THE U.K. ECONOMY: PROFITABILITY, BREXIT AND THE NEO-LIBERAL ENDGAME.

This article investigates how profitable UK industry is at a time when Britain is hurtling towards the European cliff, with the Tories fighting over the steering wheel, and Labour for the first time, acting as back-seat driver. Here a rate of profit is applied to UK manufacturing industry which not only includes fixed capital but circulating capital as well. Having examined the question of profitability, the article goes on to examine the economic programme of those who seek a complete exit from the EU in order to turn Britain into a regulatory wasteland mimicking what Trump is doing surreptitiously in the USA.

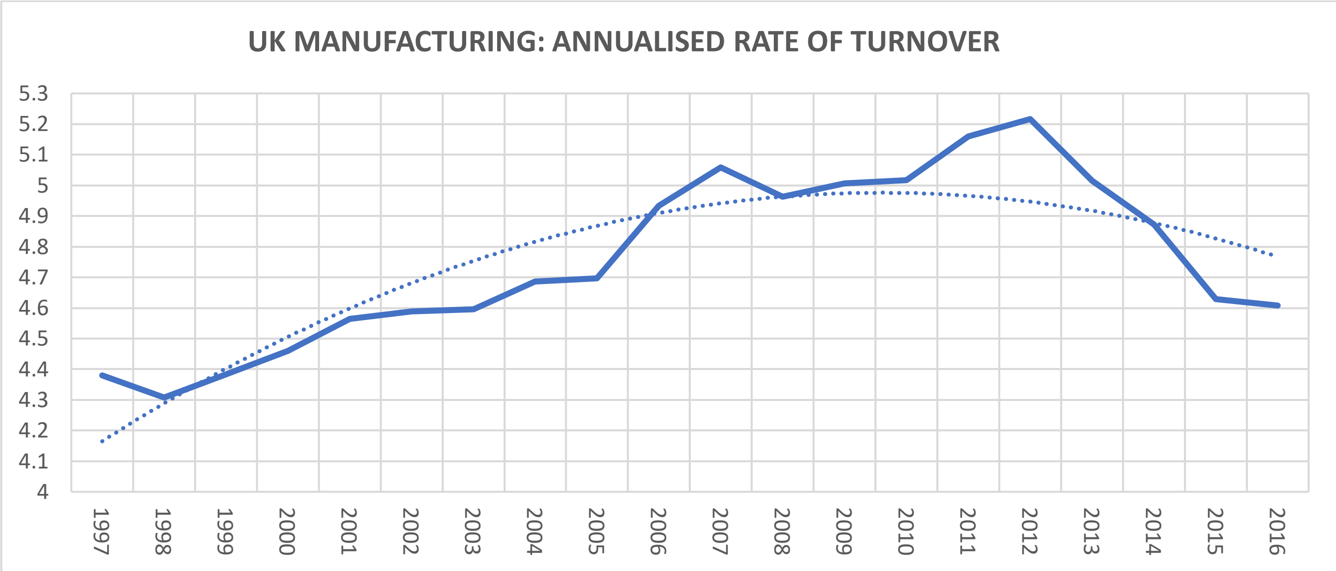
Neo-liberalism is not an aberration. Rather it was the conditions present in the post-war years, which when set against the entire history of capitalism, that was the aberration. Neo-liberalism is capitalism in its pure, ugly and rampant form. It represents the drive to commercialise every aspect of life, to remove from the state all areas of profitable exploitation and to minimise regulation except when it comes to trade union activities. Freeing the market requires imprisoning society, and under the pretext of the "war on terror", this has been accomplished.

Neo-liberalism can be tested against only one standard, whether or not it is able to organise production profitably. Key to this is the question of financialization which will be addressed at the end of the article. The record of neo-liberalism is examined since 1997 as this coincides with the latest series contained in the input-output tables which were released by the ONS in July 2018. In many ways the UK economy mimics that of the US. Both have relatively large financial sectors with relatively small industrial sectors and consequently both suffer from trade deficits. In addition, the UK's GDP is inflated by 22%, similar to the US, because of imputed rents, other imputations and because production for use is being equated with production for exchange. The former is valueless production while the latter is value forming production. For instance, if a capitalist employs a private chauffeur because he or she is too lazy to drive, that is production for use and therefore valueless. However, if the chauffeur leaves in order to work for a delivery company, then the product of their labour is value forming because it is sold and paid for once the parcels are delivered.

Mirroring previous analyses of manufacturing in the USA, Graph 1 examines the turnover of capital in British industry. We note a number of specific features. Firstly, while there wasn't a fall in turnovers following the Dotcom crash in 2000, there was a fall in turnovers after the 2008 crash. The absence of a deceleration of turnover in 2000/1 would indicate that the British economy did not suffer the damage inflicted on the US economy where the crash was centred. Secondly, turnovers tumble after 2012. This precedes, and, is proximate to the fall in turnovers that occur both in the USA and China shortly thereafter. The difference in the case of the UK is its severity. The deceleration in Britain is sharper and deeper. Turnover fell from 5.2 in 2012 to 4.6 three years later, a fall amounting to half a turnover. In days the period of turnover increased from 70 days to 79 days

This more or less proximate fall in turnovers world-wide, would tend to suggest two things. The impulse to the world economy from Chinese reflation had exhausted itself. And secondly, that globalisation itself was no longer intensifying. Other additional factors could be the restructuring of manufacturing either by centralisation or by the final producers producing more value in-house compared to before. However, as this slow-down in turnover is associated with a fall in the rate of profit in a number of countries from 2014 (China was earlier), the likely explanation is that global market conditions were deteriorating, and this slowed the rate of turnover.

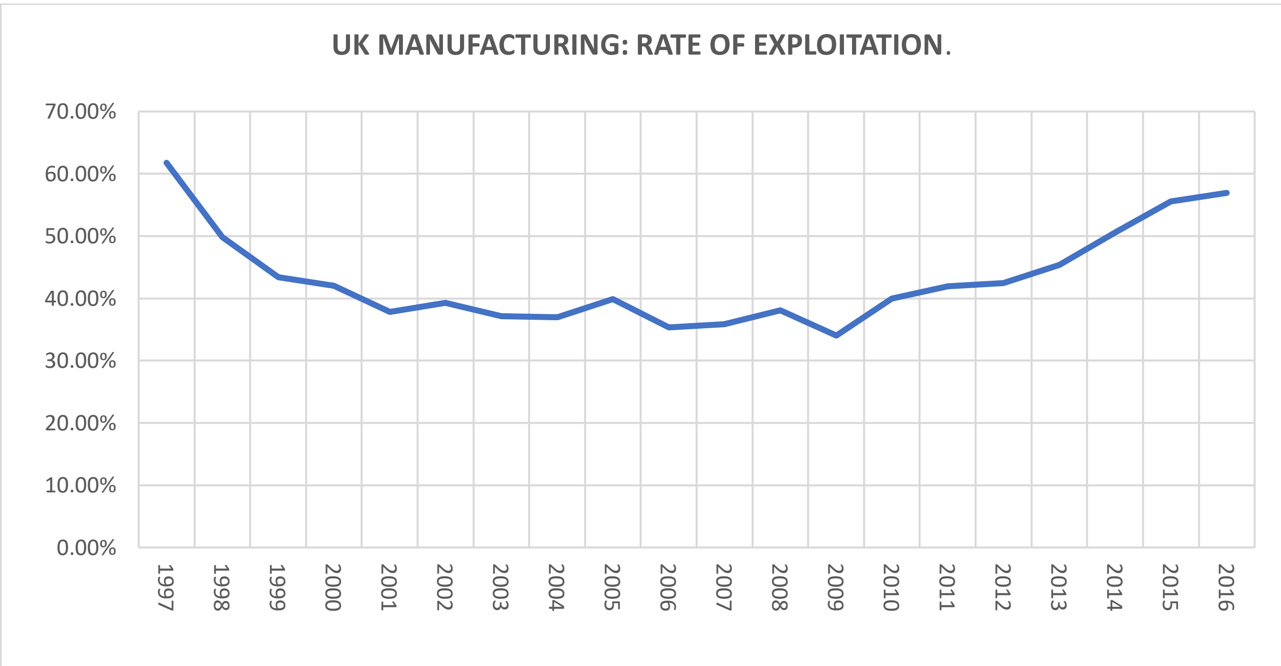
Graph 1.



(Source: See associated spreadsheet "UK INPUT OUTPUT 2016) (The formula for the rate of turnover is GO/GV+(GO-GV)/GV where GO is gross output and GV is gross value added.

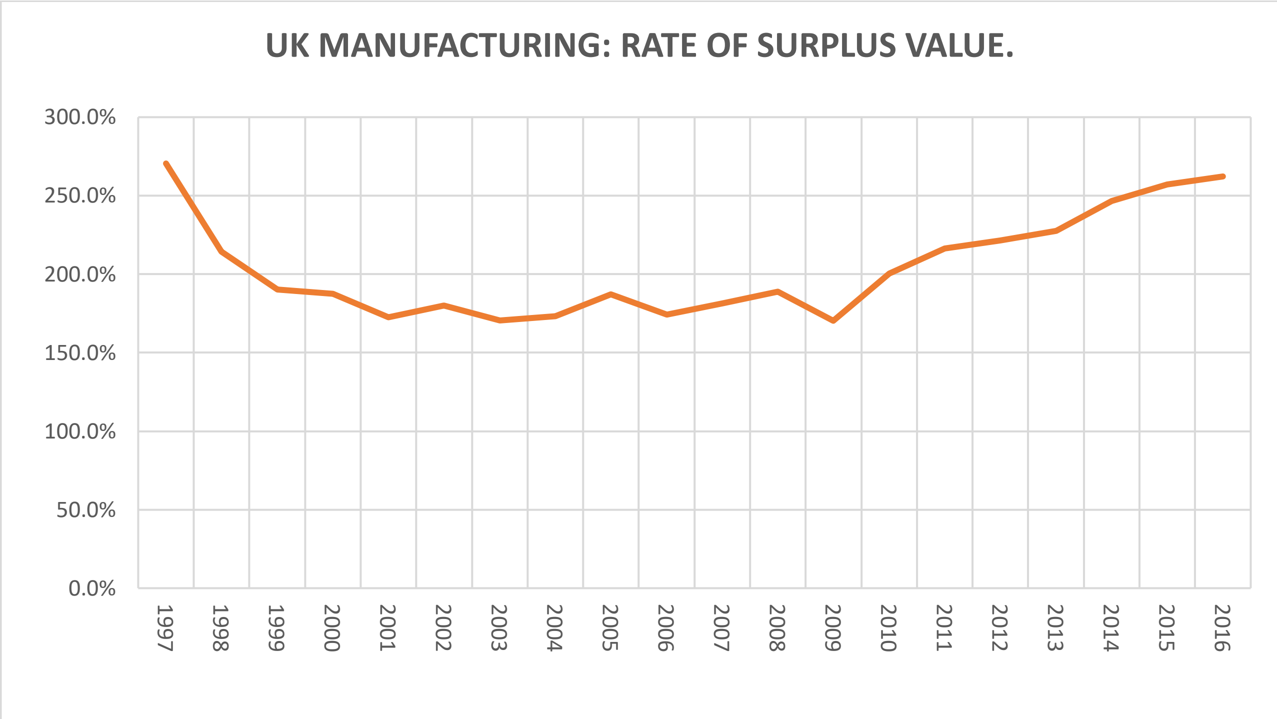
The next graph analyses the rate of exploitation. The rate of exploitation is the annual surplus divided by annual compensation for employees. (The same rate is also found when examining a single period of turnover and dividing the single period surplus by the single period compensation.)

Graph 2.



The trend in this graph is the reverse of that found in Graph 1. Whereas turnover rises from 1997, the rate of exploitation falls, and whereas it rises sharply after 2009, it is then the turn of the rate of turnover to fall (beginning in 2012). The question is whether the rise in exploitation following 2009 is sufficient to offset the sharp fall in turnovers after 2012. This question is answered by Graph 3 which combines turnover and exploitation to form the rate of surplus value, which is the primary rate influencing the movement of profits. (Rate of exploitation multiplied by the number of turnovers).

Graph 3.

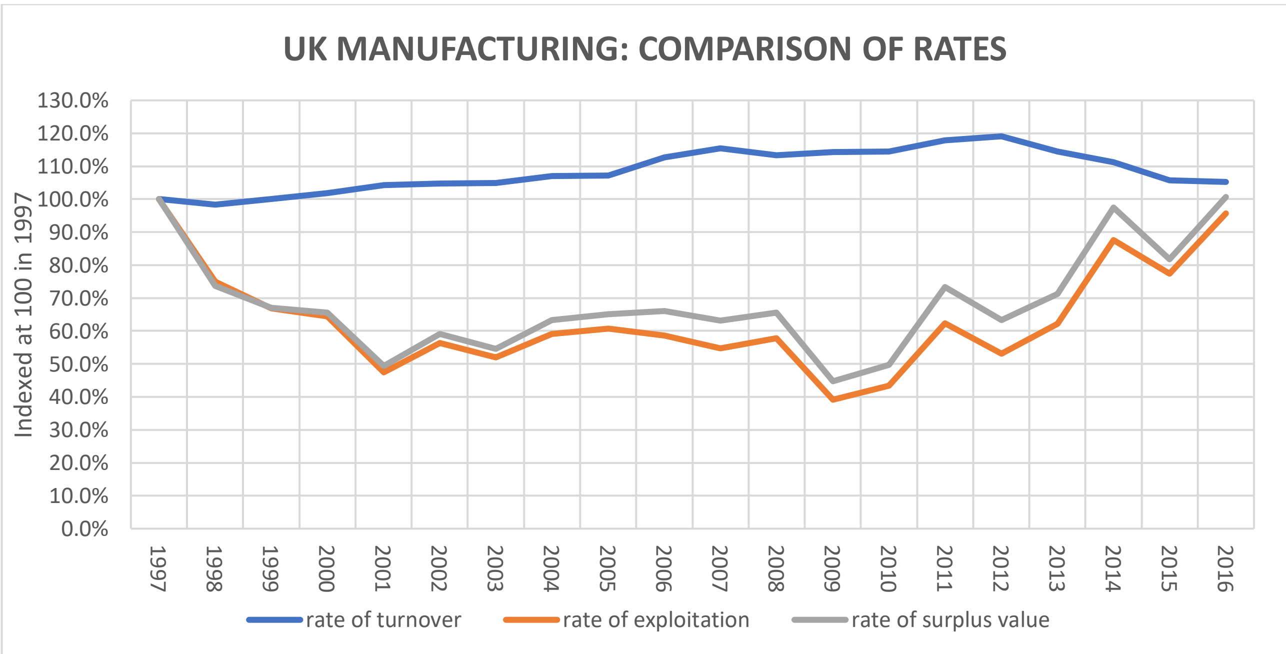


(Source: As in graph 1.)

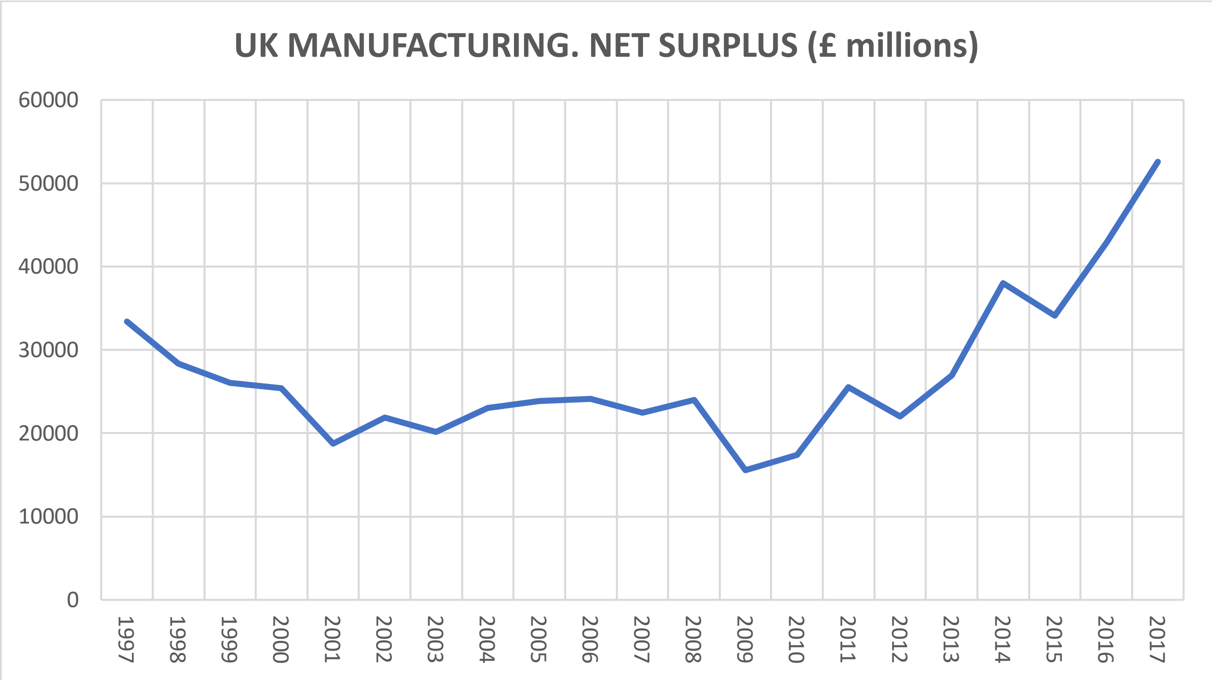
The 67.5% increase in the rate of exploitation overwhelmed the 12.5% fall in the rate of turnover resulting in a sharp rise in the rate of surplus value from 2009 onwards, sufficient to restore it to 1997 levels. It showed the capitalists used the financial crash of 2008 with good effect against their workers.

To finalise the inter-relationship between the rate of surplus value and profits, all the above rates have been indexed in Graph 4 below to 100 to show their relative movement. Graph 4 below shows that when the rate of turnover accelerates, as it does from 2005 to 2012, the gap between the rate of surplus value and exploitation opens up. When it decelerates from 2012 onwards, the gap begins to narrow. This differential movement has an effect on the mass of profits, because this mass depends on the rate of surplus value rather than the rate of exploitation.

GRAPH 4.

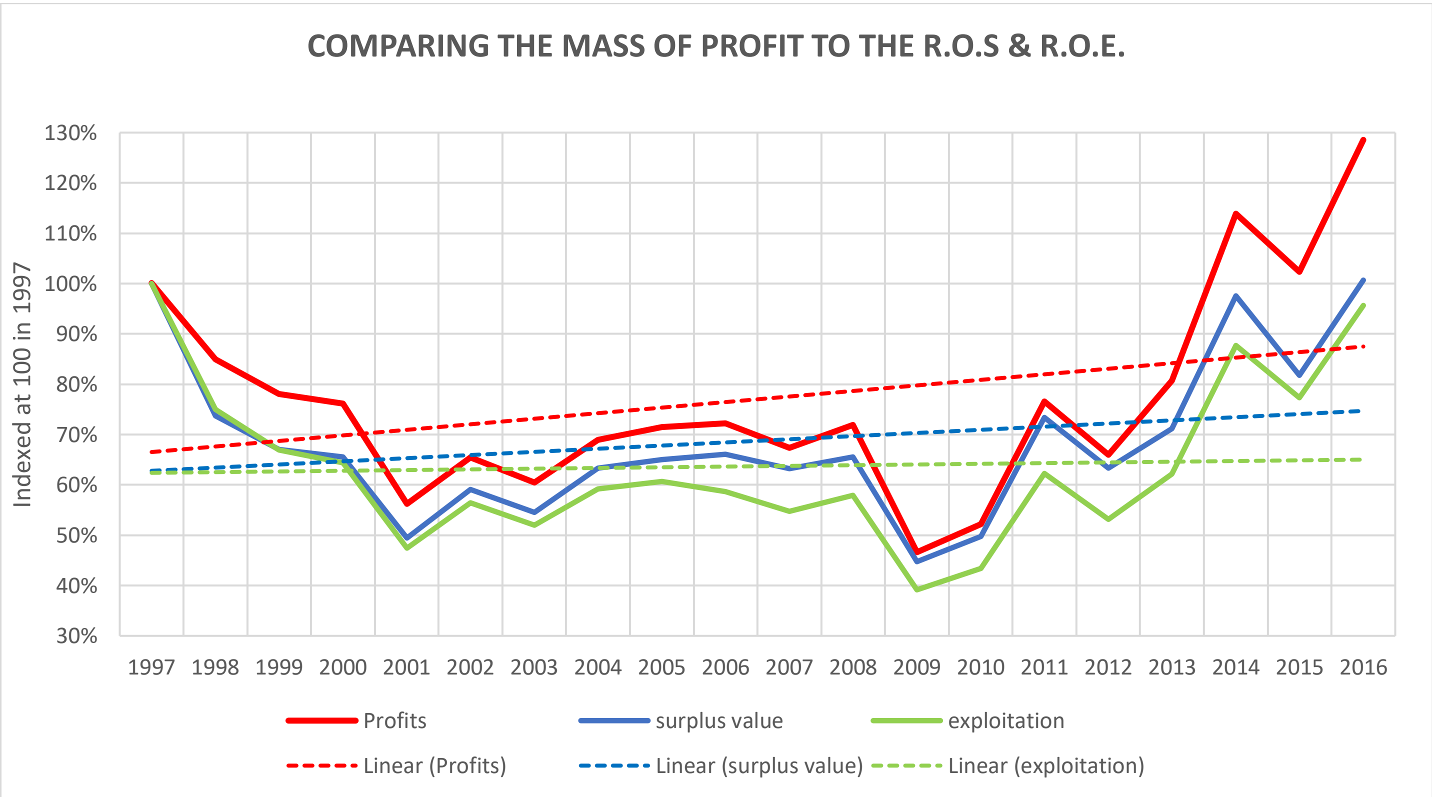


Graph 5.



The rapid rise in both the rate of exploitation and the rate of surplus value after 2009 is reflected in the rapid rise in the nominal net surplus "gifted" to UK manufacturing by its workers. This rise is plotted in Graph 5 above. Such a rise was to be expected from the rise in the underlying rates of surplus value and exploitation, but which of the two is closer aligned to the increase in the mass of profits? This question is answered by Graph 6.

Graph 6.

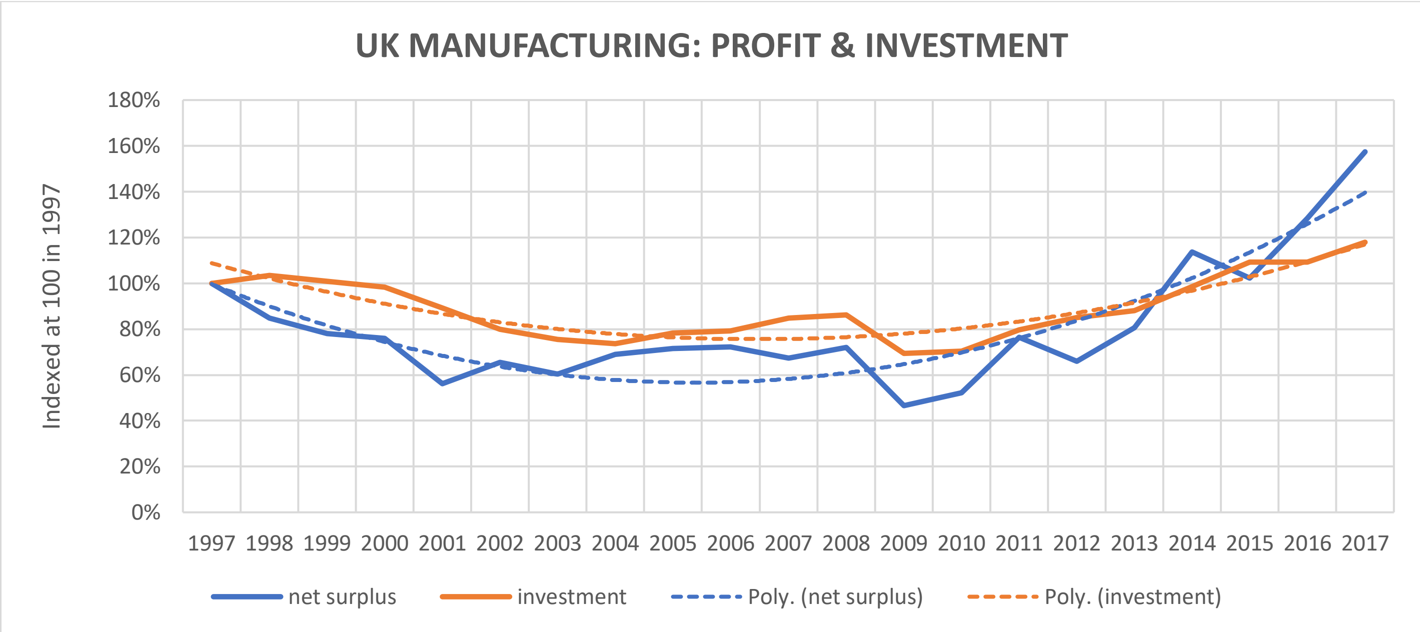


Graph 6 is resplendent with trends. The purpose of these trends is to see which one more closely matches the trend in profits. The answer is the rate of surplus value which sits almost mid-way between the rate of exploitation and that of profit. Additionally, the annual movement in the rate of surplus value is more proximate to the movement in the surplus. Another vital observation is that when both the rate of exploitation and surplus value fall, as in the case up to

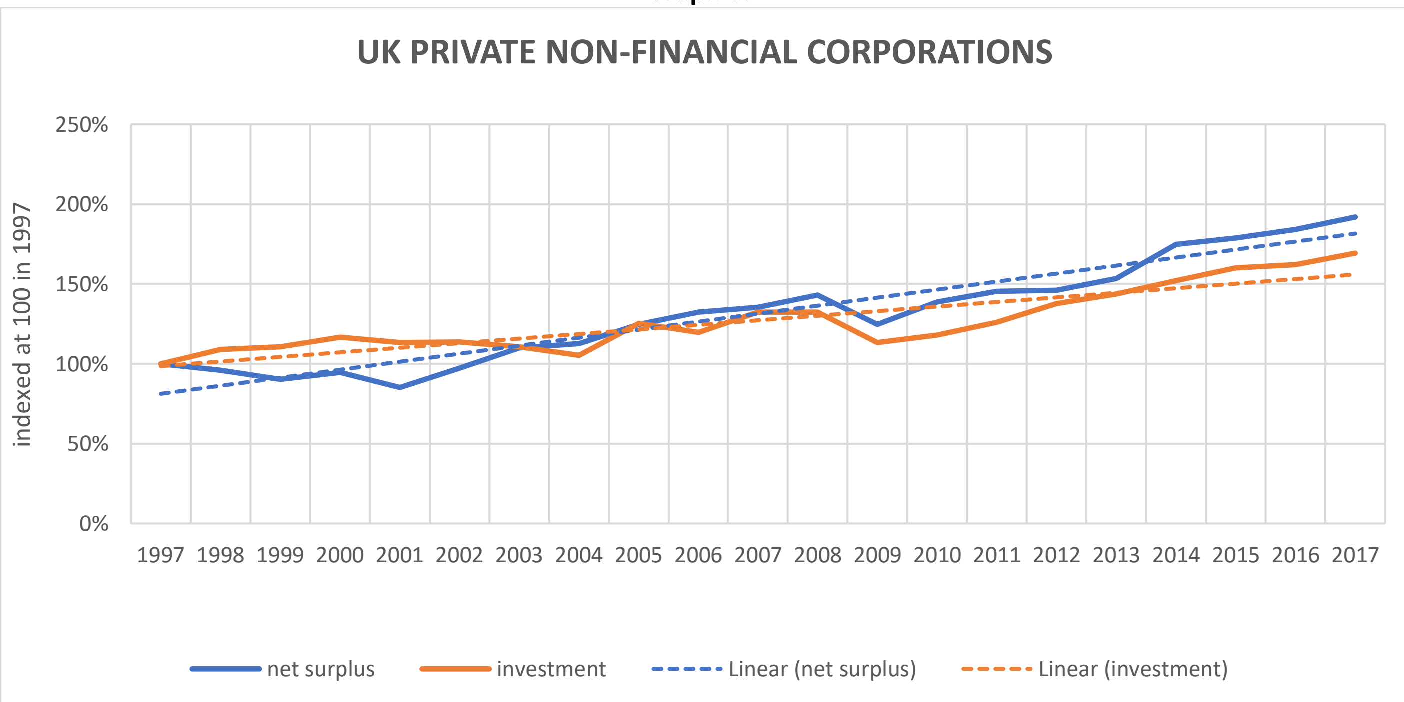
2001, then there is a sharp contraction in the surplus. When the rate of surplus value rises faster than the rate of exploitation, this tends to usher in a rise in the surplus as happened up to 2008. Further if we examine the three peaks in profit, 2008, 2011 and 2014, the gap between the rate of surplus value and exploitation is at its widest. This is due to turnovers. The rate of turnover acts as a multiplier. It amplifies the rate of exploitation when it accelerates and diminishes it when it decelerates. From this a general law can be constructed: the growth in the mass of profits depends on both the rate of exploitation and the rate of turnover of circulating capital.

Turning to the relation between profits and investment. The purpose of indexing Graphs 7 and 8 below is to create symmetry between profits and investment.

Graph 7.



Graph 8.



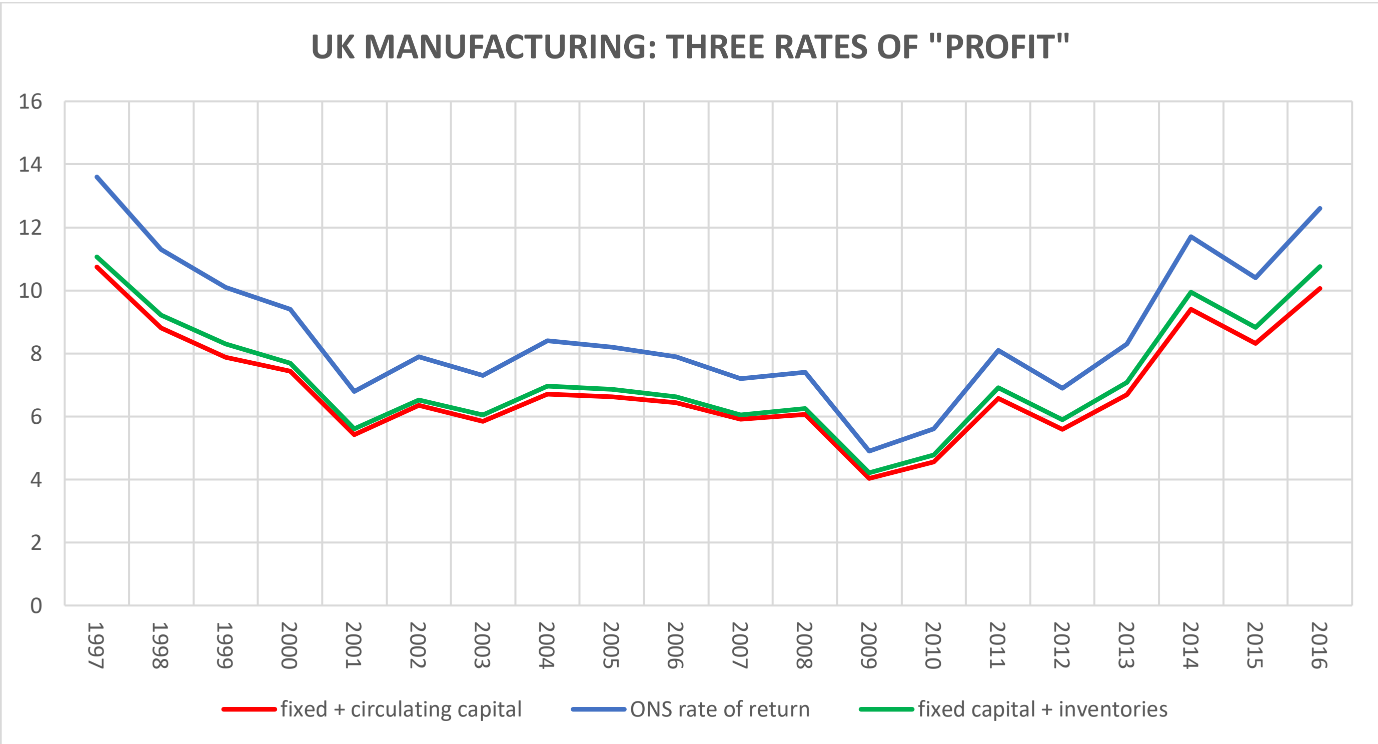
In the manufacturing sector both profits and investment only rise above their 1997 level in 2014. For the whole non-financial business sector this occurs in 2003. In 2017 for the business sector, the surplus stands at 192, and, for manufacturing at 157. In terms of investment the respective figures are 169 and 118. We do not need to delve too deeply into these two graphs. Their main purpose is to explain the rise in the rate of profit in the next section. In both cases the net surplus has risen more sharply than has investment post 2009. This means that the growth in profits has exceeded the rise in the fixed capital involved in its production. In the case of manufacturing the net surplus rose by 110% while investment rose by only 49% and for the business sector the net surplus rose by 67% while investment rose by only 56%. In the case of manufacturing, which we have been examining, for every 1% increase in investment, the net surplus rose 2%. In addition, and preceding the Trump tax give away, the Tories have been steadily eroding corporate tax just as Brown did before them. Hence the rise in the post-tax net surplus has been accentuated by the fall in taxation.

It is also worth noting that investment only accelerated when the net surplus was on the rise. This is brought out by the use of trends in both graphs.

The rate of profit.

It is now time to examine in depth what has been responsible for the improvement in the rate of profit found in Graph 9 below. The most accurate rate of profit is the red line. It is about 20% below the blue line which is the conventional rate of return provided by the ONS itself. Despite their absolute differences, all rates show a sharp improvement from 2009. The rate of profit has more than doubled, and though fixed asset tables for 2017 are not yet available, it appears the rate improved further in 2017.

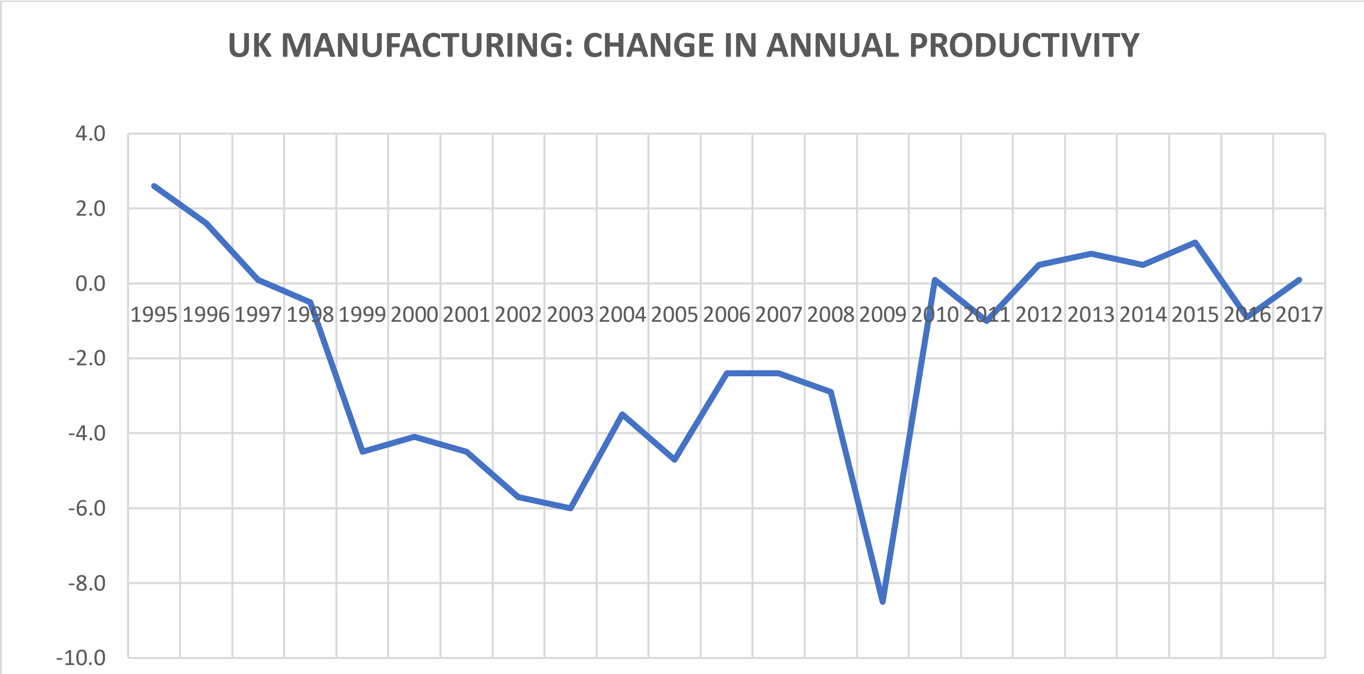
Graph 9.



One important observation is the divergence in the rate of profit measured by fixed + circulating capital and that measured by constant capital after 2014. With the digitisation of production, immaterial inputs have risen relative to inventories or material inputs and it is this relative change that is responsible for the divergence.

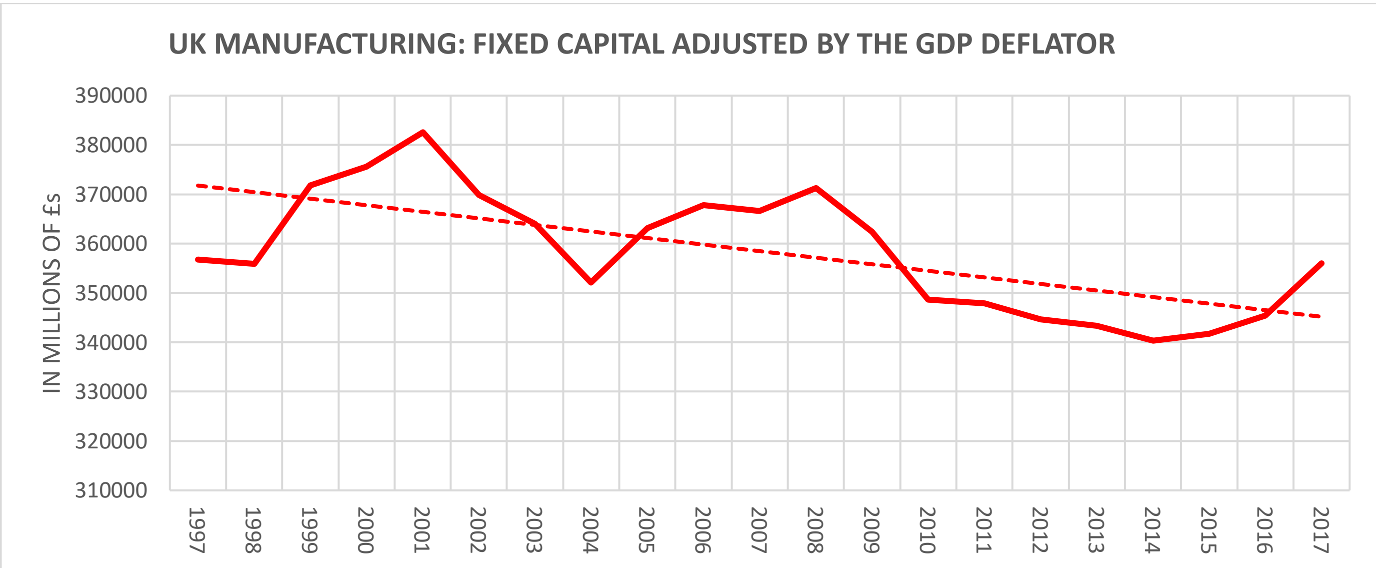
The rise in profitability, has not been due to the improvement in productivity which has been abysmal and the lowest of the major economies. In only 8 of the last 20 years, as Graph 10 below reveals, has there been year on year growth in productivity. In fact, over the last 20 years average annual productivity growth has been negative, falling by 1.9% p.a., and by 1% since 2008. A real squandering of the potential of the British working class.

Graph 10.



What has caused this collapse in productivity in manufacturing? One of the main reasons is the fall in real investment.

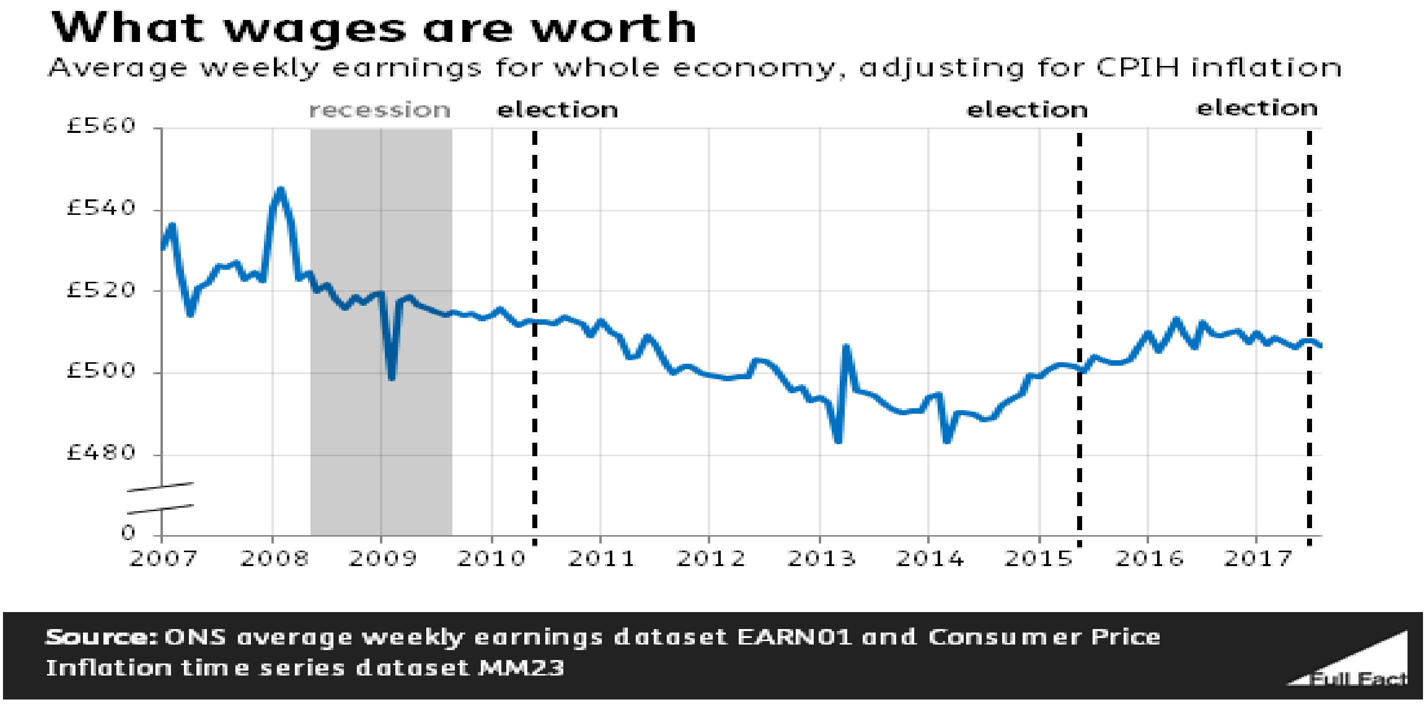
Graph 10.



Graph 10 is the inflation adjusted (chained prices) valuation of the fixed assets enabling manufacturing. The linear trend which smooths out annual fluctuations shows a fall of 7% over 20 years. Admittedly, part of this is due to the cheapening of machinery and equipment, but discounting this, the physical size of the manufacturing base appears to have shrunk. Against this 7% fall, employment as we shall see in Graph 11 has fallen by an even larger 33%. This means that the average worker is working with an additional 26% of fixed capital and yet productivity today in manufacturing has decelerated. Either this is due to a misapplication of investment or the lack of competitivity by British manufacturing causing value to haemorrhage and pass to more competitive countries like France and Germany.

However, where British employers have scored, has been their ability to drive down wages. In manufacturing, average wages adjusted by the RPI index were £581 in 2000 (2017 equivalent). They then rose by 7% to £622 in 2008 after which they fell by over 5% to £589 by 2017. For the entire economy as a whole the figure in 2000 was £501 rising by 10% to £556, before falling by 9% to 506, a fall almost double that of manufacturing. Graph 11 uses the less accurate CPI index, rather than the RPI index, but it too shows the undulating fall in wages. In sum, for the whole of this century, workers have received a weekly wage rise equal to a fiver, if at all.

Graph 11.

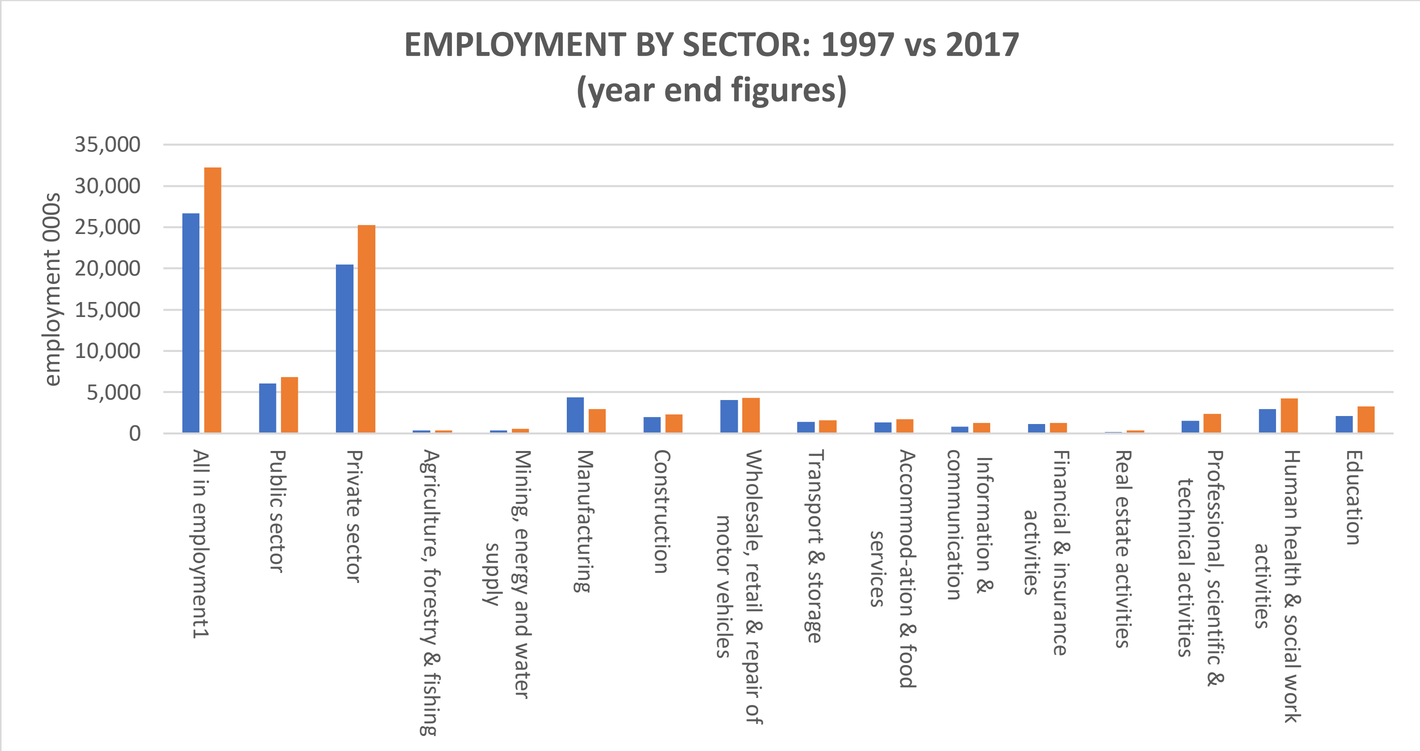


The TUC also publishes an annual report on average wages which concludes that between 2008 and 2017 real wages fell by 11.1%. This is a bigger fall than the falls experienced in the 1930s during the depression. It is also the deepest fall in Europe, equalled only by the falls experienced by Greek workers.

Now it is important to note that we are dealing with average wages, not median wages (weighted average). The fall in average wages can be understated if the number of higher paid bands increase. In addition, if the number of workers at the bottom end of the wage spectrum increases relative to the top, this will not be picked up by the average wage, but it will be picked up by the median wage. Could that be the reason the ONS does not produce a median wage index.

The other factor leading to the sharper fall in overall wages has been the shift in occupation in the last 20 years highlighted by graph 12 below. The main growth has been in private sector employment. Public sector employment has fallen as a share of total employment from 23% at the end of 1997 to 21% at the end of 2017. This changed share means that relatively speaking, six hundred and forty thousand fewer workers were employed by the public sector in 2017. Of all the main sectors, only manufacturing showed a fall in numbers. The number of financial workers did not increase significantly contrary to popular belief. Other than Information… and Accommodation… the only significant increase in absolute numbers is to be found on the right-hand side of the graph, the last three columns. The first professional services, home to the consultants, does not represent the low paid, but the last two columns do.

Graph 12



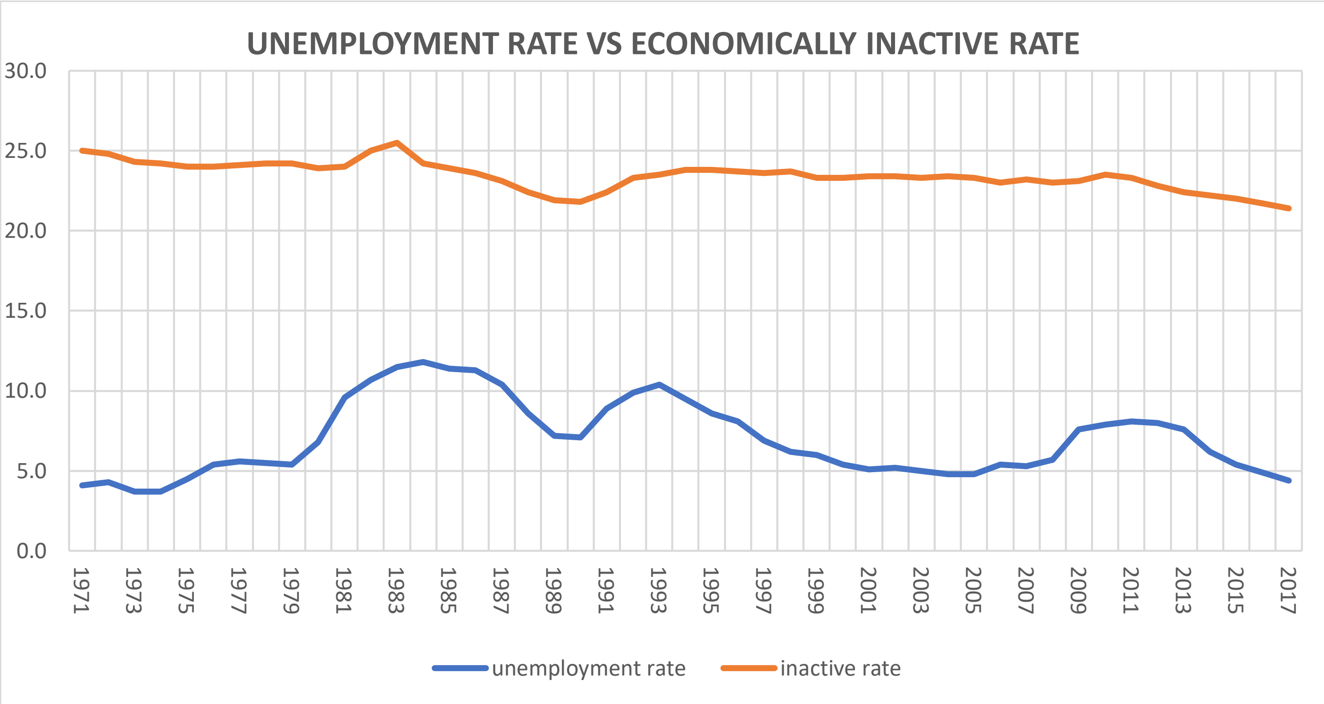
The Human health…sector is tied with the Wholesale...sector as the biggest sectors with roughly four and a quarter million workers each. This is followed by education with over three million workers. Together the health and the education sectors employed 23% of all workers in 2017 compared to 19% in 1997. Had the shares remained unchanged at 19%, three hundred thousand fewer workers would be employed here today. Add in the large Retail… and Accommodation… sectors, all of which have grown, and the figure grows to 42% of the workforce compared to 39% in 1997. This difference of 3% is equivalent to one million workers.

Most of these aforementioned sectors are home to the low paid. The low paid are also trapped in low value-added sectors. It is this shift from the higher paid and more productive sectors, to low paid and low value sectors, which provides another explanation for flat-lining productivity. It also suggests that the real growth in GDP is overstated. Generally, between 2008 and 2017 real wages fell between 9 and 11%. At the same time employment rose by 9%. This means that total wages did not increase because the rise in the number of workers was offset by the fall in real wages. Within this period the share of total compensation within GDP as measured by the input-output tables, remained fairly constant at around 54%. But if total real wages were no higher, then neither could the surplus which when added to compensation, yields GDP. Thus, it is difficult to see how real GDP grew by 11.7% during this time.

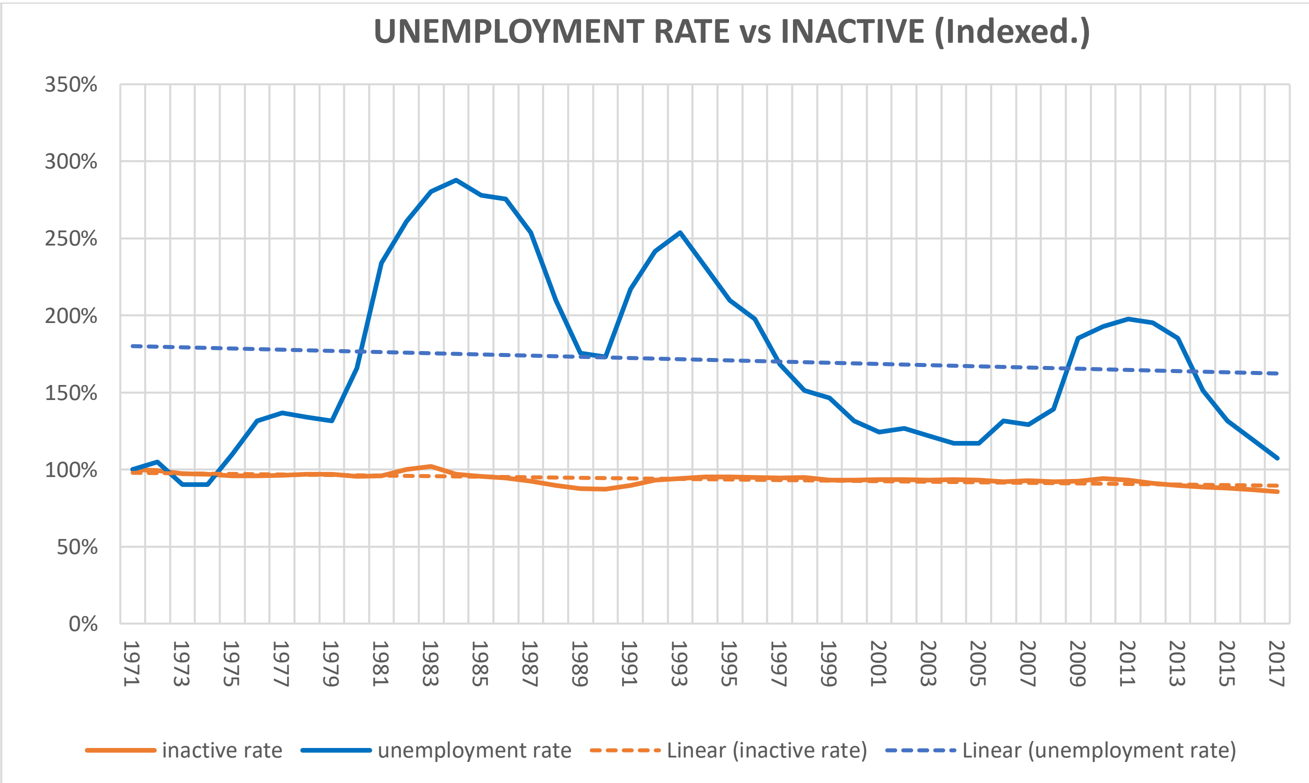
Of course, if the increase in employment is itself inflated, then the growth in real GDP is even more problematic. The graph below goes some way to explain this. It compares the rate of economically inactive persons ("*People not in employment who have not been seeking work within the last 4 weeks and/or are unable to start work within the next 2 weeks*", ONS) to the rate of unemployment ("*Unemployed people as those without a job who have been actively seeking work in the past 4 weeks and are available to start work in the next 2 weeks"*, ONS.). It is a reasonable hypothesis to assume that changes in the unemployment rate should be linked to changes to the economically inactive segment of society.

However, as Graph 13 below shows there is only a weak interaction. The unemployment rate oscillates by a factor of two to three times more than the economically inactive rate. There is a weak correlation in the 1980s during the Thatcher government and her changes to benefit rules. No correlation during the Labour Government, and a renewed weak correlation since 2011 as the Tories made the benefit system more draconian. Despite these weak correlations, it is likely that the smoother rate for the economically inactive is indicative of the precarious nature of work at the bottom end of the labour market. Here work is episodic, badly paid and often brutal. If it does not drive workers from the labour market it actually injures them physically and mentally. This relation between the economically inactive and unemployed is reminiscent of the USA where unemployment has gone down while inactivity has actually risen due to a failure to retrain, exorbitant housing preventing mobility, and the actual degeneration and injury of the working class under the vice of neo-liberalism.

Graph 13



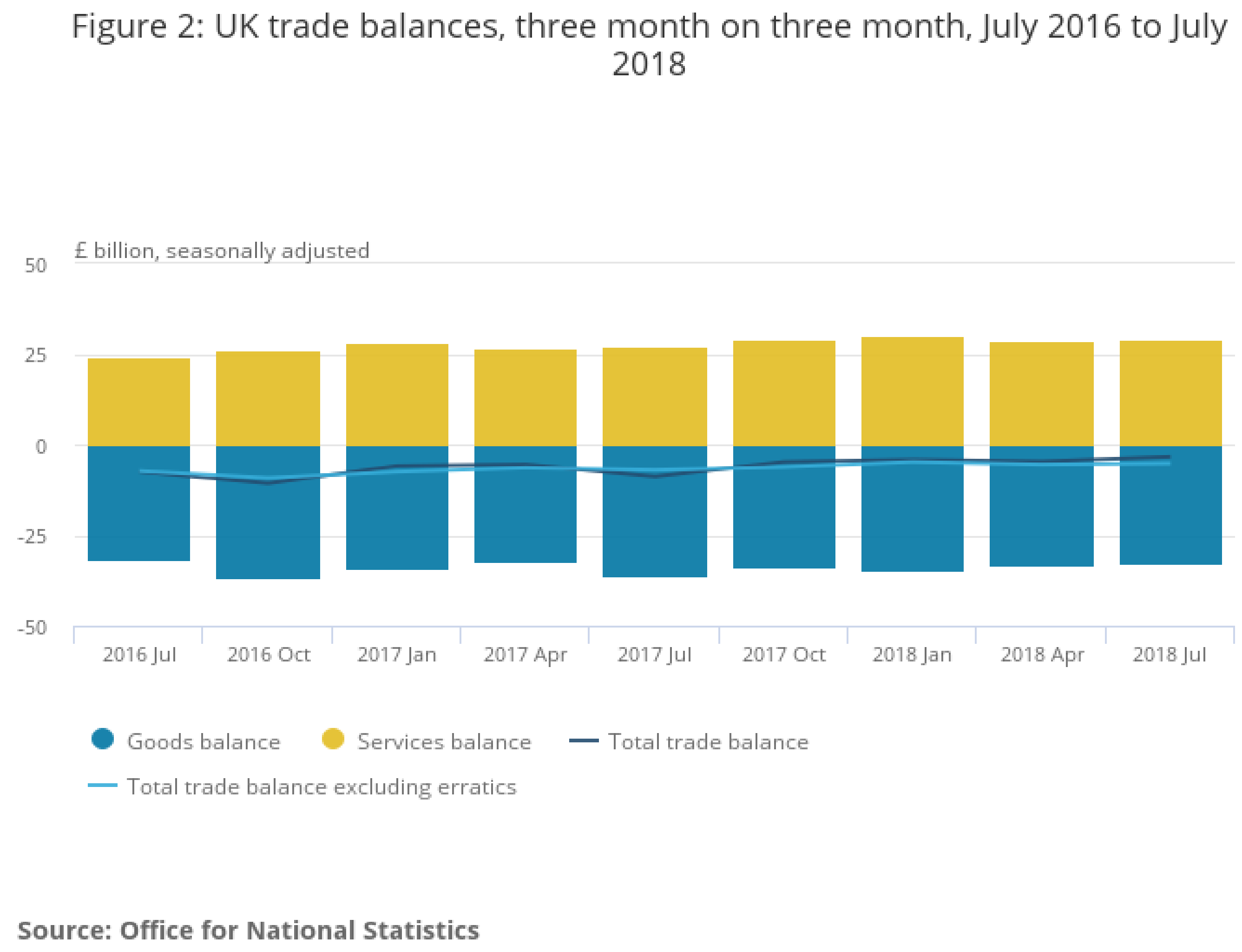
Graph 14.



The final aspect of the analysis the UK's economy and one which has a bearing on Brexit, is the UK's balance of payments situation. For decades, The City of London has vied with New York for pole position as the world's preeminent financial centre. Although New York is home to the world's largest stock exchanges, London has dominated world financial flows with up to 40% of the world's money, amounting to over £2 trillion each working day flowing through its high-rise sewers. It goes without saying that where there is money, there is corruption making London the world's premier laundering site for illicit funds. This has come out clearly in the E200 billion corruption probe into Danske Bank in Estonia. *"According to Danske's own findings UK entities overtook Russian customers in 2013."* (Financial Times 22nd September 2018)

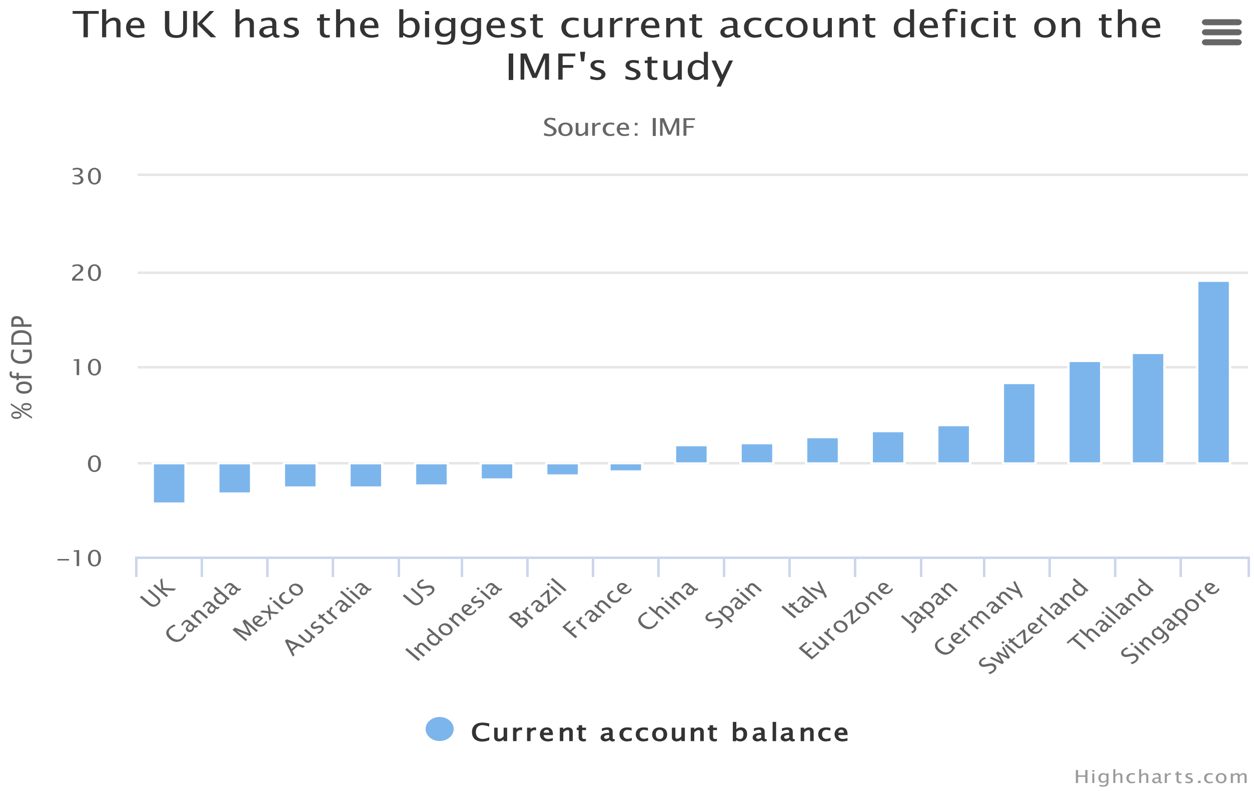
At about thirty percent of the economy, the City is vital to the national economy, and to its balance of payments. Without the surplus in services found in Graph 15, Britain despite being one of the world's largest economies, would be another Turkey or Argentina.

Graph 15.



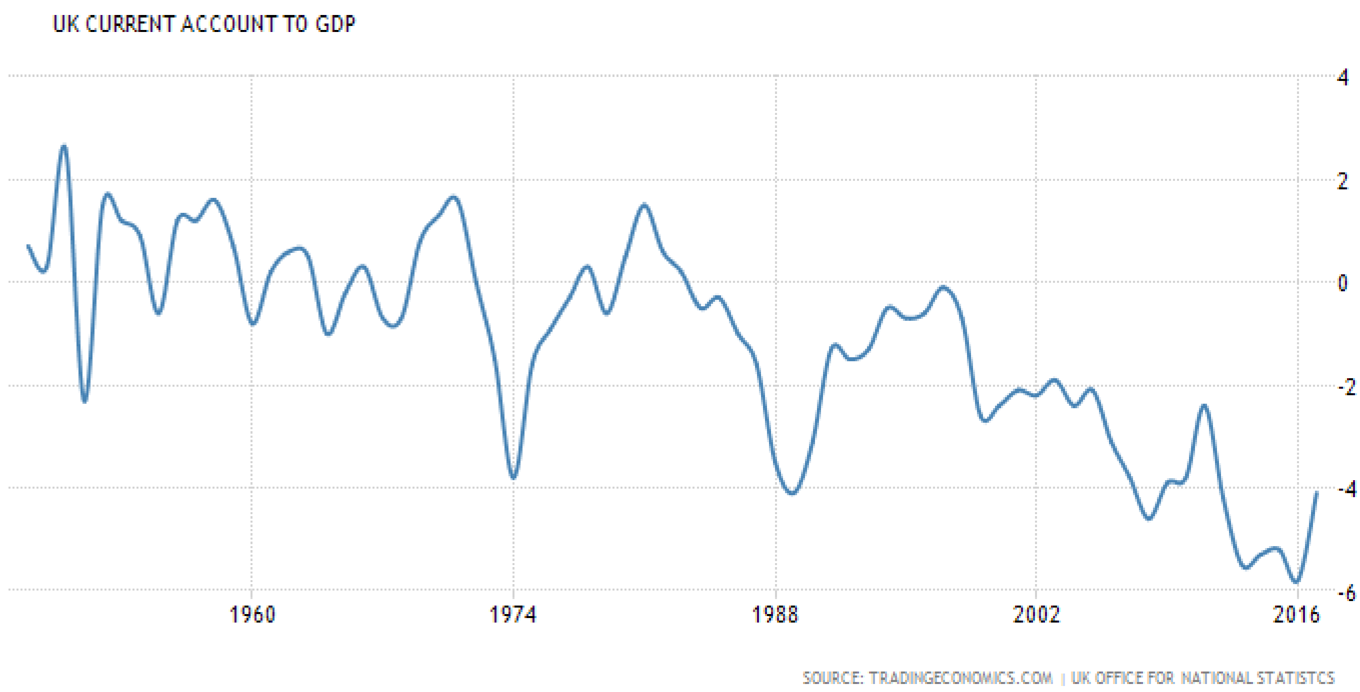
In the above graph the ONS displays the UK's current balance of payments position. Though the total trade position has improved since October 2016, it disguises the huge deficit on trade which is equal to around 4.4% of GDP. This is the largest deficit of any major economy, as Graph 16 which was prepared by the IMF in July 2017, shows.

Graph 16.



And the situation is deteriorating. Over the longer term the UK's current account position has deteriorated. Each peak followed by each dip has been successively lower. The current improvement in the current account, following Brexit, is not a source of strength but of weakness, as it revolves around a slowing economy.

Graph 17.



For the equivalent period, the UK's trade deficit with the EU was $60 billion, a fact that the Leavers always rub in the face of the Europeans to remind them "they have more to lose than do the British".

Discussion on Brexit.

The following is taken from the Chequers communique. *"The UK would apply the UK's tariffs and trade policy for goods intended for the UK, and the EU's tariffs and trade policy for the goods intended for the EU." This would enable the UK to control its own tariffs for trade with the rest of the world and ensure businesses paid the right or no tariff."* (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/723460/CHEQUERS_STATEMENT_-_FINAL.PDF

Here Britain is claiming an unfair advantage over the EU. If it assumed that certain products entering the EU carry a tariff, but British imports do not, then it is clear that British manufacturers' costs would be advantaged against that of the EU. In addition, this proposal is nothing more than a race to the bottom once again (*no tariffs*) and when implemented would force the EU to lose control of its own economic borders. Of course, this is in line with extreme neo-liberal positions which hold that tariffs of any description are an impediment to world trade. Little wonder the EU was rude about the Chequer's proposals as it would turn the single market into a global market. While it could improve Britain's trade balances, it was always going to be a non-starter from the beginning which makes one wonder why it was proposed in the first place.

To add insult to injury, the Chequer's proposals also sought to separate the treatment of services from that of trade in goods. Here Britain faces both ways, a classic fudge learnt from the days of Empire. It seeks to retain the single market for services thereby preserving the City of London's role as the European financial centre, while maintaining "*regulatory flexibility*". In other words, while obeying the EU rule book for its European dealings, it retains the right to rewrite the rule book for its financial relations with the rest of the world. While European banks based in London would have their hands tied by European law, British and foreign banks would have the flexibility of trading either under EU law or more flexible UK regulations. Clearly such an arrangement would disadvantage EU banks based in EU financial centres as well as London.

This did not prevent May from scoring a cheap propaganda coup with this document. Behind closed doors at the dinner for EU heads of state, her intransigence antagonised the EU 28. Of course, this part went unnoticed by the public. But when EU leaders responded publicly the next day, the Tory media jumped at the chance of branding them "insulting bullies".

Chequers was the Tories last role of the dice. It produced the unenviable result of both antagonising the right of the party who felt it conceded too much, and the EU who felt it took away too much from the single market. It is likely that the civil war in the Tory Party will prevent it from governing the country. The capitalist class will not allow the grandstanding and tax dodging leaders of the Leave campaign to destroy the City of London and with it the British economy.

Does that mean that political misfits like Johnson and Rees-mogg, who should not be trusted at the wheel of a driverless car, never mind a normal car, are bereft of economic logic? The answer is no. Their scorched earth policy is the end point of neo-liberalism and its final logic. To them, taking control is seen as ending all regulatory control. The famous red tape. They will rip up all protections for labour, consumers and the environment just as Trump is doing now. Britain will be turned into a low corporate tax, low tariff sweatshop, an island prison for its workers. It will become the plaything of the international monopolies and banks.

Their attack on the state may be profitable, but in the end it is dysfunctional. The primary purpose of the capitalist state is to protect the general interest of the capitalist class. Neo-liberalism has shattered this general protection with special interest groups and lobbying. This free-for-all has been disastrous. The fall in life-span, the rise of chronic illnesses, substance abuse, lack of retraining and a working class generally unfit to work is the direct result of the neo-cons pushing profit at any price. This is most advanced In the United States where 40% of the population is inactive, (compared to 42% at the height of the recession nine years ago), and yet employers in the USA are complaining of a lack of workers.

When the media attack the nanny state they do so in a context where the real nanny effect is actually the advertising and marketing effort used to condition consumers and modify behaviour. Nothing is said about the constant bombardment of children and adults to imbibe products which resemble food and even taste like food, but which actually strips nutrients from our bodies in order to be metabolised This is presented as normal. But when the state stands up to intervene because the damage that is being done to the population, especially the poorer sections, it is the state that is presented as the nanny state dictating how we lead our lives. Together with austerity, the net result is that longevity is now falling in the UK, once we remove the data for the richest section of society.

This is only one of many issues around shrinking the state. There is another, the issue of financialization. Not only is a small state ineffective against the horror of financialization, its smallness is the very condition needed for financialization itself. If the state is no longer able to provide social housing, then private companies and banks can manipulate supply in order to engineer consistent price rises and the speculation attached to this. If a house was built every time the Tories pledged more money for social housing, there would be no housing crisis. But the Tories know that any large-scale social housing programme would undermine house prices ending financialization and bringing down all the financial institutions that have made so much money from it, and who have been such generous donors to the party. That is why the will not do it.

When the state no longer provides free or subsidized higher education and student loans are needed, this leads to a speculative market in student loans, cost of books, cost of accommodation and so on. When the state no longer provides a free national health service, it sets in motion the financialization and gouging of medicine. In the USA 20% of GDP, according to Eurostat, is now spend overall on health care, double that of the EU, with much lower coverage and worse outcomes. Leftish Democrats standing in the November elections who are calling for universal healthcare, face a blanket media ban, despite the vast majority of North Americans thirsting for such an outcome.

This all has a bearing on the value of labour power. Financialization raises the value of labour power. Council rents are and were always lower than private rents. Private healthcare is more expensive than a comprehensive national system. And the same goes for private education. The value of labour power is not only about basics. It is about standards of living. If young adult workers are forced to live with their parents into their thirties, this does not reduce the value of their labour power. It simply means that the price of labour power (their wage) is below the value of their labour power.

In most cases since 2008 and covering whole swathes of the working-class, wages have not covered the value of labour power. How does that get resolved? Explosively, when tens of millions of workers decide they can no longer live this way. And it is beginning to happen. The Corbyn and Saunders phenomena are merely the initial political expression of this discontent.

Hence it is not simply the rate of profit, but the social cost of this rate of profit. The question is whether this social cost, this re-engineering of society, can be taken further without provoking an explosion. Probably not. In any case neo-liberalism has run out of time. The neo-liberal era began in Britain and the USA under Thatcher and Reagan. It is fitting that it should end in these two countries.

In the UK a Corbyn led Labour government will mark the demise of neo-liberalism here. In the USA the indescribably corrupt Democratic National Committee (DNC), by depriving Bernie Sanders of the presidential nomination, bought four more years of neo-liberalism in the form of Trump. But even the NDC cannot stave off the inevitable. In the November primaries their big business appointed nominees have been swept aside by left leaning Sanders supported candidates. Moreover, not only are these nominees being shoved aside, but opinion polls show these left leaning candidates are on course to beat standing Republicans in red states like Texas. Seems it was the betrayals and treachery of the NDC, not the Russians, what drove workers into the arms of Trump.

Sanders and Corbyn represent the leftward march of society. The exuberance of the youthful Labour Party Conference will be in stark contrast to the depressed geriatric Tory party, a party not of members but of the media. More and more capitalists are coming to the conclusion that the neo-liberal game is over, and that the unelectable Corbyn will be elected. As a result, they will move from confrontation to co-option. They have long ago learnt, if needs must, the virtue of giving away 5p in order to preserve the remaining 95p or even 1p a year up to a maximum of 10p.

As always the aim of the "progressive" section of capital and their media will be to encourage Labour to continue to divert the movement into the reformist cul-de-sac. Already the BBC is wheeling out ex-bankers who say businesses' fear of the Labour Party is overdone. This is what Bill Esterson, Labour MP for Sefton had to say: "*Change is coming as the Tories abandon their position as the party of business. This summer, I am listening to businesses large and small around the country, putting forward their hopes for a future Labour government. Every conversation I have had with business leaders has been positive, an indication that the business community recognises that we are on the path to power and seeking to work with rather than against Britain's business community. And Labour in local government is already a strong partner delivering the support needed, as I found when I met manufacturing and retail businesses in East Lancashire. And that's what Labour will do in government. We'll be the partner that businesses need."*

But if the LP party is to partner business, then it needs to show business-like discipline. In a few words, its programme must be costed and affordable. The question of affordability has already been thrown into stark relief. The merit of any party is measured by its treatment of the weakest and most vulnerable sections of society. The Conference in Liverpool had not even tabled a discussion on the treatment of the disabled. Thornbury has ruled out reversing the freeze on benefits that has been in place since 2015 and is costing typical families £300 per annum, because it is too costly. So, claimants will have lost £8 billion by the time the freeze ends, but never mind, it will not have been in vain, because it could pay for an investment bank or even end up in the pockets of the owners of some of the water companies when they are nationalised.

It is a bankrupt policy. Affordability is like rationing. It's what the economy can afford stupid without business being damaged. There is never enough to go around. Someone has to lose out. Pet projects takes precedence over caring for the weakest. One of those pet projects, is workers being given a share of the businesses that employ them and a say on the board. This is another golden chain binding workers to their bosses and the state. This "industrial democracy", really class collaboration, will have just as bad an outcome as "Thatcher's home owning democracy" did in the 1980s. It means workers will be tied to the success of their company robbing them of their independence.

In the end of course, a movement is worth a thousand programmes. And there is a huge movement developing. While May tells Bloomberg in New York that she envisages Britain turning into a low tax country after Brexit (hedge fund hubby will be happy), a call for a general strike to bring her down was greeted with rapturous applause in Brighton. The contrast could not be starker. Does this mean we abandon our revolutionary programme? Never. It comes into its own when, once in government but not in power, the contradictions and limitations of the LP manifesto becomes evident. That is when it comes alive.

https://theplanningmotivedotcom.files.wordpress.com/2018/07/abridged-draft-20th-century-programme-pdf.pdf

(Part 2 will look at the turnover per industry in Britain and how the turnover formula can be used to reveal the structure of diverse industries.)

Brian Green, September 2018.