THE NEGATIVE MARKETS OF NECROCAPITALISM:

AN ECONOMIC MODEL OF SECURITY GOODS AND TRADES

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INTRODUCTION: BORDERS, MARKETS, AND *NECROCAPITALISM*

One way in which contemporary scholars frame debates regarding the US-Mexico border is to address questions of citizenship and human rights violations. For example, Green (1999) explains the process of militarization of daily civilian life in her ethnography of Guatemalan widows, while Chacon and Davis (2006) describe the political and historical processes through which borders create divisions to strengthen capital. Frameworks and approaches of this kind are indeed invaluable. However, they still remain at the level of description supported by historical facts. This is more than enough to fully understand the complexities of today's border politics, especially with regards to the militarization of the US-Mexico border, but insufficient for the purpose of diagnosing the problem. A complementary prescriptive approach could be warranted; and to my knowledge there is not today, in the social sciences, an approach resembles a kind of "clinical political economy" equivalent to medical, i.e. clinical, practice.

Moreover, with the postmodern turn toward critical theory, which currently sets the tone in social science debates, there is a belief that highlighting the problems generated by capitalism through a series of examples based on hard evidence is more than enough to allow for these problems to solve themselves. Critical theory is extremely important as a field for the engagement of ideas, but has shown some serious methodological shortcomings at the level policy formulation and implementation.

Another problem faced by postmodernist critical theory is its complete rejection and/or disavowal of the *end of history* hypothesis (Fukuyama, 1989)[1]. If instead of outright rejecting the end of history hypothesis we were to treat it seriously, it would be possible to debate capitalism within a common framework of

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[1] The end of history hypothesis suggests that the end of the Cold War with the fall of the Berlin Wall has left humanity at "the end point of mankind's ideological evolution [with] the universalisation of Western liberal democracy as the final form of human government" (Fukuyama, 1989: 1).

analysis (e.g. that of the ubiquitous capitalist mode of production), which would make possible comparisons that allow for prescription.

There are plenty of reasons for insisting on the development of a prescriptive approach. Capitalism today takes the form of what Banerjee (2008) calls *necrocapitalism*[2]. Such form of capitalism needs to be treated as a kind of illness, not described or explained.

I believe that *necrocapitalism* best describes the socioeconomic conditions experienced by vulnerable populations living near the US-Mexico border. However, such conditions are rarely expressed in formal economic terms and, therefore, difficult to prescribe. Without an economic model that can provide quantifiable results that make visible many occult processes of exploitation, it will be nearly impossible to diagnose the negative impacts suffered by victim populations living along the US-Mexico border.

What I will suggest in this paper is an approach, which looks at *necrocapitalism* based not on historical description, but on an economic model that could serve the disciplines of anthropology, political philosophy, psychoanalytic theory, and literature.

To describe how markets operate within *necrocapitalism* (i.e. the production and trade *securities*), I will use the IS/LM[3] model (Hicks, 1937), which according to Mankiw (2006) is the best interpretation of Keynesian economics. The presentation of the IS/LM model in this paper will not be so detailed as to go beyond its characteristic heuristic value[4].

However, I do hope that further developments can be made to the model and that it may become a tool for future use in fiscal and monetary policy, since currently policy makers disavow the invisible

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[2] Necrocapitalism is defined by Banerjee, (2008: 1541) as "contemporary forms of organizational accumulation that involve dispossession and the subjugation of life to the power of death".

[3] Investment Saving/Liquidity preference Money supply.

[4] It is important to highlight that Mankiw does point to the fact that the IS/LM is more pedagogical in nature than an actual economic policy tool, being "widely used intermediate-level macroeconomics textbooks" (Mankiw, 2006: 4).

existence of violence and death (Banerjee, 2008)[5]. In other words, the catch with current analysis of the market, as it is traditionally understood, is that these do not incorporate negative practices of accumulation[6].

It is, therefore, necessary to propose the existence of a special kind of market, which I will call "negative market". Unlike traditional markets, which are driven by self-interest, negative markets are driven by some combination of envy and love (Žižek, 2008: 85-92) making these markets invisible from the utilitarian perspective of economics (e.g. a theory that describes love and/or envy on a utilitarian basis would certainly provide the behavioral micro-foundations for negative markets, but this is beyond the scope of this paper).

In other words, because negative markets do not appear in orthodox economic calculations making them visible is a first step toward identifying the underlying causes, which manifest as violence in *necrocapitalism*. I propose to make negative markets visible by giving violence itself a commodity-form, which I will call *security*.

If the theory presented here proves to be correct, then incorporating *security* to economic models would allow for utilitarian calculations in the presence of negative markets, and would also allow one to diagnose the impacts that such negative markets have on the US-Mexico border. The militarization of the border region surely qualifies as a negative market, where *securities* are being (invisibly) traded every day in a *state of fear* (Green, 1999). To put it quite simply, warfare and armed conflict can be understood as economic activities and once they become visible, calculated as such.

To represent armed conflict in economic terms, it is necessary to formalize *security* as a marketable commodity expressible as a variable or as a coordinate in a Cartesian plane. Thus, if *security* is a marketable commodity expressible economically, then it is possible to refer to *security goods* and *security trades* as

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[5] "[that] invisible hand, [which] restores the market to what it must be to support life" (Banerjee, 2008: 1548)
[6] "practices of accumulation … involve dispossession, death, torture, suicide, slavery, destruction of livelihoods, and the general management of violence" (Banerjee, 2008: 1548).

variables of the system. Once this formal representation is established, it will be possible to better understand the relationship between markets (both positive and negative), borders and *necrocapitalism*.

This paper is divided into 3 sections. In the following section, I will begin with Orwell's (2003) "*war is peace*" metaphor to discuss and describe modern processes of *necrocapitalist* accumulation while, simultaneously, introducing the model that will serve to describe the economics of borders in neoclassic terms. I will lay out and discuss in some detail the proposed model. Finally, I will conclude by suggesting that is important and useful as the concept of *necrocapitalism* is, it by itself does not generate hypothesis that are quantifiable or testable in any empirical way.

SECTION 2: REVISING THE IS/LM MODEL TO REPRESENT SECURITY AS A COMMODITY-FORM

Perhaps one of the first attempts to clearly articulate a concept of *necrocapitalism* was Orwell's (2003) description of the *Theory of Oligarchical Collectivism* in the novel *1984*. In that novel Orwell (2003) sets up three principles where opposites coincide. Of these, chapter 3 "War is Peace"[7], is particularly important and relevant for a discussion of *necrocapitalism*.

Note that the concept of permanent war is not a concept exclusive to fictional literature and has been theorized in many contexts, including in some Marxist and Keynesian frameworks. However, it is Orwell's (2003) description of the phenomenon that best highlights elements of *necrocapitalism* and clearly articulates the concept of *security*. There are three features worth noting from the concept. First, war produces value in a paradoxical way: by destroying surpluses (i.e. *the necessary destruction*). Second, war creates a mentality

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[7] According to Orwell (2003):
"Even when weapons of war are not actually destroyed, their manufacture is still a convenient way of expending labor power without producing anything that can be consumed. (…) War, it will be seen, not only accomplishes the necessary destruction [of surpluses], but accomplishes it in a psychologically acceptable way. (…) In other words it is necessary that [people] have the mentality appropriate to a state of war. (…) But though it is unreal it is not meaningless. It eats up the surplus of consumable goods, and it helps to preserve the special mental atmosphere that a hierarchical society needs. War, it will be seen, is now purely internal affair. (…) The war is waged by each ruling group against its own subjects, and the object of war is not to make or prevent conquests of territory, but to keep the structure of society intact. The very word "war", therefore, has become misleading. It would probably be accurate to say that by becoming continuous war has ceased to exist. (…) A peace that was truly permanent would be the same as a permanent war. This … is the inner meaning of the Party slogan: **WAR IS PEACE**." (Orwell, 2003: 195-204)

appropriate to its own replication and maintenance. Third, and final, war is purely an internal affair, i.e. no longer a tool to destroy other societies but a tool that keeps the structure of one's own society intact.

The question is: by what means and through what mechanism does war accomplish the destruction of surpluses, the perpetuation of a mentality that justifies or validates its own existence, and the inalterability of the social structure in place? The answer is quite simple: it does this in the exact same way that capital creates surpluses, generates an ideology that allows it to self-replicate indefinitely, and keeps the structure of society chaotic and self-revolutionizing.

In other words, the mechanics of capital is always the same; it is just that the direction becomes inverted when one is dealing with negative markets. More importantly, if war is a form of capital, then it can also be represented both as a good and as a service (i.e. it has a commodity-form). This is where the concept of *security* enters: it is the commodity-form of profitable violence.

However, there is still one final puzzle, which is to find a context in which *security* transactions take place, or more appropriately where *securities* are traded. I hypothesize that military zones or militarized regions[8], as is the case with the US-Mexico border (Chacon and Davis, 2006: 201-212), are these negative market-places. In sum, borders are a good example of how negative markets work, illustrating the logic of necro-capital[9].

Since the model attempted here is prescriptive, it will be necessary to reduce many of the complexities existing in descriptive approaches down to a few explanatory variables. In the IS/LM model only income and the interest rate are the central explanatory factors of market cycles. Therefore, all that is required is the conceptualization of *security* as a 'factor of production' and as a 'factor market' (e.g. in the same way that economists conceptualize land, labor and capital).

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[8] Places where civil life coexists with military presence.
[9] "New economic doctrines require new military doctrines… War without end does not necessarily mean endless fighting: the coercive mechanisms of capital require an endless possibility of war. (…) Political sovereignty becomes subservient to corporate sovereignty and economics rather than politics determines war zones." (Banerjee, 2008: 1549).

The two main difficulties for a full acceptance of this kind of framework are related to the moral nature and the legal nature of the argument. Morally, it may be offensive to some people that death and violence should be treated as a commodity and/or market. Legally, there are currently few theories that actually provide a basis for legitimacy of a negative market and its production and exchange of *security*. Agamben's (1998; 2005) theory of the *state of exception*, is one such theory but must temporarily be set aside given the limited scope of this paper.

The inclusion of *security* as a third kind of enterprise to the IS/LM model requires an understanding of how production and circulation of *security* goods affect the economy. *Security* is the production of any kind of goods, from insurance to surveillance and all the way up to protection (of any kind – police or military) described in terms of trades, goods, and services. Thus, to keep to the structure of the model, we have *security* trades and *security* goods.

Henceforth, it will be necessary to view income as being generated not only from investment but also from *security*. The critical point is that if *security* generates income, it nonetheless operates differently than investment and consumption. To put it bluntly, *security* is a negative kind of savings. If savings, in the traditional sense, is what I withhold (i.e. refrain from consumption or investment) today to beget something tomorrow, then *security* exists when I spend today not to get something tomorrow.

The most common examples of these kinds of savings are *war reparations* and *monopoly rights* for *reconstruction* (Keynes, 1940; Keynes, 2009; Banerjee, 2008) enforced by the winning side(s) on the losing side(s). In the case of borders, however, they come in the form of what Green (1999) calls *state of fear*, the generation of continuous *insecurity* which generates a demand for *security goods*.

Also, it is necessary to revise and complement the traditional interpretation of the interest rate. Traditionally, the interest rate (*i*) can exhibit any positive or zero value. It is generally assumed that the interest rate will always have a positive value in the long run, but it is also admitted that it can have a value

of zero in special cases, generally in the short run. I will propose that the interest rate can also have a nonzero negative value.

Unlike *security*, which is qualitatively different from consumption and investment given that it is based on a different definition of "savings", the negative interest rate is identical to its positive counterpart. I will also propose that a negative interest rate allows an identity between savings and *security* analogous to the one that exists between savings and investment, which is mediated by the positive interest rate.

This means that decreasing the absolute value of the interest rate towards zero[10] will, at least in theory, make the economy very liquid (e.g. with high incentives for investment), while increasing its absolute value towards either maximum 'freezes' the economy (e.g. high incentives for savings). In sum, violent conflicts are a form of 'liquidity'. What is important is the correlation between the interest rate and expected economic behavior, i.e. decisions regarding whether one should invest, save or consume.

I postulate that armed conflict is an economic behavior, which is mediated by the negative interest rate coupled with a demand and a supply of *security*. Again, it must be kept in mind that the nature of the negative interest rate is not qualitatively different than the one of its positive counterpart. Therefore, we can have two directions in which the economy can 'freeze-up': either by stagnating through financial speculation (i.e. savings); or by entering a period of armed conflict (i.e. *security*).

With these modifications it is now possible to revise the IS/LM model based on Hicks' (1937) original description. Let us begin by laying out Hicks' (1937) model. We can summarize it as follows:

- Wages per person: w;

- Money is: M;

- Output of goods specific to a trade/industry: x (consumption) and y (investment);

- Employment in each trade/industry: N_x and N_y;

- Total income is: $w_x\,(dN_x/dx) + w_y\,(dN_y/dy)$.

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[10] Theoretically, it would be possible for the interest rate to reach an infinite positive value as well as an infinite negative value. Zero is the hypothetical point where there is infinite investment at zero risk for the capitalist.

Given the above variables, the purpose of the IS/LM model is to determine the contributions of each trade/industry to the economy's total income. Now *security* will be added to the model and represented by the variable *z*, employment from *security* is *Nz,* and income is *dNz/dz*. The equation for total income now becomes: *wx* (*dNx/dx*) + *wy* (*dNy/dy*) + |-*wz*(*dNz/dz*)|.

Moreover, given certain assumptions of equilibrium (e.g. price level of all goods equals marginal costs, including wages or "wage-goods") it would be possible to determine the level of employment in each trade/industry at a given level of income.

The original model relied on the Cambridge quantity equation ($M = kI$), and this will be maintained here. The equation describes the relationship between price and supply of money in the long run, where: *M* is money, *k* is the portion of money not used in transactions (i.e. the security attained from storing money), and *I* is income. We can now begin to analyze the modifications to the original model.

Given the possibility of negative values for the interest rate (-*i*), *k* needs to be reinterpreted as a function of both the positive and the negative interest rate. Simultaneously, income (*I*) needs to be reinterpreted as a function not only of investment and consumption but also of *security*. To put it differently, it is necessary to know what happens to the economic behavior of agents when the negative interest rate is combined with the production of *security* goods. This means that an explanation regarding how optimism and pessimism regulate savings and budgets (i.e. balances) is needed.

As is normally the case, pessimism (say, for example, that armed conflict will have a longer duration than expected) encourages an increase in balances through savings. However, due to the nature of *security*, this increase (assuming equilibrium) automatically translates into spending directed at emergency measures.

At the level of the state, savings due to a negative interest rate generate an extra demand for capital, say because American citizens are afraid of illegal aliens crossing over the border, which encourages spending on *security* (i.e. investment on *security trades*) and, therefore, leads to a reduction in balances in the

short and medium terms. It is this dimension of savings that guarantees the increased production and circulation of *security goods*.

Returning to the IS/LM model, two equations guarantee the equality between consumption (*C*) and savings (*S*) [*Ix = C(i)* and *Ix = S(i, I)*] in equilibrium. Now it becomes necessary to establish two equations that guarantee the equality between *security* (*S'*) and savings (*S*). The first equation will establish that *security* is dependent on the negative interest rate and the second equation will maintain the equality between savings and *security*, which describes the production of *security goods* in equilibrium. We have: *Iz = C(-i)* and *Iz = S'(-i, I)*.

There are now five unknowns: the original three (*e.g. I, Ix* and *i*) and the two new ones (*e.g. -i* and *Iz*). From these unknowns, a new 'classical' system, composed of five fundamental equations, can be proposed: *Ix = C(i)*; *Ix = S(i, I)*; *Iz = C(-i)*; *Iz = S'(-i, I)*; and *M = kI*. Total employment becomes *Nx + Ny + Nz*, and can be determined from *I, Ix,* and *Iz*. Based on these revisions it is now possible to provide an interpretation of the properties of this new system.

First, *k* will now measure the allocation of resources toward *security trades* because these trades are also part of the total national income. It is the national savings that maintain the equilibrium between *I* and *-i*, which in turn guarantees government's increased spending on *security*. In the case discussed in this paper, this represents the resources (financial or not) devoted, for example, to the budget of the *border patrol*.

Second, the claim that 'an increase in the inducement to invest will tend to raise the rate of interest, and so to affect savings' (Hicks, 1937: 149) now holds true for the opposite relation: an increase in the inducement to save will tend to raise the negative interest rate, which affects *security*. Labor employed more on *security trades* and less on investment and consumption trades will increase employment if the elasticity of supply in *security trades* is greater than the elasticity of supply in the other two trades. Therefore, Hick's (1937) original conclusion about employment[11] can be maintained.

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[11] "the total effect on employment depends upon the ratio between the expansions of these industries" (Hicks, 1937: 150).

Third, the total money income variations that occur through the business cycle, which are explained by variations in *M* or in *k*, are not only the changes that result from the discount rate established by bank loans but also the result from the changes in confidence with respect to the outcomes in the border frontier. For example, more crossings would require an increase in the output of *security goods* produced by *security trades*.

This means that the relationship between the supply of money and income with regards to the expectations under situations of emergency, as is with the case of immigration, and to people's reduced level of spending and lending, is also responsible for keeping *k* in equilibrium. It is therefore possible to hypothesize that during the initial period of hysteria an increase in the supply of money and total income directed towards the production of *security goods* will tend to increase employment without significantly impacting the negative interest rate.

Fourth, the demand for money function[12] needs to take into account the negative interest rate as well, i.e. the government's demand for money to be allocated toward *security*. The final effect of an increase in the inducement towards *security* as a "propensity to save" must be coupled with all other inducements[13] and will depend on the total combination of how the positive and negative interest rates impact every single enterprise, *Ix*, *Iy*, and *Iz*.

The revised IS/LM model can now describe the set of all possible equilibria, both in times of peace and in times of armed conflict. There are now two functions that express the demand for money. On the one hand, the function with the positive interest rate is the one described by Hicks (1937) where the 'rate of interest set against the schedule of the marginal efficiency of capital determines the value of investment' (Hicks, 1937: 152) and, together with income, also determines the volume of employment and consumption.

On the other hand, the function with the negative interest rate is the one that describes how the schedule of the marginal efficiency of capital determines the value of *security*. The volume of employment is

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[12] "the demand for money depends upon the rate of interest" (Hicks, 1937: 151)
[13] "an increase in the inducement to invest, or in the propensity to consume" (Hicks, 1937: 152)

then determined by the value of *security* and income, but now income functions as "negative savings". Finally, the system of equations which has previously been written in *'Classic'* format (expressed above) may be rewritten in the *'General Theory'* format: *Ix = C(i)*; *Ix = S(i, I)*; *Iz = C(-i)*; *Iz = S'(-i, I)*; and *M = L (±i, I)*.

The liquidity preference (*L*) is represented as a function of income, which includes *security*, and as a function of the interest rate in its positive and negative forms. In the case of the positive interest rate, Hicks' (1937) suggested that there is a direct relationship between income and demand for money and an inverse relationship between the interest rate and demand for money (Hicks, 1937: 153), which is directed to the production of consumption and investment goods. Conversely, now it can be said that a decrease in income and an increase in the negative interest rate will tend to raise the government's demand for money to be directed at the production of *security goods*.

To increase the output of *security*, society would need to increase savings and consequently the negative interest rate would need to rise in the long run. It is only with the initial short term hysteria (for example, the trauma and xenophobia generated by the September 11 attacks) that *security* output can be increased without affecting the negative interest rate, i.e. the *LM* curve is perfectly horizontal.

The suggestion regarding a shift in economic behavior as an economy begins its preparations for armed conflict can be interpreted through the *LM* curve under the assumption that such conflicts will be long lasting (Keynes, 1940). As a country diverts its resources to the production of *security goods* the negative interest rate does not initially need to be affected to increase employment and income.

However, as a conflict prolongs itself to the point that *war is peace* (Orwell, 2003) the *LM* curve starts to become steeper and will continue to do so until it is perfectly vertical, at which point no additional income can be generated through *security goods*. At this point we could say that it does not make any economic sense for war to go on.

Finally, there are two points that need attention. First, it would be possible to imagine a *security-money* curve analogous to the *IS* curve. Income and the negative interest rate are determined (i.e. in equilibrium) at the intersection of the *LM* and *IS,* and the marginal efficiency of capital schedule, which is now almost entirely devoted to armed conflict, determines the value of *security* at a given negative interest rate. Second, given the assumption of equilibrium, the multiplier would now tell us what would be the necessary level of future income (i.e. deferred payments, war reparations, and post war reconstruction) to make savings equal to *security*.

CONCLUSION

The critical aspect of *necrocapitalism* is that it represents a state of simultaneous war and peace similar to Thomas Hobbes's definition of war as consisting 'not in battle only or the act of fighting, but in a tract of time wherein the will to contend by battle is sufficiently known' (Hobsbawn, 2007: 15-16). The US-Mexico border is the empirical evidence of this paradoxical reality.

The discussion presented here consisted of formalizing *necrocapitalism* by incorporating into the IS/LM model the variable *security* and a negative extension of the interest rate which, together, provide an account of the mechanics involved in the production and circulation of violence.

It is hoped that revising and formalizing the model will allow scholars to prescribe fiscal and monetary measures that deal with the underlying causes of *necrocapitalism* which manifest themselves through the *symptoms* depicted in the work of many scholars who study the US-Mexico border.

Keynes (1940) was one of the first economists to raise questions regarding the relationship between war and the economy[14].Although this may seem indefensibly uncritical, one could argue that Keynes was right in realizing the importance of a prescriptive approach in the social sciences to deal objectively with violence.

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[14] "how best to reconcile the demands of War and the claims of private consumption" (Keynes, 1940: iii).

However, Keynes' lack of critical engagement and ideological conservatism toward the meaning of warfare did not allow him to contemplate the opposite question: how does the demand for private consumption reconcile itself with war to the extent that it actually generates conflict and violence?

A first step toward answering that question has been given by and through the concept of *necrocapitalism*, which asserts the existence of such correlation. What is lacking is that *necrocapitalism* does not in itself provide the mechanisms which allow for calculable and testable hypotheses that are verifiable or falsifiable by empirical results.

Hobsbawn (2007) has expressed his concerns about the connections between private enterprise and armed conflict[15]. This description of warfare makes the prescriptive approach presented in this paper warranted and relevant when looking at borders in 21st century *necrocapitalism*. I do hope that such an approach may also be validated by clearly state hypotheses that fail to falsify the claims presented here.

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[15] "at the start of the twenty-first century we find ourselves in a world where armed operations are no longer essentially in the hands of governments or their authorized agents, and where the contending parties have no common characteristics, status or objectives, except the willingness to use violence" (Hobsbawn, 2007: 16).

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