the other. This separation can be found in Locke. In searching for the limits of legitimate political authority (contra Robert Filmer and Thomas Hobbes), Locke envisions a fully functioning economy replete with class division, money, contracts and industry, prior to the (instrumental) creation of politics. Like Aristotle, economics is analytically prior to politics, but unlike Aristotle, economics is entirely natural for Locke, politics artificial (the latter created to remedy the defects of the former and is not higher than, or more complete than, the former). [The remainder of this section is adapted from Bichler and Nitzan (December 2008); Bichler and Nitzan (April 2009); and Nitzan and Bichler (2009)]

The liberal/classical/neoclassical political economists followed Locke in thinking economics separate from politics, with economics 'natural' and politics somewhat artificial, a necessary evil. The economy is the domain of timeless laws ("the law of demand") while the polity is the domain of wilful men. What is important to remember about this is that the institution of capital is an economic category anchored in material reality. Politics lies *outside* the realm of capital and of economics more generally. And this is exactly how most people think: the state, the party system, the legal system, etc., can all impact the economy for better or for worse, but the impact is inherently *exterior* to politics proper. Politics works on the economy from the outside-in.

The language economist's use reveals this: there are exogenous 'shocks', political 'interventions' that 'disturb' and 'distort' the economic system. The state and government are thought of as institutionally separate from the market and business. The former operates through law, the latter through contract; the former is the domain of force and coercion, the latter is the domain of freedom and choice. And for liberals, the former should be minimized so as to maximize the latter.

### *Real/Nominal*

Within the economic domain lies another duality; the 'real' and the 'nominal'. The 'real' sphere has primacy in the material sense; the nominal sphere is a mere 'appearance' and so is secondary. For liberals the real sphere is where individuals face scarcity, where production and consumption take place, where supply and demand allocates resources, etc. For the Marxists this is the location of the class struggle (the point of production), it is where value and surplus value are produced and where exploitation and appropriation unfold. In the nominal sphere we find money and absolute prices. This sphere is the mere appearance or reflection of the input-output process of the 'real' sphere.

The physical stock of goods is mirrored by the money value of finance. Under perfectly free market conditions, there should be a 1:1 correspondence between the physical/material goods of the economy and their nominal market prices. This is what mainstream and Marxist economists mean when they say the 'real' economy is sound (the 'fundamentals') but there is an imbalance or distortion with the world of finance. The assumption here is of quantitative equivalence. There is a 'real' world of production and consumption denominated in units of utils (neoclassicists) or abstract labour (Marxists). This real world is mirrored by a nominal world of prices and finance. Capital is an economic category anchored in the material sphere and has two quantities: one real and the other nominal. Under ideal circumstances—in the absence of external shocks or distortions—these two quantities are equivalent.

### **The Mismatch Thesis**

The assumptions and concepts informing discourse on crisis are as follows. Over the last decade or so the nominal world of finance has outgrown, deviated from and, in turn, distorted the 'real' economy (the real world of accumulation). Finance has inflated into a bubble—that is to say, the nominal world of prices has outgrown the real underlying productive capacity of the economy (or the real underlying value of capital that finance is supposed to represent). So the current crash is a return to 'real' value. The 'bubble' has burst and we have a 'correction' of the imbalance.

The mismatch thesis relies upon a number of assumptions. The nominal world of finance (market prices) and the 'real' economy are two quantitative entities that can be measured separately from each other, that is to say, in their own units. And under certain (ideal) conditions, the two quantities should equivocate. So that, say, the nominal world of finance (corporate equity and debt) is equal to the real world of production (in the form of capital goods).

But the mismatch thesis cannot withstand scrutiny. It is true that that finance has a definite quantity denominated in dollars and cents. However, we cannot assess the magnitude of capital in its own productive units (utils or abstract labour); this magnitude cannot be measured, the CASP framework argues, because it does not exist. If we accept that capital does not have a 'real' quantity denominated in its own units then the mismatch thesis collapses. It follows that the nominal mirror of finance has nothing to match and therefore nothing to *mismatch*.

### **The Basic Units of Measure**

The architecture of capitalism is to be found in the price system. It is how economic life is organized under capitalism. And that's why classical political economy (liberal or Marxist) and neoclassical economics can be distinguished through theories of value. A theory of value is a metaphysical assumption about how market prices are formed.

The two main theories of value are the Marxist/classical and the liberal/neoclassical. For the classical economists (Marx included), market prices are reducible to labour time. Commodities differ in prices because they have different amounts of human labour embedded in them. The neoclassicists think of the economy and the price system not a reflection of labour time, but as a reflection of desire or utility (well-being). The price of commodities is a reflection of the quantity of utility or well-being they engender in consumers, and this is subjectively appraised.

So the basic unit for the Marxists is abstract labour and for the neoclassicists is the util (units of labour and pleasure, respectively). Marxists look at the input side, focusing on production and labour. Neoclassicists focus on the output side, focusing on consumption and utility. Enter the 'util' and 'abstract labour'. These are the fundamental quantities of the liberal and Marxist political economy respectively. Every commodity can be measured with these universal units. For the liberal/neoclassicists, 'real' capital is denominated in the amount of well-being it generates (its utility generating capacity) while the Marxist focuses on the amount of socially necessary labour time to produce it. So, once again, if the quantity of commodities—including the quantity of capital—cannot be known (and is unknowable), what is left of the mismatch thesis? Economists tend to side-step this hurdle by going in reverse. Instead of trying to measure 'real' capital, its quantity reveals itself through the price. Economists look at the dollar value of commodities and then *assume* that this dollar value reveals the 'real' quantity of the underlying capital.

## A PRIMER ON THE CAPITAL AS POWER FRAMEWORK

### The Centrality of Power

This framework begins with the institution of capital. Capital is the central institution of political economy and its accumulation the dominant process. This framework thinks that capital cannot be located in the narrow confines of production and consumption. Capital is not an economic category anchored in material reality nor is it a social relationship embedded in material entities. Capital is a form of power—specifically commodified power—and it is broad power institution. In modern capitalism this power institution takes the form of business enterprise, specifically the corporation and its absentee owners. The magnitude of capital, then, is a symbolic representation of the power of capital's owner's to shape and reshape the process of social reproduction (against opposition) as a whole. This means we have to think of capital as finance. Its magnitude is to be found in capitalization (equity and debt), which is equal to the corporations' expected future profit and interest payments, adjusted for risk and discounted to their present value.

Why power, you might ask? The institution of capital, and by extension, capitalism, centres on private ownership. The word 'private' comes from the Latin *privare* which means 'to deprive' and *privatus* which means 'restricted'. This means that private property is *not* an institution that enables those who own, but disables those who do not own. A commodity, capital included, can only fetch a market price so long as those who do not own can be prevented—forcibly if necessary—from accessing it. And in the final analysis institutionalized exclusion is a matter of organized power. This means that the architecture of prices and the magnitude of capital are not reflections of underlying desire or productivity, but are a symbolic quantification of the power of absentee owners.

### Quantity and Quality (The Power Theory of Value)

Instead of the separating economics from politics, locating capital in the former, and instead of separating the real from the nominal, with capital having two independent quantities, the CASP framework tries to approach capital accumulation from a unified perspective. There is no real quantitative world of accumulation which is paralleled by a nominal quantitative world of prices. There are prices and only prices. These prices, the CASP argues, are not a nominal reflection of real underlying productivity, but reflect a qualitative power process.

So with the broad processes of capital accumulation what we see is an ongoing process of social restructuring: the form of the process is a quantitative redistribution of ownership, its content the qualitative transformation of power relations. This is a dynamic process of order creation. And it is the ability of absentee owners to create order against opposition that makes change institutionalized under capitalism. The architecture of prices, then, is the quantitative manifestation of this change and reflects a qualitative power process in which absentee owners ('investors') engage in a distributional struggle over corporate ownership claims and their associated streams of expected future earnings. This understanding of capital makes the modern investor an absentee owner of power.

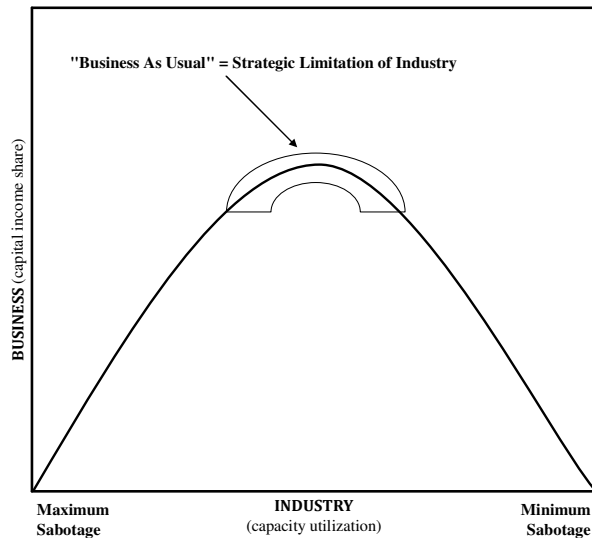
### **A Different Set of Analytical Distinctions**

#### *Business and Industry*

While the neoclassicists were focusing on the social harmony generated by the 'invisible hand' of the market, Thorstein Veblen focused on conflictual underpinnings of society. Veblen looked at the broad sweep of human history and saw a clash not just between owners and non-owners, but a clash between creativity and power. It is under the modern capitalist order that the conflict between creativity and power takes the form of a distinction between business and industry [this section is drawn from Nitzan and Bichler (2009), chapter 12].

Now most people probably think of business and industry as synonymous terms. But for Veblen, these are increasingly distinct spheres of human activity. Industry represents the material context of capitalism, though is not confined to it. The main goal of industry is the efficient creation of serviceable products to meet human needs. As such, industry requires the systematic organization of production and reasoned application of knowledge. Industrial production is a process that is communal in nature, and so it is dependent upon cooperation and integration, synchronization and planning.

Business differs in terms of both means and ends. Business enterprise centres on investment for profit. The goal is the amassment of pecuniary wealth. While industry is the manifestation of what Veblen called 'the instinct of workmanship', business is a matter of ownership and power. Business does not require cooperation and integration, but thrives on conflict and antagonism, both between owners and between owners and those who don't own. The modern capitalist order sees industry subordinated to business ends, creativity curtailed by power. It is not the serviceability of products that matters most for the modern investor, but the amassment of profit.



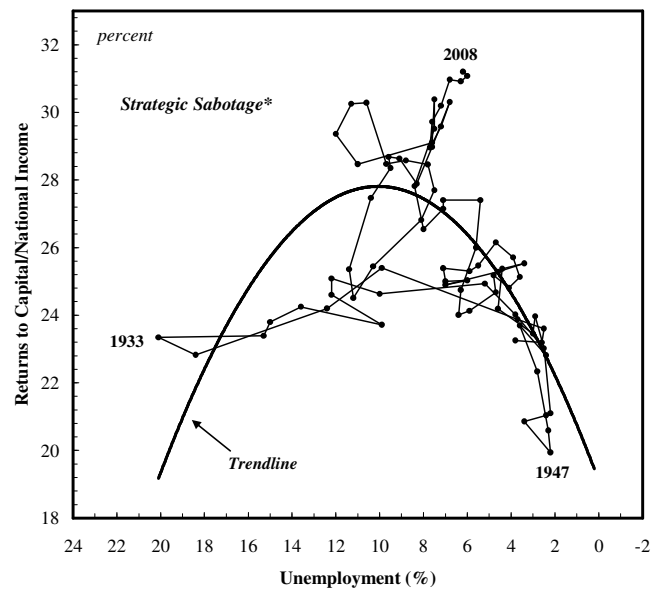
**Figure 6: Business and Industry**  
 SOURCE: Nitzan and Bichler (2009), p.237.

Because business is a quest for profit, business enterprise represents a claim on pecuniary earnings. The implication of this is that business is wholly an act of distribution. The objects over which profits constitute an effective claim are made in the industrial sphere (as well as in nature), but are claimed in the business sphere. This inverts the typical economic reasoning: the line of causality does not run from production to distribution, but from distribution to production. The compass which directs production is not efficiency, nor are profits the reward for productivity. The earnings of owners, according to Veblen, depend upon the damage that an owner can inflict on the industrial process at large.

#### *Absentee Ownership and Strategic Sabotage*

If business is concerned with pecuniary earnings—profit—but profits are disconnected from productivity, that means that business enterprise is an institution which can only disable industry, that is, its activity is inherently negative or constraining. If business is unable to contribute directly to output, then it can surely limit it, if only by shaping the direction and pace of industry. This means that we should expect to see a non-linear relationship between the income share of capital and the limitation of industry. A hypothetical conceptualization of this relationship is presented in Figure 6. This figure shows the relationship between the earnings of capitalists and the limitation of industrial capacity/potential. If the pace of industry is too severely curtailed (indicated on the left hand of the X-axis as ‘maximum sabotage’) business earnings will converge to zero. But if the limitation of industry is too

loose—if it is insufficiently curtailed—then business earnings will also converge to zero (‘minimum sabotage’). In order for business to earn a profit—its tribute earnings—it must strategically limit the direction and pace of industry. The reasoning is quite simple. Profits are not possible without production, but neither are they possible with a free run of production. As a business proposition, maximum output would mean profits collapse to zero. Note here that serviceable goods could be efficiently produced (industry) but not at a profit (business). For profits to exist, business needs not only to control the direction of industrial activity, but to restrict its pace below full potential. Production at full societal-technological potential would induce falling prices and glut would ensue. So ‘business as usual’ means vibrating between these two hypothetical extremes. This Veblen called the ‘conscious withdrawal of efficiency’. In this way investment for a profit (the *modus operandi* of capitalism) appears to contribute to productive output, but can only ever be an act of limitation. But because this limitation can be too much or too little, it has to be strategic, hence the term *strategic sabotage*. This theoretical relationship is empirically mapped in Figure 7 in Canada over the 20<sup>th</sup> and early 21<sup>st</sup> century.



**Figure 7: Business and Industry in Canada, 1926-2008**  
 \* Returns to capital include pre-tax corporate profits (including capital consumption allowance and inventory valuation adjustment) and interest and miscellaneous investment income.  
 SOURCE: Cansim (polynomial trendline to the order of 2).

The exclusionary aspect of private ownership in the form of business enterprise does not have to be exercised. What matters is the right to exclude and the ability to exact terms for not exercising that right. This

right and ability are the foundation of accumulation. Business enterprise (in its corporate form) relies on the implicit threat or explicit exercise of power embedded in ownership. Capitalist income then, is a sort of ransom paid for allowing industry to operate.

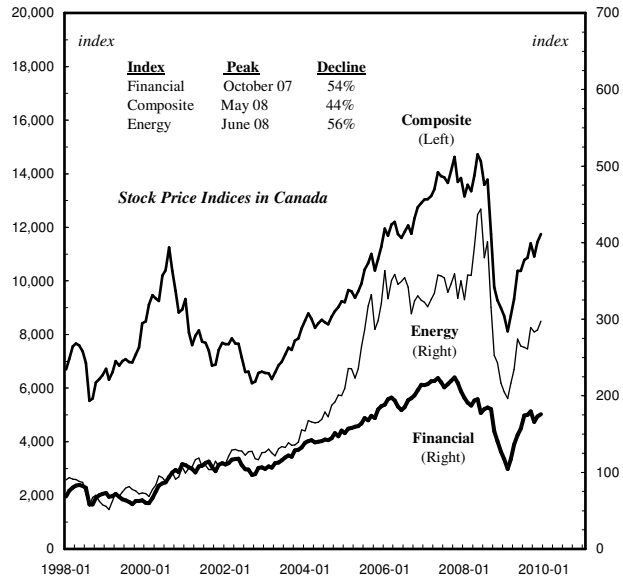
### **Dominant Capital and Differential Accumulation**

When we think of capital and its accumulation from a power perspective, we must also move away from thinking in absolute terms. Mainstream economics assumes that individuals and firms are maximizers. Because we are not able to identify an upward limit towards which individuals pursue pleasure and firms pursue profits, mainstream economics assumes that there is no limit. And so studying individuals and firms in isolation, as pursuing pleasure and profits, neoclassical economics examines outcomes from an absolute perspective. But because power is a relational concept we cannot examine it in isolation. Examining power in isolation (in absolute terms) would be like examining force in isolation. But power only begins to have meaning when compared with other forms of power, just as force only becomes force in the face of counter-force or resistance, because force must operate on something other than itself. This means that instead of thinking of accumulation in absolute terms we should think of it in differential and so distributional terms. And instead of approaching the business sector as a whole or capital in general, we must disaggregate and focus on the largest firms at the centre of the political economy that drive the accumulation process. [Important questions emerge when we disaggregate, e.g., see Ehrenreich and Muhammed August 4, 2009].

### **THE CRISIS IN CANADA**

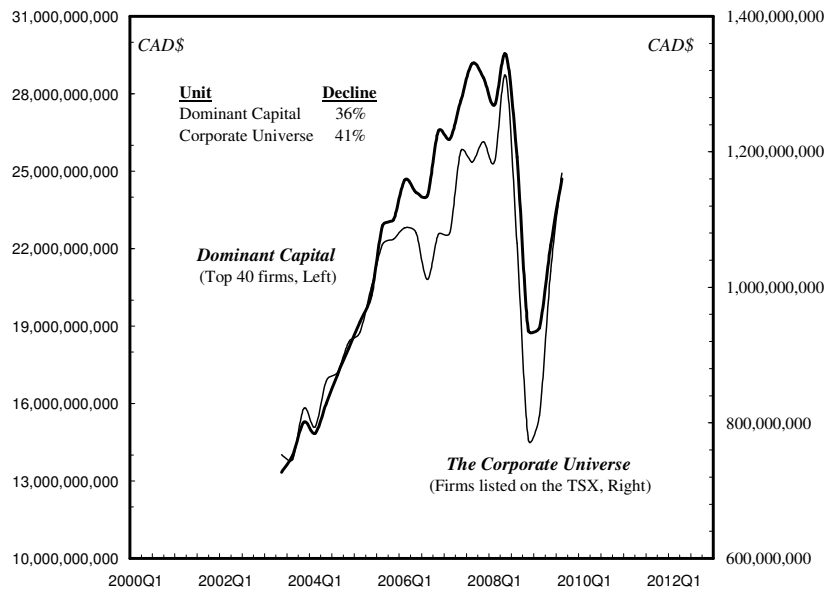
We begin by looking at absolute prices on the Toronto stock exchange. What figure 8 shows is how the crisis is distributed across the two dominant sectors, finance and energy. Even though in the US this was primarily a finance-led crisis, in Canada the crisis struck at different times and to a differing extent, depending upon the sector.





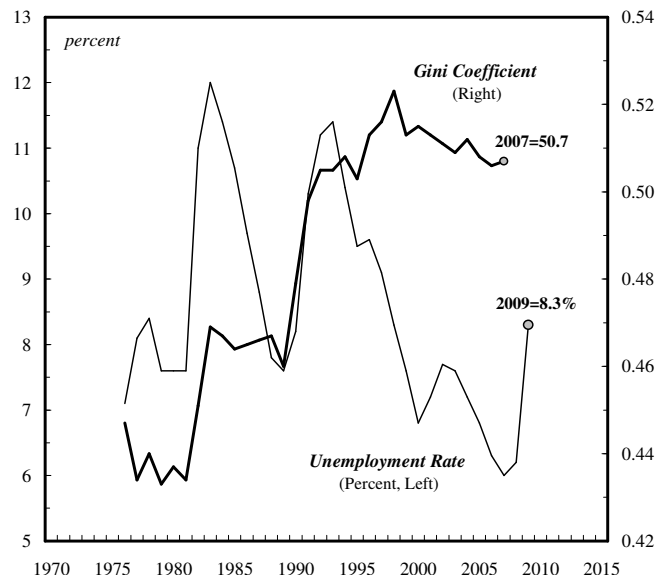
**Figure 8: Crisis for Whom?**  
 SOURCE: Cansim Table 1760047

The picture becomes a bit more interesting once we begin to disaggregate. Separating the largest firms—dominant capital—from the rest of the corporate universe yields Figure 9. This figure tells us that the crisis, measured in absolute terms, still hit the rest of the corporate universe harder than it hit dominant capital. In other words, dominant capital was better equipped to absorb or manage the crisis.



**Figure 9: Average Market Capitalization in Canada**  
 SOURCE: Compustat through WRDS (quarterly data).  
 NOTE: Dominant Capital is made up of the forty largest firms on the S&P/TSX ranked annually by market capitalization.

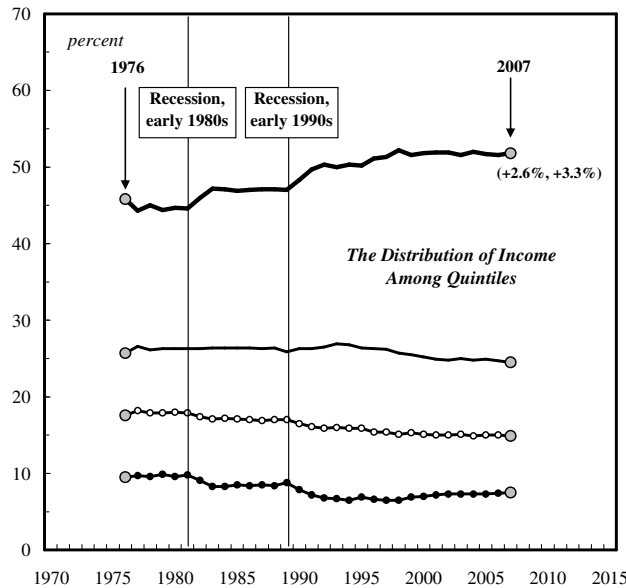
Asking about the distributional consequences of crisis can, like other things, only be done *ex post*. If we look back over the last generation in Canada what we see is crisis corresponding to redistribution. Figure 10 contrasts the gini coefficient (which is a measure of income inequality) with the unemployment rate since the mid-1970's. This figure shows us two interesting things. Sharp rises in the gini coefficient (increasing income inequality) correspond to sharp increases in unemployment. But the positive correlation between the gini and unemployment only holds when unemployment rises. When unemployment falls sharply the gini remains stubbornly steady. So we can say that unemployment via crisis corresponds to redistribution. In the early 1980s and early 1990s we witnessed a sharp increase in unemployment and a corresponding spike in the gini coefficient. So crisis has interesting distributional consequences that demand an explanation.



**Figure 10: Crisis and Redistribution in Canada**  
 SOURCE: Table 2020705, v21151585 for Gini Coefficient;  
 Table 2820008, v2363495 for Unemployment Rate, both through Cansim.  
 NOTE: Unemployment rate for 2009 is an estimate based on monthly data.

If crisis corresponds with greater income inequality we should look a bit more closely at the distribution of earnings. Figure 11 portrays inflation-adjusted income shares for the four highest income quintiles. What these facts tell us is that the highest income group—the top 20% of households in Canada—have historically made distributional gains in times of crisis. The crisis of the early 1980s and early 1990s corresponds with distributional gains by the highest income quintile and distributional losses for the middle three quintiles (the middle 60% of income earners, or

working poor and middle class). If this pattern holds we might expect the current crisis to induce similar distributional changes, with the wealthiest and most affluent making distributional gains at the expense of everyone else.



**Figure 11: Crisis and Redistribution**

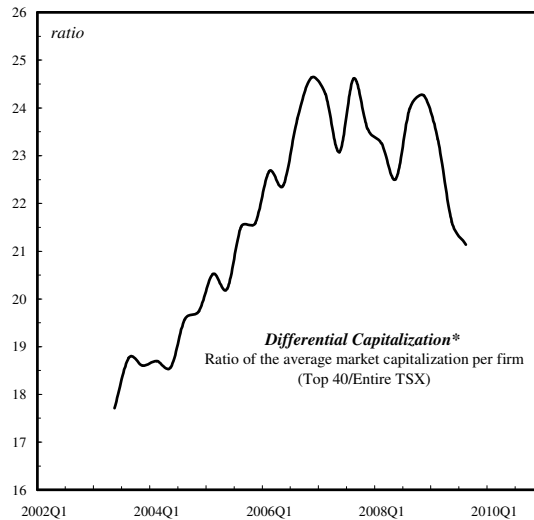
SOURCE: Table 2020701, v1546450-v1546453, through Cansim.

NOTE: Market Income, All Family Units, 2007 Constant Dollars, four highest quintiles.

The remainder of the paper will look at three new measures of accumulation and crisis. When we continue to focus on the largest firms—dominant capital—and look at differential accumulation, what we find is that there might not have been a crisis for some after all. Figure 12 charts the differential accumulation pattern of dominant capital. This figure indicates that there has indeed been differential *decumulation*, but it is not nearly as sharp or sudden as the absolute measures in figure 9 indicate. The largest firms began to trail the average, but they only did so erratically. The label of ‘crisis’ may be inappropriate when describing this process.

Figure 13 continues to disaggregate, breaking dominant capital down to the sectoral level. The Canadian stock market is dominated by financial and energy firms, and mapping the differential capitalization of these sectors shows us a much more nuanced picture. While the financial firms experienced differential decapitalization, energy firms experienced differential capitalization followed by stagnation. So while there can be meaningful talk about a financial downturn, ‘crisis’ seems to be too strong a word. And it positively does not apply to the energy sector, whose accumulation pattern slowed down as measured by capitalization.

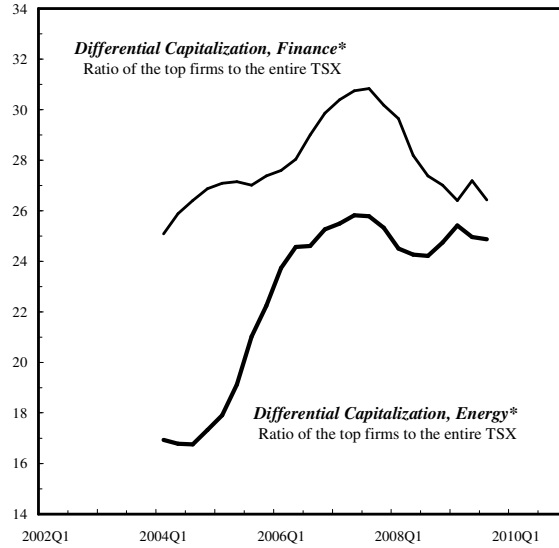
Finally, figure 14 shows us the differential net profit of the energy and finance sectors. From the standpoint of profits the finance sector suffered a rather sharp decline, though this was compensated for by a steep rise immediately after. Again the energy sector performed quite well from the standpoint of differential net profit. 'Crisis' is nowhere near the appropriate term to describe their performance. 'Boom' is probably the most appropriate way to characterize this period for them.



**Figure 12: An Accumulation 'Crisis'?**

SOURCE: Compustat through WRDS for common shares outstanding, closing share price and net income (quarterly data).

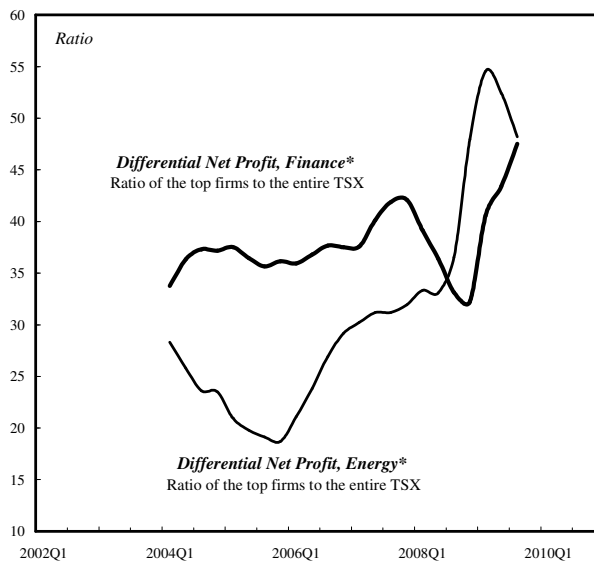
\*Ratio of the average of the top 40 corporations ranked annually by market capitalization and the average of all corporations listed on the TSX .



**Figure 13: Crisis or Stagnation?**

SOURCE: Compustat through WRDS (quarterly data).

\*Ratio of the average of the top finance/energy firms within the top 40 corporations, ranked annually by market capitalization, and the average of all corporations listed on the TSX. Smoothed as 4-quarter moving averages.



**Figure 14: Crisis or Boom?**

SOURCE: Compustat through WRDS (quarterly data).

\*Ratio of the average of the top finance/energy firms within the top 40 corporations, ranked annually by market capitalization, and the average of all corporations listed on the TSX. Smoothed as 4-quarter moving averages.

## CONCLUSION

The task of this paper was simple: to show why some political economists think of this as a financial crisis and why, in the light of the capital as power framework, we might want to be careful about labelling recent political-economic changes as a 'crisis'. Differential pain has gone hand-in-hand with differential gain, and meaningful questions can emerge when we move from aggregate to disaggregate measures, and when we focus on measuring and mapping differential rather than absolute performance.

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