THE FALL IN THE U.S. RATE OF SURPLUS VALUE AT THE END OF 2015.

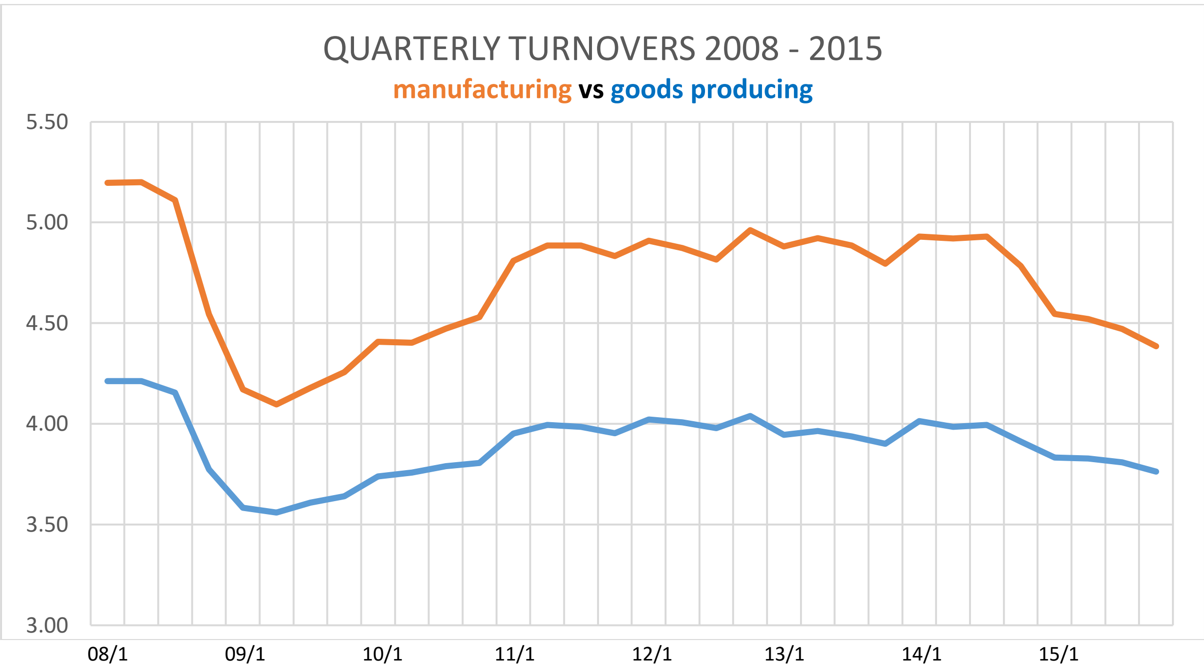
We are over half of the way into the reporting season on Wall Street and it looks as if average profits are down by 6 - 8% compared to last year. In addition, the fall is spreading to more industries. 70% of industries have so far reported falls. Falls across the banking and financial sector were particularly sharp resulting in a significant diminution of their share of total profits for the first time since the financial crash. In addition, the tech section, the largest component of the S&P is down 7.6% (F.T. 30/042016).

The average fall of 6-8% is the important figure. Profits do not fall everywhere by the average but unevenly. However, if profits fall more in one industry, for example oil, this redistributes profits to say the airline industry which makes more profits because of lower fuel costs. Hence the unevenness of the fall in profits should not detract from the average fall.

There is also increasing concern about the quality of the profit figures with the gap between pro forma profits and GAAP (unadjusted) profits at its highest since 2009. This gap grew in the final quarter of 2015 to 39% (as reported earlier), the highest since 2008/9 and has remained at that level in the first quarter so far. Non-GAAP reporting is fast becoming the new normal. In fact, as the graphs below will show, it is likely that the gap is even bigger than that presented in the quarterly releases and that real profitability is actually much lower than the creative accountants are churning out. But as Marx was fond of saying, all crises are preceded by swindles.

On 21st March 2016 the BEA provided Gross Output and Gross Value Added for the fourth quarter of 2015 thus completing the year. This allowed quarterly turnover figures to be prepared and they are found in the Graph below. As predicted the downward path continued and is accelerating.

Graph 1.

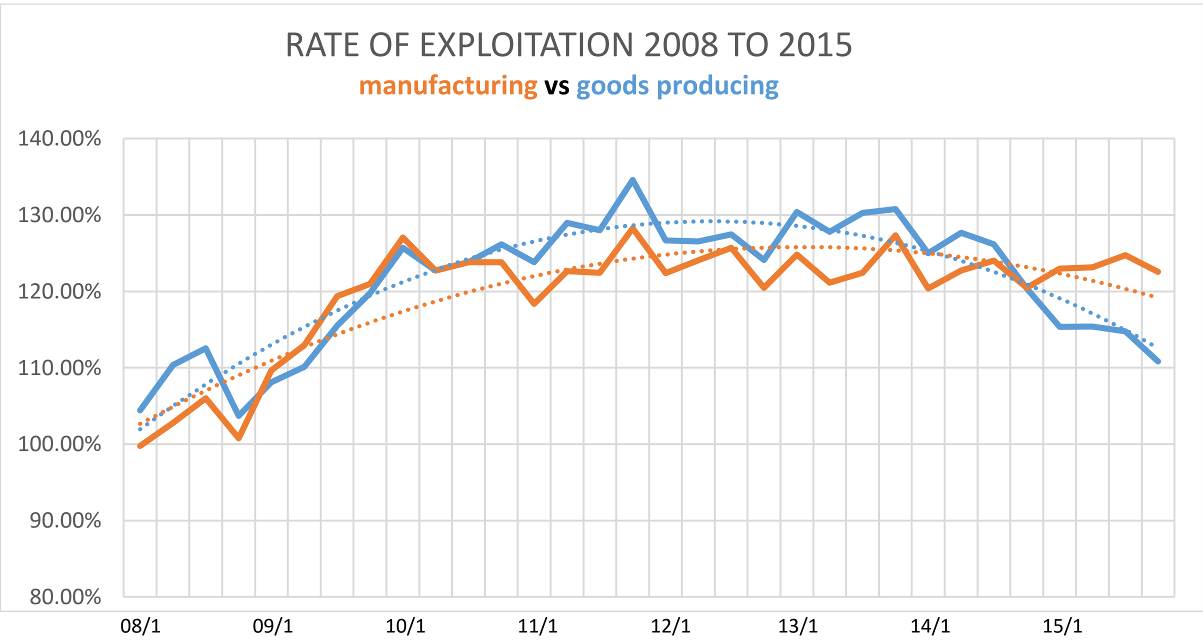


The fall in turnovers in manufacturing is relatively greater than the fall in the goods producing sector. (Please note I am using goods producing as prepared by the BEA which excludes Utilities. This is due to a paucity of data.) The fall in turnovers from quarter three 2014 to quarter four 2015 is 11% (manufacturing) compared to the more abrupt annual fall from quarter two in 2008 of 17.5%. Nevertheless, an 11% reduction in the speed of turnover represents 28 fewer working days to produce profits.

Of great interest has been the fall in inventories released as part of the GDP release on the 28th April. One of the factors slowing down economic growth has been the fall in the investment in inventories or what is sometimes called the unwinding of inventories. For the first time we can see that this is a response to falling turnovers. Over the last six months the rate of turnover fell 3% while inventories have fallen by around 1%. The more rapid fall in inventories this quarter suggests that the turnover of capital has slowed further. Hence while inventories are down in absolute terms, in terms of turnovers they may still be elevated and should turnovers continue to contract we can expect additional falls in inventories.

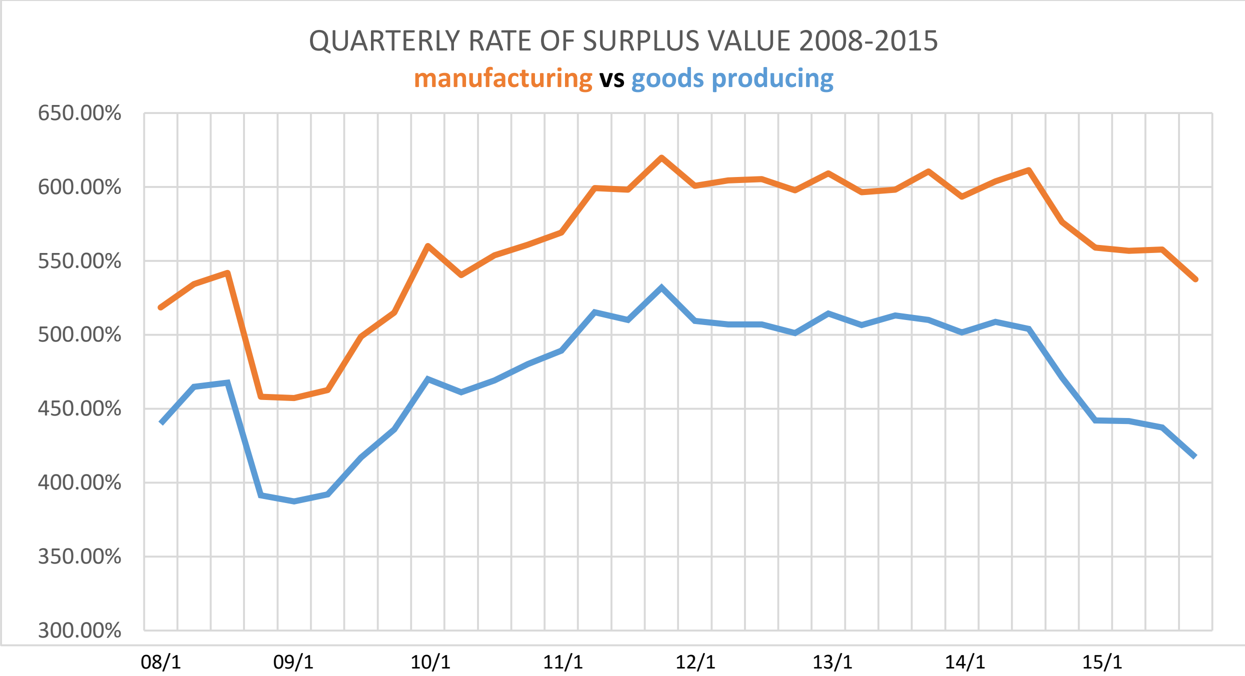
It is clear that as the circulation of capital reduces, it will reduce the rate of surplus value. The only element that can reverse this reduction is an increase in the rate of exploitation, which is the ratio of annual surplus to annual compensation. However, there has been no increase in the rate of exploitation to offset the slowing down in the circuit of capital. Quite the contrary. The rate of exploitation has fallen too. The rate of exploitation used here needs to be heavily qualified. The paucity of figures means annual compensation is not yet available only annual wages and salaries. Annual wages and salaries are significantly lower than annual compensation because it omits expenditure on pension payments and healthcare contributions. The rate of exploitation used here is thus overstated. In turn it will lead to an overstated rate of surplus value later in the article. Let us refer to them as proxies. However, as they compare like with like, it is the trend that is important.

Graph 2.



The rate of exploitation in manufacturing has fallen insignificantly at 3%, but the rate of exploitation in the goods producing sector has fallen significantly at 14%. With regard to turnovers the opposite applies. It has fallen faster in manufacturing (Graph 1). The results of these diverging factors can be seen in Graph 3 below which plots the rate of surplus value. It combines the rate of exploitation with the rate of turnover.

Graph 3.



Here we find a convergence in the fall in the rate of surplus value. The falls are much closer together; in the case of manufacturing it has been 12% and for goods production it has been 17% over the last 18 months. (We remind ourselves that these are proxy figures based on wages and salaries.) It is impossible to obtain a rate of profit at this juncture. The figures for the stock of constant capital for 2015 will not be available for six months. The latest GDP figures however show non-residential fixed investment rose by only 0.5% over the last six months of 2015 and fell by 5.9% this quarter, the biggest annual fall since the financial crash. It is likely therefore that the stock of constant capital is now lower than a year ago, but the rate of surplus value is even lower.

The result is a rate of profit that has likely fallen below the plateau set in 2010. We are thus at the end of the most sustained, multi-year high in the rate of profit and that is very significant. It is beginning to dawn on the capitalist class that the good times are over. In a report by McKinsey & Co reviewed on Bloomberg (28/04/16) investment returns over the next twenty years are expected to halve compared to the average for the last thirty years. Workers will therefore have to work an additional seven years to obtain the same pension. Most importantly they do not see any drivers for the world economy in the foreseeable future. Indeed, one of those drivers has just expired. As CNBC reported on the same day, sales of world smartphones fell 3% last year, the first annual fall since they were first invented.

It is now possible to compare world turnover rates thanks to the sterling work carried out by the following authors. (Timmer, M. P., Dietzenbacher, E., Los, B., Stehrer, R. and de Vries, G. J. (2015), **"An Illustrated User Guide to the World Input–Output Database: the Case of Global Automotive Production"**, *Review of International Economics.*, 23: 575–605 which can be found on www.wiod.org/new_site/database/wiots.htm. They have compiled an international input-output table for the years 1995 to 2011. These tables embrace the EU27 countries plus the 13 largest economies outside the EU. In total it amounts to 92.7% of world GDP (World Bank) in 2011). It shows the turnovers accelerating by an average of half a percent per annum over these sixteen years confirming Marx's prognosis that turnovers would accelerate over time. In 2011 the international turnover of capital stood at 5.2, above that of US manufacturing turnovers but below that of Japan. It goes without saying that the international turnover of capital is at its most accurate over the entire world economy. Only this international turnover can hope to capture all the intermediate sales represented by international trade which so troubles national account statisticians.

We can hypothesise that this rate is itself falling given the fall in international trade relative to world GDP. However, it will require input-output tables for the period 2012 onwards to confirm this. Before departing from the international input-output tables one observation needs to be made: if capitalist statisticians can compile an international input-output table it suggests that it is feasible to plan production consciously on an international basis.

There has been much discussion as to the absence of a financial crisis accompanying this fall in profitability. Financial stresses are increasing which is why there has been a fall in banking profits. The increase in provisions for bad debts and the lack of profitable investments is at the heart of this fall in profits. However, low interest rates together with the size of indebted corporations have mitigated extensive bankruptcies.

The fall in the rate of profit however poses an increasing risk to the mountain of debt around the world. Real production provides the real revenue which sustains this upside down pyramid of fictitious capital. It forms the pedestal on which it rests or rocks. As the pedestal is reduced so its balance becomes more precarious. This sum of fictitious capital amounting to at least $170 trillion, whose primary accumulation begins in 1996, poses systemic risks to capitalism should profitability no longer support it. Capitalism is now in that danger zone. It is the fall in profitability that acts as the initiator of economic crises in most cases while the credit crises that ensues acts as the accelerant.

The failure by the Bank of Japan this week to pump additional liquidity into the market which resulted in the rise in the Yen and the fall in the stock market, indicates that attention is turning to the USA. It is clear in the eyes of central bankers that the US is too weak to sustain a strong dollar. This is has not stopped the overpaid idiots of Wall Street from speculating on the timing of the next interest rate rise by the Fed.

In China, the pumping of extra credit in the first quarter to prevent economic shut down, has led to rampant speculation once more. In Tier 1 cities house prices are soaring and speculation outside the stock market is at boiling over. On the metal markets in China, there have been weeks when the daily amount of bets (futures) has exceeded the annual value of metals imported and produced in China itself.

In 2016 two key events will determine events. Firstly, whether or not governments break from the credo of neo-liberalism and embark on co-ordinated fiscal stimuli, and secondly the response by workers to the deepening economic crisis. They are connected. The capitalist class is aware of the social weight of the working class and it is aware of its growing opposition to further globalisation. While it may buy time with fiscal expansion, this is only a temporary measure. The longer term resolution of the crisis of investment requires accelerated globalisation, the creation of single markets out of many, and for this to happen capitalism has to become increasingly authoritarian.