TRUMP, THE BY-PRODUCT OF 30 YEARS OF NEO-LIBERALISM AND ITS FAILURE.

This article has three inputs. Firstly, the release in September of the current cost of produced fixed assets for 2015 by the BEA, secondly the release of gross value added and gross output on the 3rd of November allowing turnovers to be calculated and finally the results of the US presidential elections. Neo-liberalism was never going to slink quietly out the back door of the house it had ruined, but driven noisily out the front door. Any "anti-establishment" candidate who stood in November was bound to win, such is the anger neo-liberalism has engendered.

The narrowness of Trump's win against a member of the despised Clinton dynasty shows that he remains an unattractive politician who won simply because he was the sole lightning rod for the disaffection sweeping the United States. Turnout was high at 60% of the adult population, boosted by voters who did not want the other side to win. In terms of the popular vote, Clinton won by a nose. In many ways, it was not the Republican Party that won the election, it was the Democratic Party that lost it. The Republican establishment accepted Trump as their candidate, while the Democratic Party rejected Bernie Sanders. The manhandling of Bernie Sanders by the corrupt leadership of the Democratic party alienated its membership, giving Trump the edge. The real irony is that the rabid Republican Party, the base for big business, selected a "man of the people", whereas the peoples' party, the Democratic Party selected a "woman of big business". Such is the sorry state of the parties and the whole rotten democratic regime in the United States.

The size of the anti-establishment vote is much bigger than the vote Trump garnered. Had Trump been a progressive rather than donning 19th century social conservatism, his vote would have soared. Wall Street's panic lasted only hours. They can smell one of their own. Trump's immediate call for national unity and for the setting aside of differences, is the mantra of the political scoundrel. It should send warning bells to his supporters.

Theresa Mayfly has often stated that Brexit means Brexit. She repeats it not because she is a democrat, respectful of the will of the people. She does so for an entirely different reason. As a former home office secretary with access to the deep state she is aware of the simmering discontent within British society. Unlike Mayfly who dared not say it, Farage has opinioned that should Brexit be betrayed riots could follow. Wall Street on the other hand has only contempt for those who voted for Trump. Their real crisis will come when they realise that the depth and breadth of the anger in the United State is real and that should Trump turn his back on this discontent, he would do so at his peril.

The more intelligent members of the minority that rule capitalist society know that the preferred way for ruling the majority is through consent. But consent requires a bribe - rising living standards and better opportunities - not an economy that has frozen wages for two generations. Consent requires being positive about the future, not fearful of it. Trump stood against the establishment (despite being part of the establishment) and his victory marks a turning point in US politics. Trump is no Reagan despite both being manipulative showmen. Trump was 40 years in the making, Reagan a mere 5. Reagan stood at the start of the process, Trump at its end. Trump will try and win time by offering socially conservative legislation to satiate his supporters, but when he runs out of these rank morsels and fails to deliver on rising standards of living as he promised, and if there is no Bernie Sanders to rescue the situation, the politics of consent will be tested for the first time in the United States.

On a more personal note, Bill Jeffries and I differed on the age of the business cycle. My modelling suggested the economy was contracting and I therefore considered October to be the critical month for the economy, a month during which I expected a major correction for the markets. I was wrong. We also differed on the extent to which class peace was bought by cheaper consumer goods. Trump's victory shows that these electronic gadgets were not that important in the end. Trump's expected victory has introduced politics into the equation for the first time raising the prospects for a major correction in the immediate future.

The 2015 U.S. Rate of Profit.

The US released its Stock of Non-Residential Fixed Capital in September allowing for the preparation of the rate of profit for 2015. These are presented in the two graphs below. The first is the gross rate of profit and the second is the enterprise rate of profit. The gross rate of profit is calculated in the following manner: net value added less compensation = surplus/total capital. Compensation has been adjusted by deducting the top 1% of wage earners from compensation. (Saez-Zucman up to 2012, Office of the Chief Actuary thereafter). This has the effect of reducing compensation and increasing the surplus. The top 1% are not wage earners but profit takers. Total capital is arrived at by adding inventories to fixed capital in order to obtain constant capital on to which is added variable capital. Variable capital in turn is obtained by dividing annual compensation by the number of annualised turnovers using the turnover formula.

In the first Graph the gross rate of profit is presented. It is adjusted surplus/total capital. The second graph is the enterprise rate of profit which is after tax profits/total capital. As the surplus includes profit, rent, interest and tax it is double that of enterprise profit thus yielding a rate of profit double that of the enterprise rate of profit. In both cases, while the trend may mimic graphs drawn up by other Marxists, it alone contains variable capital (derived from the turnover formula) as part of the total capital over which the surplus or profits are measured.

Graph 1.

MANUFACTURING AND CORPORATE R.O.P.
(value added less compensation = surplus/total capital)
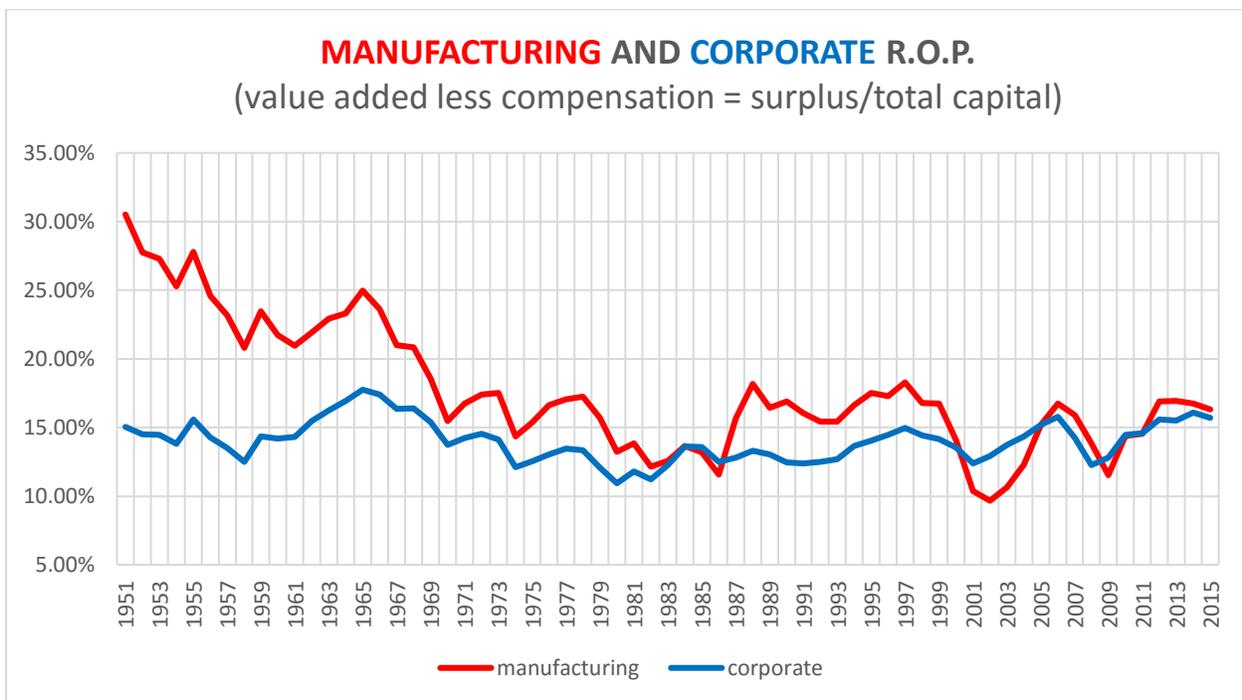
(Sources: Fixed Assets - Table 4.1   Inventories Table - 5.8.5A+B   Surplus - Table 1.13 [corporate]. Manufacturing Surplus - GDP by industry, KLEMS, Composition of Industry [manufacturing] All Tables from BEA.)

The largest sector of the economy for which the rate of profit can be obtained with any degree of accuracy, is the corporate sector. Beyond that the duplication and misrepresentation found in the unincorporated sector, the non-profit sector and the household sector makes a nonsense of the rate of profit. Duplication is more prevalent in the corporate sector (finance and real estate) than it is in the manufacturing sector. Hence the convergence between the two graphs may be overstated because of financialisation.

Nevertheless, the two rates are sufficiently robust as to establish trends. We note that the rate of profit in the corporate sector has not fallen as sharply as the rate has fallen in the manufacturing industry. Both rates fell in 2015. In the case of manufacturing the 2014 peak was lower than the peaks in 2007, 1997 and 1987, whereas in the case of the corporate sector it was higher. Both graphs confirm that the long wave which began in 1982 ended in 2014.

The surge in manufacturing profits up to 1987 and its subsequent elevation was due to the restructuring of US industry, computerisation and off-shoring (globalisation). For two decades U.S., multi-nationals monopolised this new global chain of production by dominating its commanding intellectual heights. The rise of China and its movement up the value chain is beginning to choke off this flow of surplus value altering the paradigm of manufacturing profits in the USA. It is one of the most significant causes of the slowdown in productivity and profits in U.S. manufacturing. The corporate sector on the other hand is dominated by industries that "produce" locally and for local consumption making it more immune to international competition, creating the possibility that for the first time corporate profitability will overtake that of manufacturing outside a recession.

The second graph is the post-tax rate of profit for both manufacturing and the corporate sector. This is in effect the enterprise rate of profit, the most concrete of the rates of profit and the one most likely to influence the all-important decision whether to invest or not. It already shows that after-tax profitability for the corporate sector now exceeds that of manufacturing. Under the section 'Variable Capital' more analysis of the movement in the rate of profit within the corporate sector is provided especially the growth of the "labour intensive" industries therein.

Graph 2.
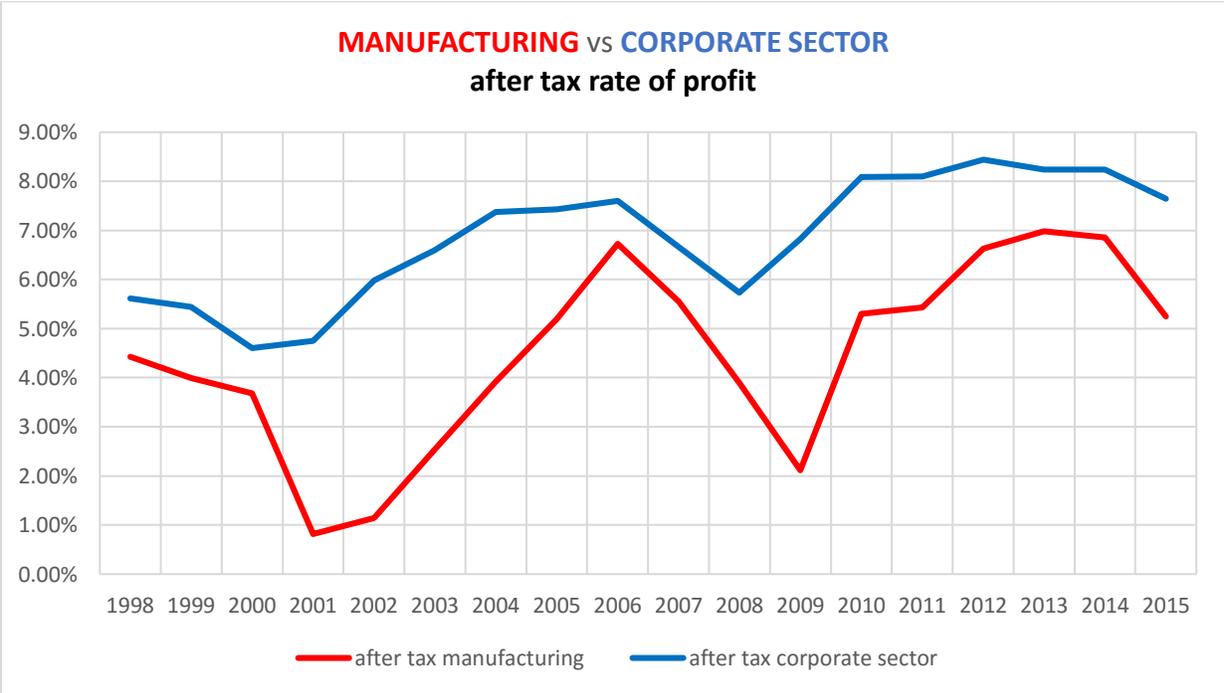
(Source: Total capital as per Graph 1. Table 6.19D for manufacturing profits & Table 1.13 for corporations.)

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In Graph 6 the rate of surplus value for manufacturing is presented. Its fall explains the fall in the rate of profit, and the magnitude of the fall in the rate of profit, aside from the rise in constant capital. As we shall see, the fall in the rate of exploitation is too shallow to explain it.

The importance of variable capital.

The following four graphs demonstrate the importance of variable capital as opposed to wages and salaries (or compensation). They show the difference between variable capital and wages/salaries. Variable capital is always smaller than wages and salaries because of turnover and the difference depends on the number of turnovers. Without variable capital, there can be no accurate rate of surplus value nor rate of profit. In previous postings, the decline in the weight of variable capital in manufacturing as a share of total capital has been plotted. However, what is true for manufacturing is certainly not true for the corporate sector. Graph 3 below demonstrates that far from falling, variable capital as a share of total capital has remained relatively static. Between 1951 and 2015, total capital (constant + variable) rose by 5479% whereas variable capital rose by 5923%. As a result 2015 had a higher weighting for variable capital than did 1951. The turnover of capital is thus as relevant today as it was in 1951 or in Marx's time.

Graph 3.
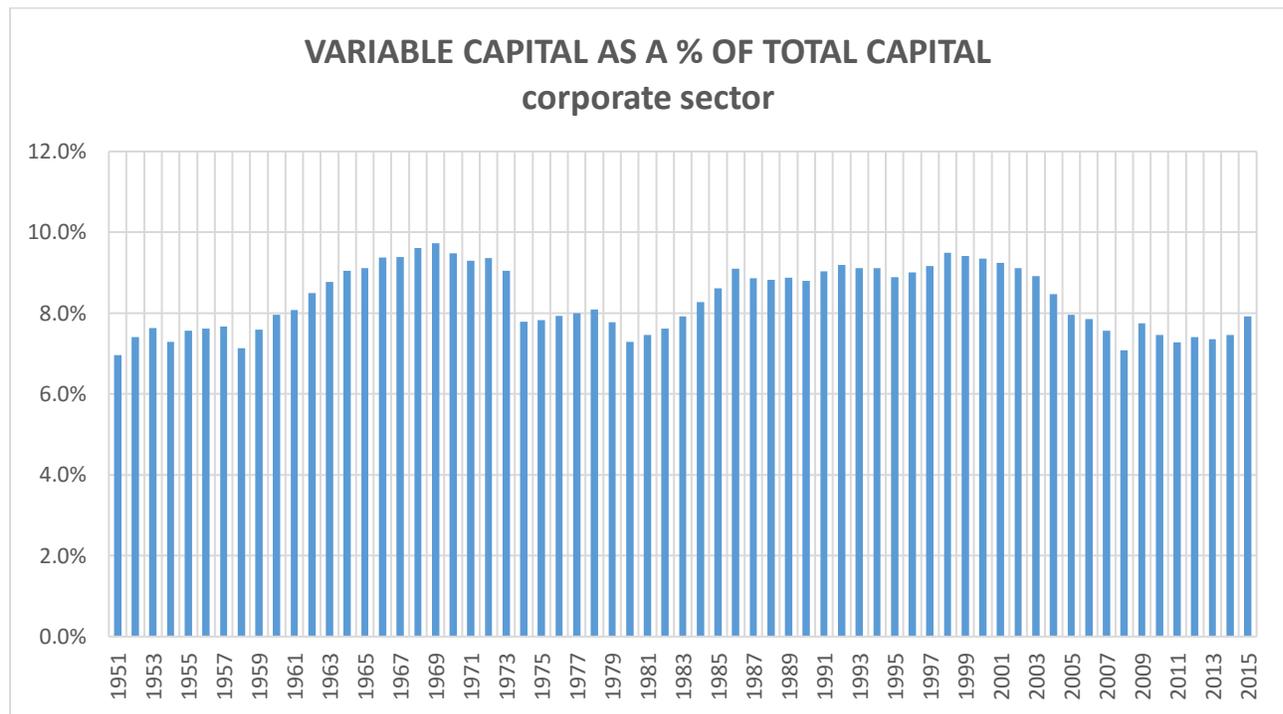
(Total capital = fixed assets + inventory + variable capital. Turnover G.V.A. & G.O = bea.gov/industry/gdpbyind_data.htm)

There are two significant reasons why variable capital has retained its share of total capital. Between 1951 and 2015 there has been an absolute increase in the employment of workers of over 220%. Simultaneously there has been a fall in turnovers from around 4.2 to around 3.4. This is due to the decline in the weight of the goods producing sector with its faster turnovers within corporate business compared to the rise of more labour intensive industries with a lower turnover of capital. (A higher incidence of duplication also accounts for part of this decline.) Thus, the average turnover for the whole of the corporate sector has slowed down. The slowing down in the rate of turnover elongates the circuit of capital thus requiring additions to the amount of variable capital. This combination of rising employment and falling turnover has had a profound effect on variable capital within the corporate sector.

If it is assumed that the increase in the employment of workers results in the expenditure of a greater mass of labour, then depending on the rate of exploitation a larger mass of surplus value will be produced relatively and absolutely. And if this is the case then a moderating effect on the rate of profit can be expected. This explains the movement in the rate of profit for the corporate sector in Graph 1 compared to that of manufacturing.

There is of course an interaction between the corporate sector and manufacturing where the latter supplies a basket of goods which enters into the determination of the aggregated value of labour power found within the corporate sector. The sharp fall in the prices of these goods has reduced the value of labour power contributing to the rise in exploitation within the corporate sector and this has propped up its rate of profit. To a large degree, the deflation of the goods producing sector has offset the inflation found within the non-manufacturing element of the corporate sector.

Another point of interest are the oscillations provided by the alternating expansions and contractions of the economy. The low points for variable capital in 1980, 1990 and 2007 reflect moments of recession and therefore the reduction in both the workforce and wage levels which have resulted in a reduction in variable capital. Variable capital has two components. During recessions, the absolute fall in employment is offset by the drop in the number of turnovers. As it now takes longer to sell commodities, employers have to set aside more working capital which increases the urgency to reduce employment even further. What the fall in variable capital shows is that on average capitalists reduce employment by a factor greater than the fall in turnovers. Unusually in 2015, a year of stagnation, variable capital rose because employment/wages rose and turnover fell. Variable capital rose to 7.9% from 7.5%. This is ominous for US workers. Once the election is out of the way, a shake out of labour can be expected leading to lower employment and wages.

We now move to more recent figures which means we can no longer investigate the corporate sector due to the unavailability of data. Instead we turn to the manufacturing and goods producing sectors.

Graph 4.
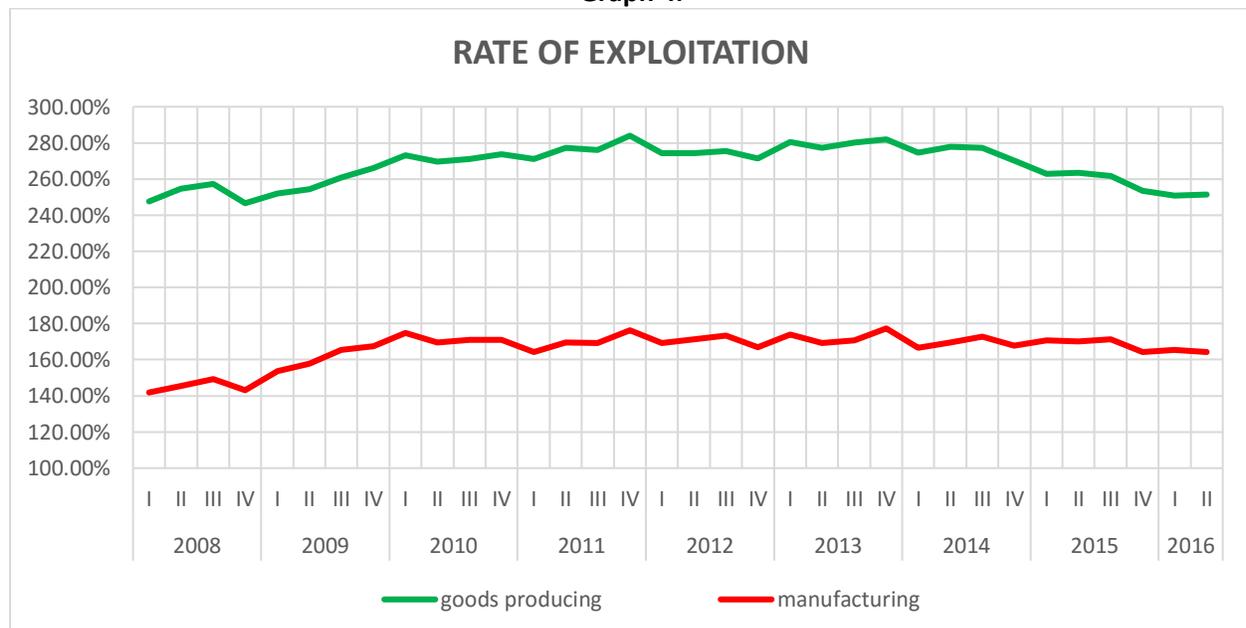
(Sources: Corporate Table 1.13 & manufacturing GDP by Industry, KLEMS, Composition of Industry.)

In Graph 4 above the rate of exploitation is presented. This is a simple calculation: wages+salaries/surplus. It is equal to a single period rate of turnover. (Current compensation is unobtainable hence the use of wages and salaries.) Again, the reader is advised that these results are higher and therefore less accurate because of the use of wages and salaries instead of compensation. We find two peaks, 2011/[4] and 2013/[4]. The falls since 2013/[4] are quite gentle. In Graph 6 we will see what happens when we factor in the turnovers plotted in the graph below.

Graph 5.
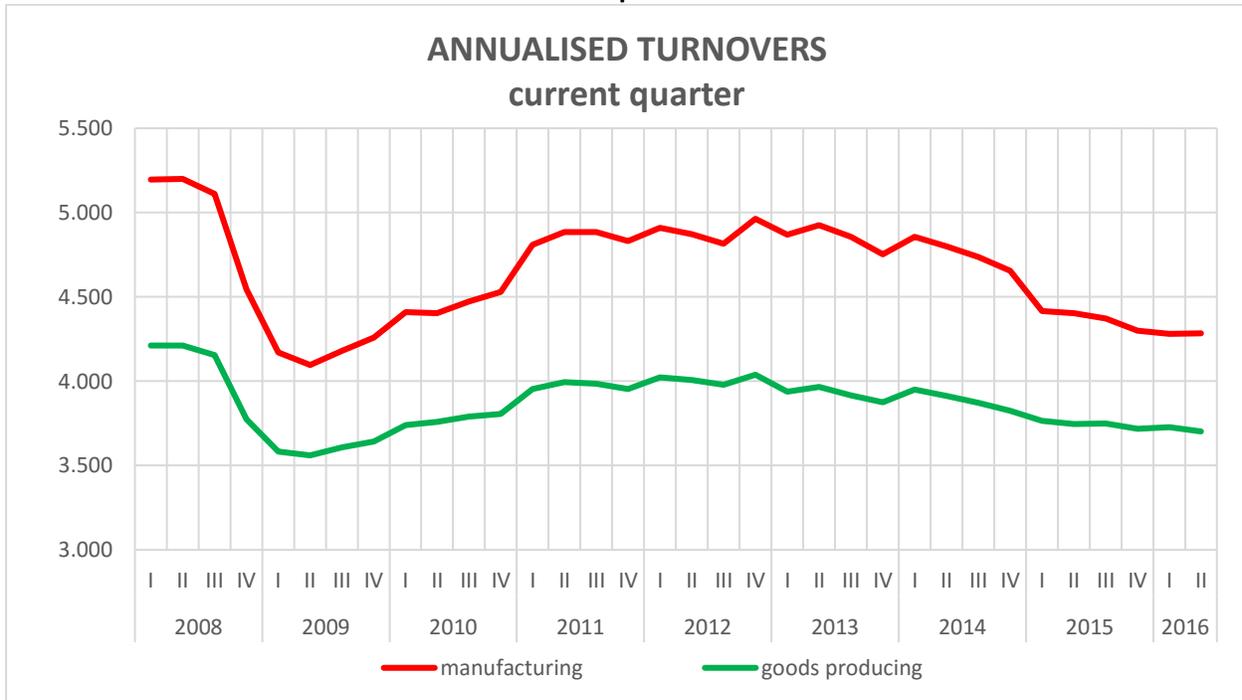
(Sources GDP by Industry BEA November 3rd release. Formula for turnover = G.O./G.V + (G.O. − G.V.)/G.V.

Turnovers have fallen more in manufacturing than in the goods producing sector of which it is part. In 2016 the fall has levelled off though at a plateau closer to the trough of 2009 than the peaks of 2014. In the case of manufacturing, annual turnovers have fallen from 4.86 to 4.29, or what is the same thing, actual turnover time has elongated from 74.6 days to 85 days. Given the rise in inventories in quarter three the expectation is that the number of turnovers have resumed their downward trajectory.

If we return to the previous graph, we note that the rate of exploitation in manufacturing has fluctuated very tightly since 2014/[1]. In the case of the goods producing sector there has been a fall in the rate of exploitation of 9.5% over the period and 7.5% in manufacturing (this time from a peak in 2013/[4]). However, when we examine the rate of surplus value below, incorporating as it does the results found in both Graph 4 and Graph 5, a more pronounced trend emerges. The rate of surplus value falls more sharply than does the rate of exploitation because its fall has been amplified by the fall in turnovers. In the case of manufacturing the fall in the rate of surplus value is 16.5% (2014/[3] to 2016/[2]). In the case of the goods producing sector the fall is 14.5%.

The importance of the rate of surplus value is its relation to the mass of profits. Using Table 6.17D for pre-tax profits, the mass of manufacturing profits in 2014 was $449.1 billion and in 2015 only $377.8 billion, a fall of 15.9%. For the entire goods producing sector the fall was even greater at 17% (falling prices of oil and coal). The magnitude of this fall cannot be explained simply by reference to the rate of exploitation but only to the fall in the rate of surplus value whose fall yields the mass of profits.

Graph 6.
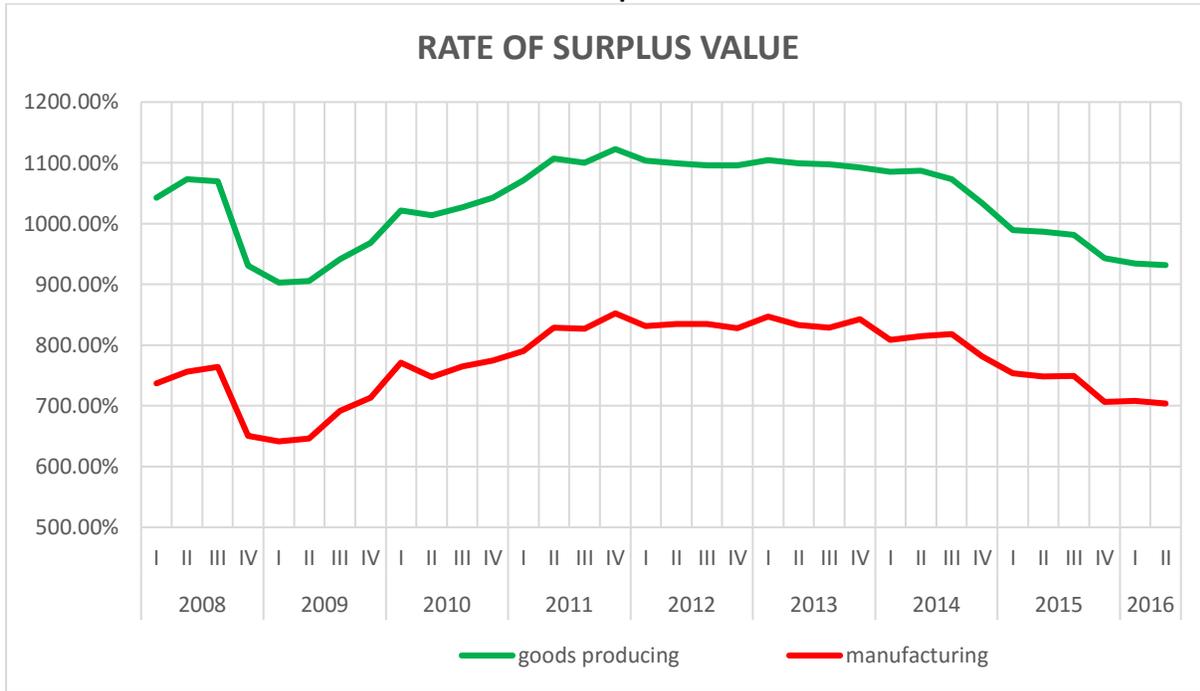
(Rate of exploitation multiplied by turnovers equals rate of surplus value.)

COMMENTARY ON MICHAEL ROBERTS BLOG ENTITLED *"THE US RATE OF PROFIT 1948-2015"*

Michael Roberts has always sought to defend Marx's methodology and more importantly to apply it to the real world, primarily the US economy. This is to his credit. However, his results show that his application is not concrete enough, in other words he does not add back all the elements needed to provide a sufficiently accurate approximation of the capitalist economy and its movement. In short there is a failure to compare current conditions to past conditions. Without factoring in these differences the past cannot be compared to the present making comparisons and therefore trends incommensurate.

To demonstrate this proposition, we need to address his modelling first. His formula for the rate of profit is profits or surplus divided by the historic or current cost of fixed capital plus inventories plus employee compensation (*The Long Depression* page 274). Immediately we become aware that his rate of profit will be lower because of the use of annual compensation rather than variable capital which is reduced by the number of turnovers. Michael Roberts is quite clear in his confusion as to the Marxian rate of profit when he states that "v is the cost of labour power" (page 273). In fact, v is not the cost of labour power, it is the cost of labour power for a defined period of time, namely the circuit of capital or $M.C..P…C^+.M^+$.

In the two graphs below the difference between the two rates of profit are revealed. We note that the Marxian rate of profit which is based on variable capital is always higher than the rate based on annual compensation. That is axiomatic. What is more interesting is the manner in which the graphs diverge and converge depending on their position within the business cycle. As the rate of profit increases (2nd half of the business cycle) and profitability increases, they diverge, only to converge once the cycle ends in contraction. This is entirely due to the changes in the circuit of capital which speeds up during periods of economic expansion only to slow down during periods of economic contraction. The rate of profit based on variable capital is thus in every respect more responsive and comprehensive than is the non-Marxist rate of profit based on annual compensation.

Graph 7.
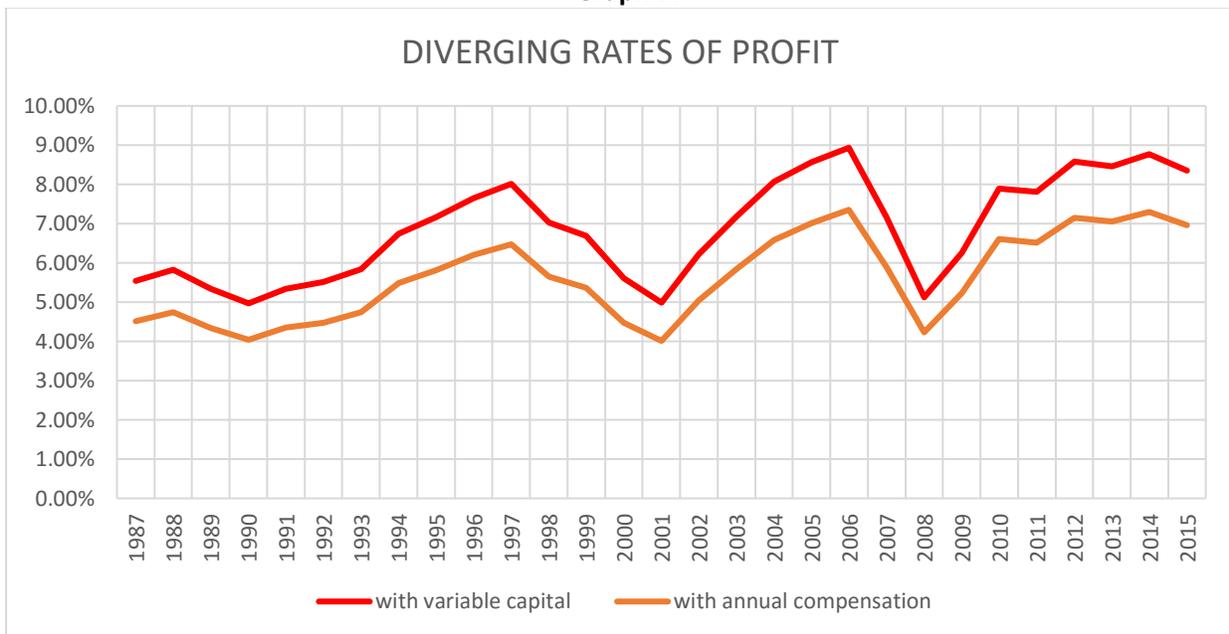
The second graph, (Graph 8) plots the divergence of the two rates over time. If we were to extend the graphs back to 1948 or 1951 when the rate of turnover was 4.2 rather than 3.4 or 3.5 then the divergence would be much greater. The narrowing down in the average divergences over time results from the long terms slowing down in the rate of turnover.

Graph 8.
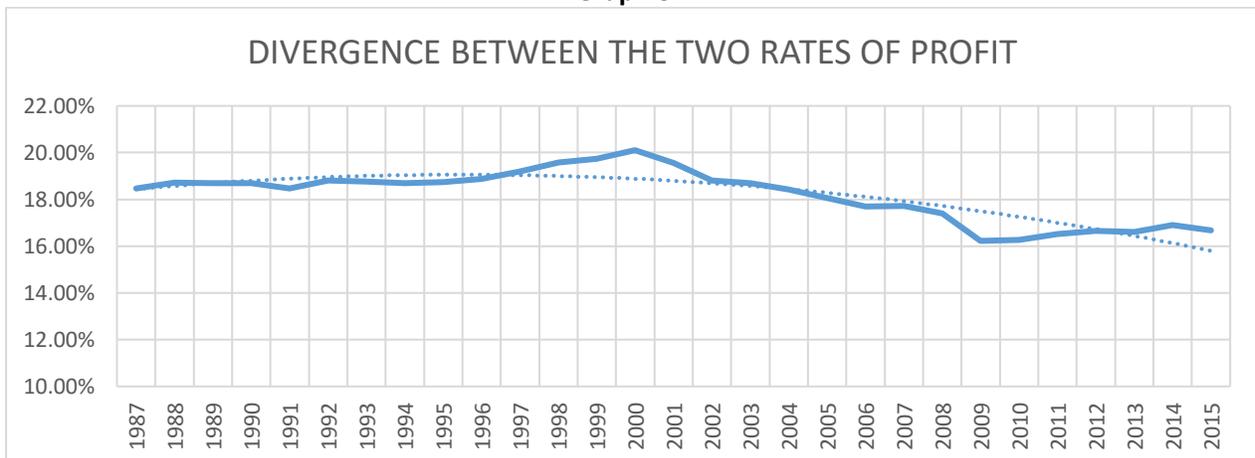
Measuring produced fixed assets.

There are several problems associated with the valuation of fixed assets. Firstly, the conundrum over whether to use historical or current replacement cost of fixed assets. This issue has vexed Marxist scholars. It is difficult to discern Michael Roberts' preference. In his recent book, on page 24, Table 1.2, he shows that for the period 1946 to 2012 the fall in the rate of profit, whether it is measured by current cost or historical cost is the same at 20%. However, within the same table, shorter term divergences occur. These divergences are important because when capitalists make an investment decision it is always forward looking and based solely on current and projected conditions.

Therefore, concretely, it is essential to use current replacement cost rather than historical cost. Marx may have preferred the latter but in his day inflation was a lesser concern. And here we come to the nub of the problem. The issue over historical or replacement cost is really the issue of money and its loss of value. If depreciation was based on historical cost, then the accumulating depreciation fund would be insufficient to fund replacement capital in today's money. The current price of a machine in ten years' time will be higher than its current price, because in the meantime, money will have been progressively devalued. For all these reasons, current cost is the correct method despite the issues relating to chained Dollars.

The next problem regarding the valuation of produced fixed assets is the use of the perpetual inventory method (PIM). This method is essentially a cost cutting exercise, one which degrades accuracy. Shaikh in his latest book provides an informative critique of PIM. However, in the absence of a small army of statisticians visiting factories, we are obliged to use what the BEA provides us with.

Thirdly the use of depreciation which is a combination of the replacement funds intended not only to replace produced assets but fictitious assets as well. Depreciation has been an area of neglect. Not enough attention has been paid to the rise of Intellectual Property (I.P.) and its effect on the rate of profit. I.P. distorts the rate of profit each year by an increasing amount due to its relative growth. It affects the rate of profit in two ways. Firstly, the depreciation of I.P. depresses profits particularly enterprise profits. Depreciation rises not only because more costs have been capitalised and included in I.P. but because of the growth in advanced countries of its fictitious side – copyrights, patents, designs, production methods and so on. Here depreciation is not based on actual costs but on the stream of future income this legal monopoly guarantees. Hence it is one of the reasons that depreciation as a share of GDP has risen so sharply. On the other side, the capitalisation of costs as I.P. capital has increased the mass of capital as measured by fixed non-residential investment. This rise in both depreciation and capital has a significant effect on the rate of profit, notably a depressive effect because it reduces profits while raising the capital over which these reduced profits are measured.

Even when we seek to derive the surplus by deducting compensation from net value, the surplus is inaccurate because net value is itself understated. Net value is deflated because depreciation is inflated. Prices include net value plus depreciation. Prices are not arrived at by adding depreciation to net value. It is the other way around. The BEA arrives at net value by deducting depreciation from final prices. Final prices would not change if depreciation changed, instead it would be the net value added that would change. Together they would still add up to the same price though in different proportions.

Developing an accurate rate of profit therefore requires the disassembling of depreciation. R&D and in house software should be converted from an imputed final sale (a plus) into an intermediate sale (a minus). All fictitious depreciation relating to patents, copyright etc. should be eliminated as it represents

double counting (I have shown elsewhere why this is the case) and finally most I.P. should be removed from fixed capital. This does not reveal a prejudice against I.P. nor a failure to keep up with the times nor even failing to adjust to changing circumstances. It is merely an attempt to minimize double counting.

Finally, Michael Roberts incorrect in seeking to obtain the rate of profit for the whole economy. Andrew Kliman for all his many faults is correct to limit his analysis to the corporate sector. Beyond that the figures are so distorted and inflated by double counting as to render them meaningless. For example, the rate of return for the non-corporate sector is more than double that of the corporate sector because most of the revenue therein is counted as surplus and not wages even when self-employment predominates as in sole proprietorships (and where income is often below the average wage). Beyond domestic industry (corporate + non-corporate sectors) duplication predominates. The size of this duplication can be seen in the growth of total private industry relative to domestic industry, a growth in absolute terms of 11% over ten years, suggesting that GDP growth over this period was inflated by 0.4% p.a. by this phenomenon alone.

On the positive side Michael Roberts is correct to point to the distorting effect of the transfer of value from the productive to the unproductive sector, though he fails to take this far enough and divide the unproductive sector into is functionally unproductive sector (necessary for the "metabolism" of capitalist production) and the personal services sector (provided directly to the capitalist class for their consumption and belonging to Dept. 2B). Only in the former do we find capital including variable capital over which profits need to be measured. Without this inclusion, we would have an abnormally high rate of profit.

The final confounding problem relating current profitability to past profitability is the rise in inequality. This is associated with the top 1% who are classified as wage earners rather than profit takers. This is a point Bill Jeffries has long argued. According to Saez-Zucman the top 1% share of wages has risen from 3.3% to 8.9% between 1966 and 2012. (It has risen further since then). This 5.5% change in the share of wages enjoyed by the top 1% is significant. Moving this element from wages to the surplus side reduces variable capital while boosting the surplus. Cumulatively this has an elevating effect on the rate of profit. The point that is being made is that unless we factor in these structural changes we are not comparing today's rate of profit with yesterday's rate of profit. We are in fact obscuring the actual change in the profit trend over time.

It is for these reasons that the rate of profit post 1990 has been higher than the one postulated by Michael Roberts. It seems strange that in his posting cited above, where he includes a graph compiled by the FED for non-financial corporates, he does not account for the discrepancy between the trend found in the FED's graph and his own. The FED's graph clearly shows a peak in profitability around 2011, higher than the one in 1997 and second only to the period around 1966. In other words, the FED's trend is much closer to the rate of profit developed for manufacturing in this article which provides more than half the profits of the non-financial sector. The FED's graph shows the recent fall in the "rate of profit" is comparable to the period 1969 and 1998 both of which marked recessions. The FED's rate of profit confirms that the period of 2010 to 2014 was characterised by relatively high rates of profit which have only ended now. This is proof once again that the long wave which started in 1982 only ended in 2014, not as Shaikh and Roberts would have it, in 2007.

The turnover formula is portrayed a poisoned chalice rather than the Rosetta stone it is. Until its development, turnover times were unattainable except through the laborious method of adding up each corporation's balance sheets (working capital). Turnovers were thus swept under the intellectual carpet.

Turnover times are as relevant today as they were in Marx's day. It is simply wrong to confuse employee compensation with variable capital just as it is to posit the organic composition of capital as the ratio between constant capital and employee compensation. It is now also unecessary.

I can only repeat my appeal to the Marxist scholars, especially Boffy. It is time we moved away from theoretical Marxism, away from speculation as to whether Marx's text means this or that. If we don't we will still be squabbling about meaning on the eve of the revolution. Capitalism is sinking into deeper and deeper political waters and we need to apply Marxism to this escalating situation. This does not mean merely demonstrating that Marx's methodology can explain the movement and direction of capital, but more importantly, that this very movement is not accidental, that it is irrevocable and that it poses an existential threat to the international working class.

Current conditions.

Third quarter GDP turned out to be stronger than expected, but not strong enough to prevent the S&P index falling for the longest period since 1980 over election jitters. I have christened this release the Hillary Clinton release. At a flattering 2.9%, it appeared to herald the prospect of renewed growth for the US economy. We should be skeptical these days about headline figures and subject the underlying data to vigorous scrutiny. It turns out that GDP was flattered by three items. The first was the spike in exports. Agricultural exports single handedly accounted for 0.8% of the increase in GDP. A monumental effort for an industry that contributes only 1% to GDP. In a typical year, 20% of the output of agriculture is exported measured by value (Source USDA). This means that in the third quarter of 2016, the equivalent of a year's exports was made. One can only assume the Chinese were overpaying for their soya beans.

The second aspect that flattered GDP was an increase in inventories. This is simply a question of borrowing from future production and GDP. One of the industries suffering excess inventories is the auto industry which we will be looking at later.

The final aspect was the increase in fiscal spending. The fiscal year for the US ended on September 30th. The current fiscal deficit was 3.3%, up from 2.5% in the previous year. Hence another 0.8% has been added to US GDP growth from this source. The main cause for the rise in the deficit was not so much a rise in spending as it was by a relative fall in tax revenue. Taxes only rose by 1%, well below the rate of inflation. It was also dragged down by a fall of 4% in revenues during the final quarter (July-Sept 2016), indicating that the deficit is going to rise further and faster.

Hence behind the headline figure of 2.9%, the underlying growth in GDP is between 1.2% and 1.4% p.a. which translates to between 0.4% and 0.6% p.a. when we subtract the rise in the budget deficit. This is growth barely above that added by duplication particularly owner occupied imputed rents which have risen by 5% over the same time. Once all these anomalies have been factored in, the growth in 2016 GDP corresponds to the growth of actual business sales which have been flat to falling.

And it corresponds to what is happening to freight volumes. If we use a Chinese example and look at freight traffic as collated by the 'CASS Freight Index', the level of U.S. road, rail and airfreight is consistent with recessionary conditions, not an expanding economy. This fall in freight volumes is occurring despite the growth in home deliveries resulting from more on-line purchases. The deterioration in freight is reflected in the 14% fall in heavy truck sales during the third quarter compared to a year earlier (Y Charts) which again is consistent with recessionary conditions.

What is missing as a driver of GDP growth is investment which continued to detract from growth. Equipment purchases continued its fall in the third quarter. A view gaining currency on Wall Street is that corporations are waiting for the elections to be over before firing large numbers of workers and in turn this may stimulate investment. In the mean-time, in the absence of robust investment, the driver of GDP has been Personal Consumption Expenditures. Here again weakness was evident in the third quarter. For the first time PCEs rose by less than the increase in GDP. The 2.1% increase in PCEs was half the level achieved in the previous quarter. The fall was particularly marked for non-durable purchases. Again, an anomaly is encountered. Given the growth in employment and wages, the one sector of the economy that should be growing rapidly is non-durable consumption.

Personal consumption expenditures are slowing down rapidly and nowhere is this more evident than in the auto industry. Auto sales were the main driver of retail sales over the last 18 months. Auto sales appeared to rise in September. However, inventories also rose, as did rebates which approached $4000 dollars, the highest since 2008 (though as a share of list price they were lower). According, to a Bloomberg report on auto sub-prime loans, only 5.2% of car loan applications were rejected in September compared to 11.1% last year. And this in an environment where car loans 60 days in arrears had shot up to 4.85%. The eagerness to provide loans at any risk may have something to do with the fact that cars are now sitting on dealer forecourts for 73 days on average (up 8 days from their long-term trend). GM announced that it had stacked an extra 110,000 cars in dealers' lots in preparation for "another leg up in sales". Keeping these balls in the air is proving impossible and Ford has now mothballed four plants for a few weeks. It therefore should have come as no surprise that auto sales fell 6% in October despite another record jump in incentives.

In many ways, we are back to the bad old days that preceded 2008 which was described by *The Big Short.* The film revealed how rare it was for economists and analysts to dig below the surface of the figures being presented by the financial industry. Eight years later we are back to the same scenario. Releases are treated at face value and headlines as substance. In the absence of research, the herd mentality reigns.

Another area of growing weakness for consumption is construction. The inventory of high-end condominiums is piling up despite the presence of Chinese buyers. These condos were the main driver of residential construction and their fall will not be offset by the increased construction of cheaper single occupier dwellings especially at a time of rising mortgage rates. Nor will construction be helped significantly by higher employment as much of it is low paid if not spurious (as measured by witholding taxes).

The final headwind for PCE growth is the rising budget deficit. What little increase in government spending there was, fed directly into PCEs through healthcare and social security. Mandatory spending in fiscal 2016 by the Federal government increased by 8% from $2,301 to $2,487 trillion or from 12.9% of GDP to 13.5% in 2016 (Tables S-4 and S-6 House of Congress). Such increases are unsustainable. Already the stresses in budgets is evident by the fall in infrastructural spending by state and local government of 9% and 5% respectively. Furthermore, the republican party is dominated by aversion to government spending and especially deficit spending. It is more likely than not that they will put an irreversible ceiling on public debt and spending as soon as the houses meet and the new president is in place.

The only growth sector in the economy is that of healthcare. The nature of this increase raises the value of labour power but without increasing its productivity. Total Health Expenditures (THEs) are approaching 20% of GDP, double that of any other capitalist economy at the same level of development and one which is seriously undermining US competitivity as well as undermining the rate of profit. With Trump set to

abolish Obamacare, healthcare will not only remain a running sore in the US economy, it will become septic.

S&P profits also surprised on the upside during the third quarter. However, this marginal improvement is unlikely to stimulate investment on its own. Factset's November 4 release showed S&P 500 profits were up 2.7% from the previous year. (It must be borne in mind that profits fell over 4% in the previous year, so the increase of 2.7% does not reverse this fall.) This is the first time in five quarters that profits and revenue have expanded. Even here profits were flattered by the surge in banking profits, particularly fixed income trading, which added 0.5% to the 2.7% increase. Despite this marginal increase in profit current profits per share are only $90 compared to $106 two years ago. This represents a fall of 15% (before considering net buy backs and inflation). Despite this fall in profits share prices are higher than they were two years ago resulting in trailing earnings per share rising from 19.5% to 23.5%. (David Stockman, CNBC interview 3rd November.) On an ancillary note, the fall in profits per share of at least 15% mirrors the fall in the rate of surplus value.

A perplexing question has arisen: how has it been possible for corporations to increase their profits at a time when business sales are contracting and labour costs are rising? There are two reasons. Chief executives and their financial officers are adept at transferring value between depreciation and profits. This transfer leaves cash flow unaltered but it does flatter profits. Hence it is always interesting to check improvements in the bottom line to see whether these are true cost savings or simply the reconfiguring of depreciation. Chief executives dislike annual volatility in their profits and use depreciation as a means of smoothing profits. However, there are definite limits to what can be achieved as cash flow is always finite.

The second method of massaging profits is the use of tax. When Boeing released its latest quarterly figures, it was responsible single handedly for lifting the Dow Jones Index on the day. However, a closer examination showed that Boeing's improvement in cash flow was entirely due to a revision in its tax. In fact, its quarterly revenue declined from $25,849 to $23,898 (October 2015) and its profits from $2580 to $2282. The following day, which allowed time for closer examination, Boeing's shares gave back half of their previous day's increase. This reduction in corporate taxation is one reason why Federal revenues increased by only 1% in the year ending September 2016 as reported by The House of Congress. The tax collected on Corporate Profits fell by 13.6% to $293 billion (Table S1). As a share of GDP, it fell from 1.9% of GDP to 1.6% accounting for 0.3% of the 0.8% increase in the budget deficit (Table S6).

On balance, despite the incremental improvements seen in quarter 3, the US economy is not at a turning point. It continues to deteriorate fundamentally. In common with all the other major economies, the real driver of the US economy has been the Federal deficit. While eyes have been fixed focused on monetary policy it is the stimulus provided by fiscal spending that is actually propping up economies. This is an unhealthy way to grow the economy and one which the republican party will not tolerate. In most major economies budget deficits are above 3% and rising.

Budget deficits are growing at twice the rate of GDP growth. If the stimulus of deficit spending is yielding such a reduced rate of economic growth this must be due to the fall in all the other drivers of growth, notably profits and its child, investment. Nor is it sustainable if interest rates rise. Currently Federal interest payments remain static at 1.3% of GDP (equal to around 20% of the Federal Government's discretionary spending) due to historically low rates of interest. Even without a rise in interest rates, Congress projects a 1% rise in mandatory spending and a fall of 1% in discretionary spending as a share of GDP. This means there is not enough money to build Trump's Mexican wall, never mind fund his

infrastructural ambitions. As was noted earlier, state and local governments are already trimming infrastructural spending to meet their mandatory spending in an environment of low taxes.

The final consideration is whether interest rates are on the rise. This will be dealt with in a later article when the picture in China becomes clearer. Suffice to say that the collapse in the mass of profits over the last two years has reduced the source of un-invested surpluses which hitherto has driven down interest rates. In addition, the collapse of private investment in China has arrested the fall in the prices of manufactured goods which contributed to deflation, raising the specter of prices being reversed. Given the debt build up encouraged by low interest rates and the hungry search for yield, a rise in longer term interest rates poses fundamental problems for the future. Given the growing size of the US public debt, every 1% rise in interest rates will increase the deficit by 0.5%.

It would be wrong however to assume it was primarily monetary policy and low interest rates that saved capitalism. What saved capitalism was the passivity of the working class allowing the losses of capitalism to be offloaded onto the shoulders of workers. Trump, the beneficiary of neo-liberalism has presented himself as its opponent, particularly on international trade. The real question is what happens after this charlatan is found out? Economics is the parasite that shortens political life spans? Events are moving faster than many on the left anticipated and time is not on our side. Developing our programme, answering the needs of the working class and rebuilding a socialist movement grows more urgent by the day. Trump does not represent the end of neo-liberalism, but the beginning of its end. What replaces him can end the final staging post of capitalism, but only if it is based on real working class politics.

Brian Green. 9th November 2016