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CasP's 'Differential Accumulation' versus Veblen's 'Differential Advantage' (Revised and Expanded)

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Jerusalem and Montreal

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1. Introduction

This paper clarifies a common misrepresentation of our theory of capital as power, or CasP. Many observers tend to box CasP as an 'institutionalist' theory, tracing its central process of 'differential accumulation' to Thorstein Veblen's notion of 'differential advantage' (Cf. 1904, 1923). This view, we argue, betrays a misunderstanding of CasP, Veblen or both. First, we are *not* Veblenians and certainly not institutionalists: Veblen's theory was evolutionary, while CasP is deeply dialectical, and institutionalism, particularly its 'new' varieties, emphasizes and often promotes what holds capitalism together, whereas CasP critically examines both the underpinnings of capitalized power as well as the forces that threaten and undermine it. Second, and more specifically to the subject of this paper, CasP's notion of differential accumulation is not only different from, but also diametrically *opposed* to Veblen's differential advantage.

Our argument is articulated in several steps. Section 2 outlines the key claims of CasP, contrasting them with those of received theory and articulating the way in which they relate and lead to our concept of differential accumulation. Section 3 builds on this outline to flesh out several key differences between CasP and existing approaches to political economy. Sections 4 and 5 examine Veblen's twin concepts of strategic sabotage and differential advantage, showing that the latter is concerned not with differential profit, but with the earning of profit as such. Section 6 develops this claim further, demonstrating that Veblen's analysis of accumulation, hostage to neoclassical absolutes, understood capitalists as seeking not differential profit, but maximum profit. Section 7 examines the historical context in which Veblen was writing, suggesting that this backdrop made it practically impossible for him to conceive – let alone theorize and measure – differential accumulation, even if he had wanted to. Section 8 concludes with a short summary.

¹ A previous, shorter version of this paper was posted as a *Working Paper on Capital as Power* in 2017 here: <http://bnarchives.yorku.ca/565/>. Shimshon Bichler and Jonathan Nitzan teach political economy at colleges and universities in Israel and Canada, respectively. All of their publications are available for free on *The Bichler & Nitzan Archives* (<http://bnarchives.net>). Research for this paper was partly supported by the SSHRC.

2. CasP in a Nutshell

CasP begins with a new definition of capital that contrasts sharply with the conventional view, both liberal and heterodox (Nitzan and Bichler 2009: Chs. 9-11). Prevailing theories measure capital *absolutely*, whereas CasP quantifies it *differentially*. This difference is intimately related to power. In the liberal neoclassical framework, power *distorts* accumulation (and the economy more generally), whereas in the heterodox Marxist framework power is *necessary* for accumulation (primarily in the form of state institutions and dominant ideologies). But in both cases, and this is the key point, power exists *outside* of capital. This externality betrays the common Smithian heritage of both liberalism and Marxism – i.e., the notion that ‘civil society’ (the ‘market’ in liberalism and the productive ‘base’ in Marxism) is separate from the ‘state’ (political institutions in liberalism and the ‘superstructure’, whether mechanical or autonomous, in Marxism) – and allows capital itself to be quantified in absolute terms.

Our CasP theory is diametrically opposed to this view, and consequently, so are its implications: (1) whereas for liberals and Marxists, capital is a material-productive entity, for us it is the central power institution of capitalism; (2) while liberals and Marxists examine capital *and* power, we treat capital *as* power; and (3) since in our view capital is not simply related to power, but is itself a form of power, its measure cannot be absolute, as it is in liberalism and Marxism, but must instead be *differential*.

Let’s unzip these claims. According to received convention, capital is a quantifiable, *material-productive entity*, comprising machines, structures, means of transportation, extracted raw materials and semi-finished goods and services (including the Marxist ‘wage fund’) – and nowadays also human knowledge. In this view, the units of capital, like those of every other commodity, are *absolute*. Neoclassical economists (claim to) count capital in terms of the units of utility – or ‘utils’ – it can generate (Fisher 1892, 1896), while Marxists (claim to) denominate it in terms of the socially necessary abstract labour time – or SNALT – required for its production (Marx 1909).

We say ‘claim to’ because, in practice, neoclassicists and Marxist do no such thing – and for a simple reason. As they stand, utils and SNALT cannot be defined operationally and therefore cannot be measured, quantified or counted to start with. They are not real entities, but figments of the economists’ imagination (Nitzan 1989; Nitzan and Bichler 2009: Chs. 5-8; Bichler and Nitzan 2015a). In theory, utils and SNALT are supposed to determine the relative money value of capital (so, in principle, capital with twice the util-generating capacity will cost double the price, while capital with ten times the SNALT will be sold for ten times the price).² But since these units are unknown – and indeed, unknowable – the economists are forced to go in reverse. Instead of using utils and SNALT to explain the relative dollar value of capital, they use the dollar value of capital to ‘reveal’ its otherwise unobservable util and SNALT quantities (Samuelson 1938 gleefully christened this inversion ‘revealed preferences’; Marxists, being more self-conscious and guilt-ridden, stopped short of giving the travesty a proper name).

This inversion does not arise in CasP. While liberals focus on relations of utility and Marxists on relations of production, CasP concentrates on relations of power. According to CasP, capital is not a material-productive entity, but *quantified social power writ large*, while capitalism is not a mode of production and consumption, but a historically specific *mode of power*. In contrast to liberals and Marxists, CasP measures capital not absolutely, but differentially, and it does so not inversely through unobservable units such as utils and SNALT, but directly through readily observable money prices.

The primacy of money prices in general and differential measures in particular arises from CasP’s rejection of the customary dichotomy between the ‘real’ and ‘nominal’ spheres of the economy. Not

² In the Marxist case, the SNALT-to-price determination is further complicated by the ‘transformation problem’, which we ignore here for simplicity’s sake.

only do we disagree with the conventional notion that ‘economic reality’ is defined by production and consumption, we also argue that the accepted relationship between production and consumption on the one hand and finance and prices on the other needs to be put on its head. Capitalism, CasP claims, is not ruled by production and consumption, but by finance. It is finance – and specifically its differential ritual of forward-looking capitalisation – that constitutes the operational symbols and algorithmic architecture that direct and govern the production and reproduction of capitalist society (Nitzan and Bichler 2009: Part III; Martin 2018).

The logic behind this differential ritual can be summarized as follows. As an operational symbol, capital does not ‘produce’ anything. Instead it *creorders* – or creates the order of – organized power in society. And since power relations in capitalism are *redistributional* – the word ‘private’ comes from the Latin *privatus*, which means ‘to deprive’ or ‘to rob’ – it follows that capital, the private institution that constantly creorders this redistribution – is inherently *differential*.

Capitalists, and by extension the system they control, are conditioned and driven by the ritual of capitalization. The magnitude of capitalization is given by the discounted present value of risk-adjusted expected future earnings. The key components of this discounting are (1) future earnings, (2) investors’ hype (excessive optimism/pessimism) regarding these future earnings, (3) the risk associated with future earnings predictions and (4) the discount rate used to bring those risk-adjusted earnings to present value. Each of these components – and by implication, their reduction into the singular magnitude of capitalization – is a quantitative measure of power relations. Now, if we extend Johannes Kepler’s theory of force to the sphere of social power and understand this power not as a qualitative stand-alone entity, but as a quantitative relationship between entities, we must, by definition, treat capitalized power *relatively* – and relative magnitudes can only be measured differentially, hence *differential accumulation*.

And that is exactly what we see in modern capitalism. Capitalists – and gradually, every social subject locked into the capitalist logic – are conditioned and driven by the differential imperative of ‘beating the average’ and exceeding the ‘normal rate of return’. The key yardstick in business – and in capitalist society more generally – is not absolute, but relative. The key goal is not to maximize one’s own utility or the accumulated number of dead labour hours, but to *outperform* the competition and grow *faster* than others. Moreover, there is nothing subjective about this drive. It is determined not by the personal whim of individual capitalists, but by the uncompromising power logic of their system: those who fail to beat the average and accumulate differentially are quickly trumped by those who do.

According to CasP, power is both the cause and the effect of accumulation. Using i and j to denote two distinct capitalists or groups of capitalists, we say that the differential power of i compared to j is given by the differential ratio of their respective capitals (K_i/K_j), and that the rate of change of this ratio ($k_1 - k_2$) measures the differential accumulation of i relative to j . In this context – applicable to any owner/s of capitalizable income-yielding assets – the principle driving force is a *dynamic* compulsion to *increase* power. The quest for more power (a higher K_i/K_j) causes capitalists to try to accumulate differentially, while the effect of this drive gets quantified by their growing power implied by a positive rate of differential accumulation ($k_1 - k_2$). In other words, for capitalists, redistribution-read-changes-in-power is not only a means to an end, but also – and more importantly – the end itself.

3. Toward a Different Understanding of Capitalism

These foundational differences lead to a radically different understanding of capitalism, including its basic concepts and institutions, its conflictual struggles and crises, its historical development and the ways in which it relates to other modes of power.

To illustrate, begin with the central concept of *profit* (Nitzan 1998; Nitzan and Bichler 2009: Ch. 14). According to both liberals and Marxists, profit, like other basic economic categories, is an absolute material entity. Although expressed in nominal terms, its essence lies in production and consumption and hinges on efficiency, productivity and growth. Not so in CasP. Here, profit is a symbolic, differential entity. It depends not on production and consumption per se, but on the relations of power within and between capitalists and the underlying population – relationships that *in turn* bear on, among other things, production and consumption. From this latter viewpoint, profit is not a substantive entity made up of hedonic utils or productive SNALT, but an emblematic representation of organized power denominated in relative terms. It is born neither from the productivity of machines and their enterprising owners nor from the surplus labour of productive workers, but from the complex web of conflicts that *creorder* – or create the order of – the capitalist mode of power at large.

The conventional material perspective treats profit and accumulation as dependent on and often synonymous with *economic growth*. In CasP, this association is turned on its head: when expressed differentially, CasP argues, profit and accumulation tend to correlate *negatively* rather than positively with growth and are *boosted* rather than undermined by unemployment (Nitzan and Bichler 2014; Bichler and Nitzan 2016, 2018b, 2018c). In other words, whereas the conventional creed sees the oscillation of ‘booms’ and ‘busts’ as a universal reality common to all, CasP shows that a ‘boom’ for some is almost always a ‘bust’ for others – and vice versa. In the conventional view, both capitalists and workers benefit from growth and suffer from slumps; by contrast, in CasP, a material boom for the underlying population represents a redistributive setback for capitalists, while what counts as a bust for most people spells a differential power boon for capitalists.

One key reason for these opposite understandings is the different role of *prices* in the two perspectives (Nitzan 1992b; Bichler and Nitzan 2004; Nitzan and Bichler 2009). The liberal and Marxist approaches, formulated during the deflationary nineteenth century, tend to treat prices as a derivative of the ‘real’ economy: they theorize prices as market-determined in the short run (set by competitive supply and demand) and as consumption/production-determined in the long run (proportional to the util or SNALT contents of commodities). By contrast, CasP – which was formulated against the twentieth-century backdrop of inflationary power struggles between and within organizations, coalitions and the dispersed masses – sees price as the universal denominator with which capitalized power is ordered and creordered.

The consequences of this conceptual difference are striking. Take for example the impact of the business cycle on the earnings of capitalists and workers. In principle, earnings are the product of two magnitudes, being equal to the ‘real’ volume of output times the ‘nominal’ price of that output. According to the conventional view, though, in practice the former dominates the latter. The key determinant of earnings, the conventional view argues, is ‘real’ output. Money prices, although potentially important, merely respond to – and therefore move in tandem with – the ups and downs of the ‘real economy’. In this setup, capitalists and the underlying population experience similar procyclical swings in both output and prices – and therefore similar swings in their incomes – so it seems reasonable to expect both groups to favour growth and expansion and dislike stagnation and recession.

The CasP approach is radically different. Recall that, according to this approach, money incomes are not ‘determined’ by or ‘derived’ from production, but arise from the differential power struggle to *control* production, broadly understood. Consequently, when it comes to income, this approach argues, the dominant factor is not output, but prices. While swings in output indeed tend to affect the income of both capitalists and the underlying population in a similar way, changes in power-determined prices – and therefore their effect on earnings – can diverge markedly. And if the price divergences are big enough – and this is the key point – they can easily overwhelm the uniform impact of output.

The evidence on this issue seems to support the latter view rather than the former. The post-war U.S experience, for example, shows that the business cycle systematically redistributes income in favour of capitalists during contractions and in favour of workers during expansion, and that this redistribution has little or nothing to do with output. It depends almost exclusively on the diverging patterns of money prices and wages over the cycle (Nitzan and Bichler 2014). Another illustration is offered by the global oil business. Over the past half century, the share of OPEC countries and the integrated oil companies in global profit has been determined almost entirely by differential prices (the price of crude oil relative to all other prices). The physical level of oil production and consumption has had virtually no impact on this redistributive process (Bichler and Nitzan 2004, 2015b, 2018a).

Lastly, consider the broader nature of *historical change*. Liberals imagine history as driven by the progressive development of production and consumption with occasional setbacks triggered by political tyranny. The usual starting point is a primordial state of primitive collectivism. From there, society advances, in fits and starts, navigating the stifling maze of hierarchical coercion and ‘mercantilist’ inhibitions toward the ultimate, post-historical bliss of *laissez fair*, open-ended free trade and individual enlightenment.

Marx and his followers also emphasize the centrality of production and consumption, but unlike the liberals they see their development as deeply dialectical. History for them is the process by which the class conflicts inherent in any given mode of production unfold, resolve and eventually transform society. These economic conflicts are said to emerge from the very development of the forces and relations of production, manifest themselves in the overarching struggle between owners of the means of production and propertyless workers over the production and distribution of society’s surplus, and then propagate (with feedback loops) into the *extra*-economic realms of society, including politics, ethnicity, race, gender, international relations, culture and religion.

For Veblen and the institutionalists, history involves the gradual synchronization of institutions, habits and customary behaviour on the one hand with the changing ‘state of the industrial arts’ and society’s ‘knowledge of ways and means’ on the other. Contrary to the liberal understanding of evolution, Veblen accepted and indeed accentuated the *inherent* force and theoretical centrality of organized power and therefore rejected the a priori belief that change implies progress. At the same time, his understanding of evolution as a gradual process made his institutionalism easy to subvert, transfigure and eventually assimilate into the liberal dogma. And indeed, whereas the old institutionalist school rattled the neoclassical dogma, its contemporary incarnations of ‘new institutional economics’, ‘behavioural finance’, ‘actor-centred institutionalism’, ‘constructivist institutionalism’, and ‘rational choice institutionalism’, among others, serve to bolster it.

CasP’s notion of history differs from the previous three on several counts. First, it sees history as the development of ‘modes of power’ (rather than modes of production/consumption). Second, it argues that modes of power evolve not gradually and consensually, but dialectically, through an incessant and often violent clash between the manifold manifestations of conflict and cooperation (as opposed to the narrower Marxist conflict between production-derived classes). Third, it claims that every mode of power – from the early city-states and ancient empires, through oriental despotism and feudalism, to capitalism and communism – is defined by its concepts, relations and institutions of power. Fourth, it posits that, in capitalism, the central concept and main relation of power is the institution of capital. This institution shapes and incorporates the central moments of capitalist society, including the ritual of forward-looking capitalization, the articulation of risk, the sanctification of production and efficiency, the belief in rationality and the organizational role of finance. Fifth, it rejects the conventional dualities that separate ‘economics’ from ‘politics’ (or production from power) and the ‘real’ from the ‘nominal’ (or industrial capital from fictitious finance). Instead of prioritizing production, it sees it as one of the

many hierarchical dimensions that make up the overall grid of capitalized power, and instead of branding finance a distorted/wasteful mirror of the capitalist reality, it examines it as the very architecture of that reality.

4. Thorstein Veblen and Strategic Sabotage

Our insight into this redistributive, power underpinning of capitalism benefited greatly from the path-breaking work of Thorstein Veblen. Veblen's devastating critiques of his neoclassical peers – including their emphasis on perfect competition, their notions of factor productivity and hedonic utility, their circular theories of prices, interest and credit and, above all, their material conception of capital – showed their entire framework to be unsound logically and irrelevant empirically (Veblen 1919, 1934).

In lieu of this outdated worldview, Veblen portrayed a 'new order of business', a regime characterized by two interrelated processes. First, he pointed out that the new era was marked by the rise of big organizations – in business, government and labour. Second, he claimed that the rise of big capitalist organizations enabled credit, which previously was treated largely as a commercial phenomenon, to become a form of ownership at large, and that this 'larger use of credit' (which for Veblen comprised all capitalized claims on future income) shifted the emphasis of business from production in the service of livelihood to pricing in the service of finance. According to Veblen, the main force enabling and propelling this rise of large, credit-denominated corporations (and of the government organs and labour unions that supported and thwarted them), was 'strategic sabotage' (Nitzan 1992a, 1992b; Nitzan and Bichler 2009: Ch. 12).

Writing in the late nineteenth and early twentieth centuries, Veblen was intimately familiar with the destructive tactics of the 'robber barons' and witnessed first-hand the pre-war 'monopoly' wave of business consolidation that normalized and institutionalized those tactics. The standard neoclassical manuals of the time, though, ignored these processes, dismissing them as mere 'distortions' of an otherwise 'perfectly competitive market' (the first systematic analyses of 'market imperfections' appeared only in the 1930s, after Veblen's death. Cf. Chamberlin 1933; Robinson 1933; Means 1935; Hall and Hitch 1939). There was nothing destructive about the invisible hand of free economic competition, the neoclassicists insisted. On the contrary, competition was the main engine of novelty, technical change and rising wellbeing. Moreover, and crucially, the 'factor incomes' generated by such healthy competition – including the wages of workers, the rent of resources and land owners and the profits of capitalists – were proportionate to the (marginal) 'productive contribution' to the overall societal utility made by each factor. It was not only the best, but also the fairest of all possible worlds.

Veblen considered this view of capitalist competition sheer nonsense. Modern business practices, he observed already in the 1900s, had nothing to do with the *passive* 'price-taking' ideals peddled by neoclassical textbooks. Large business organizations (and, in their own ways, large governments and labour unions as well) were not seeking to sell the largest possible volume at the 'market price'. Instead, they were trying to *actively* undermine – or 'sabotage' – their opponents and society more generally so that they could charge whatever the 'traffic could bear'. In this mutually destructive context, the various forms of profit were not a 'remuneration' for the productive contribution of the owned assets, but rather a 'ransom' claimed by their owners for allowing the industrial system as a whole to operate:

Plainly, ownership would be nothing better than an idle gesture without this legal right of sabotage. Without the power of discretionary idleness, without the right to keep the work out of the hands of the workmen and the product out of the market, *investment and business enterprise*

would cease. This is the larger meaning of the Security of Property. (Veblen 1923; 66-67, emphasis added)

And that wasn't the end of it. The business magnates of the time, led by John D. Rockefeller and his likes, were not only undermining and sabotaging each other as well as the rest of society. They were also actively subsidizing the emerging neoclassical worldview whose main benefit was to make their strategic sabotage – and indeed their very existence as dominant owners of giant corporations – practically invisible (Josephson 1934: Ch. 14; Bichler and Nitzan 2007). Veblen refused to participate in this orchestrated racket. Had he lived today, he would probably have posited that the huge socio-environmental damage of the fossil-fuel regime was imposed on and for years concealed from humanity for the benefit of the oil companies' profits (Banerjee *et al.* 2015; Franta 2018).

5. Veblen's Differential Advantage vs. CasP's Differential Accumulation

In Veblen's writing, 'strategic sabotage' is used interchangeably with 'differential advantage'. This differential *advantage*, though, has nothing to do with the CasP concept of differential *accumulation*.

To be clear, Veblen's notion of differential advantage is an attempt to explain not differential profit, but *profit as such*. For him, differential advantage means simply the ability of capitalists to raise prices – absolutely or relative to cost – so as to generate a profit in the first place. His purpose in endlessly reiterating this claim was to show that, contrary to received convention, higher-prices-read-profits come not from the owners' economic *contribution* to the community, but from their power to *sabotage* the community:

[. . .] the processes of productive industry are governed in detail by the exigencies of investment, and therefore by the quest of gain as counted in terms of price, which leads to the *dependence of production on the course of prices*. So that under the regime of capital, the community is unable to turn its knowledge of ways and means to account for a livelihood except at such seasons and in so far as the course of prices affords a *differential advantage* to the owners of the material equipment. The question of advantageous – which commonly means rising – prices for the owners (managers) of the capital goods is made to decide the question of livelihood for the rest of the community. The recurrence of hard times, unemployment, and the rest of that familiar range of phenomena, goes to show how effectual is the inhibition of industry exercised by the ownership of capital under the price system (Veblen 1908: 108, emphases added).

However – and here we come to the crucial point in terms of this paper – the question of whether the profit afforded by differential advantage *beats, trails or equals the average profit* is entirely irrelevant to and never appears in Veblen's argument. Indeed, to the best of our knowledge, Veblen's writings offer no discussion of the 'normal rate of return', 'benchmarking' or 'beating the average', and thus no mention, let alone analysis, of differential accumulation.

For Veblen, power is a *means* of accumulation, full stop. By contrast, as we saw in Section 2, in CasP power is *both* the means and the end of accumulation. In developing this double-sided view of power and accumulation, we were inspired not by Veblen, but by Lewis Mumford's theory and history of the mega-machine. In his two-volume *The Myth of the Machine* (1967, 1970), Mumford examines the ancient and modern state incarnations of the mega-machine, a mechanized social construct erected and maintained by state rulers as way of exerting power for the sake of power. Building on his insights, we have extended and developed this concept to the study of capitalism, arguing that capital is a modern

mega-machine, and that accumulation is the capitalist form of augmenting power for its own sake (see for example, Nitzan 1992b, 1998; Nitzan and Bichler 2002: Ch. 2; Nitzan and Bichler 2009: Ch. 13).

This double-sided understanding of capital as power – the notion that power is both the means and the end of accumulation – alters the meaning of capitalism. Whereas for Veblen (as well as for liberals and Marxists) the ultimate purpose of accumulation is to increase one's *absolute* claim, in CasP it is to increase one's *differential* claim. And while for Veblen (and other political economists) the absolute claim is over *output*, in CasP the differential claim is over the *societal process* of reproducing that output as well as capitalism at large.

6. Veblen's Profit Maximization

The reason why Veblen never discussed – and could not have discussed – differential accumulation is embarrassingly simple: in his opinion, the end goal of all business undertakings is . . . *profit maximization!*

And that is only understandable. Despite his remarkable originality, Veblen was necessarily a product of his time. His emphasis on business power – or 'economic power' in today's lingo – helped open new research paths, particularly in the sociology of organizations, and influenced many thinkers, from C. Wright Mills (1956) to John Kenneth Galbraith (1967, 1983) to Michael Mann (1986). But in his mind, power was merely a means to an economic end. Although his texts are replete with references to 'differentials', his economic thinking was clearly absolute. In this respect, he remained fully aligned with the very neoclassicists he so effectively debunked.

Those who mistrace CasP's differential accumulation to Veblen's differential advantage overlook his strict adherence to profit maximization, so it is perhaps worth quoting him on this matter at some length (with extra emphases added for the benefit of Veblen skimmers):

The motives of the business man are pecuniary motives, inducements in the way of pecuniary gain to him or to the business enterprise with which he is identified. The end of his endeavors is, not simply to effect an industrially advantageous consolidation, but to effect it under such circumstances of ownership as will give him control of large business forces or bring him the *largest possible gain* (Veblen 1904: 36).

But the corporation is always a business concern, not an industrial appliance. It is a means of making money, not of making goods. The production of goods or services, wherever that sort of thing is included among the corporation's affairs, is incidental to the making of money and is carried only so far as will yield the *largest net gain in terms of money*, – all according to the principle of 'what the traffic will bear', or of balanced return', which underlies all sound business, and more particularly all corporation business (Veblen 1923: 85).

The absentee owner of natural resources is enabled to make them a source of free income, that is to say make them assets, by the power legally conferred on him to withhold them from use until his charge for their use is allowed him. What this charge will be is always a question of what the traffic will bear: which is the same as what will yield him the *largest net return* (Veblen 1923: 126).

Under such a (virtual) monopoly the charge collected on the traffic adjusts itself, quite as a matter of course, to what the traffic will bear. It has no other relation to the costs or the use-value of the service rendered. But what the traffic will bear is something to be determined by

experience and is subject to continued readjustment and revision, with the effect of unremittingly keeping the charge close up to the practicable maximum (Veblen 1923: 147).

[Absentee ownership and absentee management on a grand scale take] effect through the colorless and impersonal channels of corporation management, at the hands of businesslike officials whose discretion and responsibility extend no farther than the procuring of a reasonably large – that is to say the largest obtainable – net gain in terms of price (Veblen 1923: 215).

It may accordingly be assumed that the case of America as it runs into the calculable future will continue to be ordered on the lines of absentee ownership without much afterthought, governed by business enterprise carried on with an eye single to the largest net gain in terms of price (Veblen 1923: 226).

It is the invariable practice of ‘safe and sane’ management to limit the output to ‘what the traffic will bear’, – that is to say, to what will yield the largest net gain to the absentee owners (Veblen 1923: 277).

And this is just a small sample (for more, see for example Veblen 1904: 93, 258, 262; and Veblen 1923: 67, 94, 238, 298, 368, 387-388). There is no way to square the circle here. Profit maximization is antithetical to the logic of differential accumulation, and by insisting on the former Veblen effectively (albeit unknowingly) rejected the latter.

7. The Historical Backdrop

Finally, there is the issue of history. Veblen wrote in the early twentieth century and died in 1929. At the time, he was in no position to invent the concept of differential accumulation, let alone develop it into a full-fledged theory. The necessary historical conditions for such an articulation emerged only after his death.

Consider the following facts: although the ritual of capitalization dates back to the Middle Ages, economists started to examine it in earnest only at the turn of the twentieth century; the scientific study of finance commenced only with the Cowles Commission after the Crash of 1929 and the Great Depression; portfolio theory emerged only in the 1950s; and it was only in the 1960s and 1970s that discounting became a central aspect of corporate finance (Nitzan and Bichler 2009: Ch. 9 and 11). In other words, the key theoretical tools for examining differential accumulation were simply not there during Veblen’s lifetime.

And the same goes for the data. Estimates of the national income and product accounts (NIPA) – including profit – were sanctioned only in 1932 (Carson 1975) and were first published only in the late 1940s. Similarly, the time series on corporate balance sheets and income statements published by the US Internal Revenue Service (IRS) only go back to 1926. Until these statistics became available, there was no clear notion of average incomes, average profits or average assets. Similarly with financial market indices. The Dow Jones Index began in the late nineteenth century, but until the emergence of industry-, sector- and size-based indices in the second half of the twentieth century, there were no relevant benchmarks to beat.

In other words, during Veblen’s time there was no clear ‘average’ or ‘normal’ for individual investors and corporate organization to refer to, and no obvious mechanism to assess, let alone achieve,

differential accumulation. This vacuum is evident in Graham and Dodd's *Security Analysis* (1934) – arguably the most famous finance textbook of the time (and some say of all time). The book, published five years after Veblen's death, contains no mention of the terms 'benchmark', 'benchmarking', 'normal rate of return', 'average rate of return' or 'average returns'. The phrase 'beating the stock market' appears twice, on the same page – but the discussion relates not to differential accumulation, but to the difficulty of 'buying low and selling high'. The term 'index' appears 12 times – but merely as a generic synonym for 'proxy' and 'measure'. The word 'differential' appears once – but only to denote a yield difference on a bond issue of a particular company. 'Dow Jones' appears seven times – but merely in a descriptive context and never in relation to differential performance. 'Poor's' (the predecessor to 'Standard and Poor's') is mentioned 14 times – twice to explain the nature of Poor's Manuals and 12 times as references to specific company data. In this context, it is clear that Veblen simply did not have the necessary raw materials – whether conceptual or empirical – to come up with the concept of differential accumulation.

8. In Sum

Although influenced by Veblen, among other thinkers, CasP is not an 'institutionalist' theory. Unlike the old institutionalism its emphasis is dialectical rather than evolutionary, and in contrast to the new institutionalism it seeks to critique and move away from capitalism rather than support and bolster it.

More concretely, the central CasP concept of differential accumulation has no lineage to Veblen's notion of differential advantage. Indeed, the two concepts, developed in two different eras, are diametrically opposed. Veblen, who wrote at the turn of the twentieth century, before the appearance of business indices and financial benchmarks, emphasized the *absolute* drive for 'maximum profit' and saw strategic sabotage merely as a power means to an economic end. By contrast, CasP, which was developed at the end of the twentieth century, sees power not only as a means of accumulation, but also – and perhaps more importantly – as its ultimate purpose. Accumulators, it argues, are conditioned and driven to augment not their profits and assets as such, but their relative power, and this means that, as symbolic bearers of power, these profits and assets should be measured not absolutely, but relatively to those of others – hence the imperative of *differential accumulation*.

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