

# 6<sup>th</sup> JANUARY 2021, THE DAY TRUMP MADE AMERICA BREAK.

*On Tuesday, Trump's Chumps sponsored by the President and courtesy of supportive cops, went on an unescorted walkabout through the Houses of Congress. The shock on the faces of reporters viewing the siege was palpable. Many called the USA a "banana republic". It has become so, but not because of Trump, all he did was put a face to the new Republic. Instead, it is the deep economic malaise inflicting the country that gave rise to both Trump and Trumpism. This article investigates this foundational malaise using new data released by the BEA on the 22<sup>nd</sup> December.*

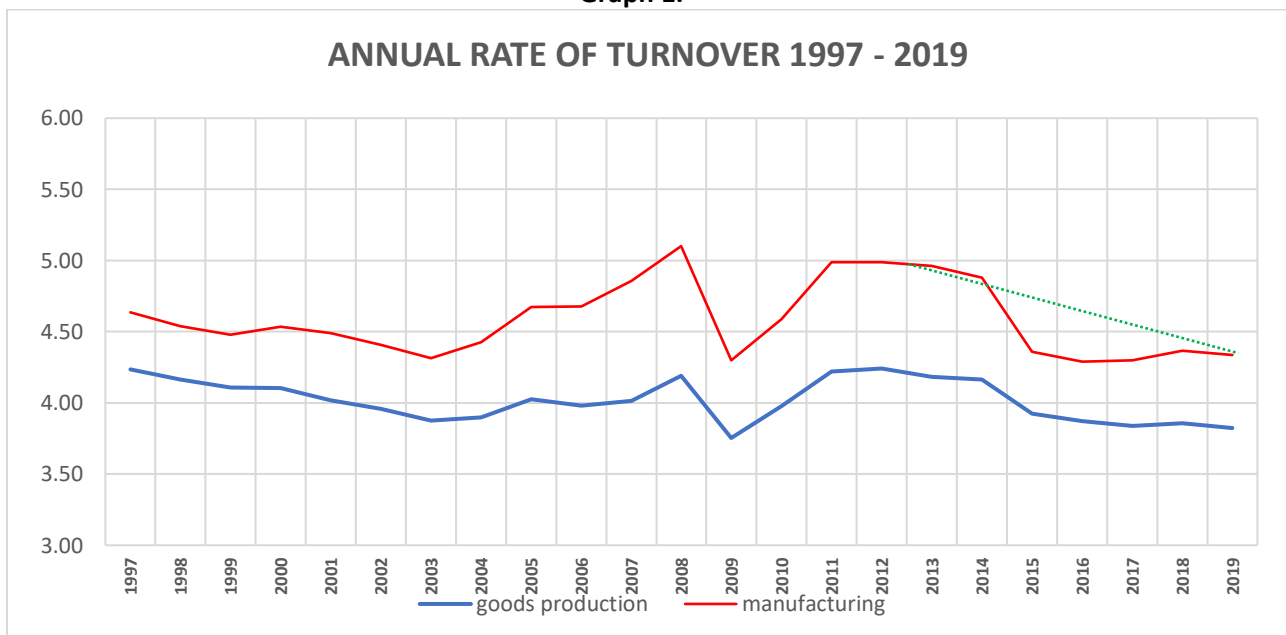
As this article is being written, the results from the Georgian Senate run-off have been announced. It appears that the Democrats will now control both Houses of Congress and the White House. For once Trump connected to reality, when he recognised that he would be blamed for the loss of Georgia. He will be. His attempt to overturn the elections which culminated in the siege has split his Party, backfiring with Republicans now coming to see him as not an asset, but a liability. Trump has clearly over-reached.

Additionally, the slim margin of victory in Georgia is an indictment of the Democratic Party itself, given the Republican Party's mishandling of the pandemic together with the financial support bills and their failure to reign in Trump. Its only advantage is that the Biden Administration can no longer hide behind Republican majorities in the House when they backtrack on their election promises.

## Investigating the malaise.

The rate of turnover in 2019 continues the subdued trend post-2014. Rates of turnover remain at a trough formed of the years 2003, 2009 and 2016. Whereas turnover fell up to 2003, what is unusual about the current period is that turnover does not form a valley but rather a deep elongated indentation. This reflects an economy in the doldrums and marks the definitive end to the period of rapid globalisation, because this fall in turnover is not limited to the USA but is also found in China and other major economies.

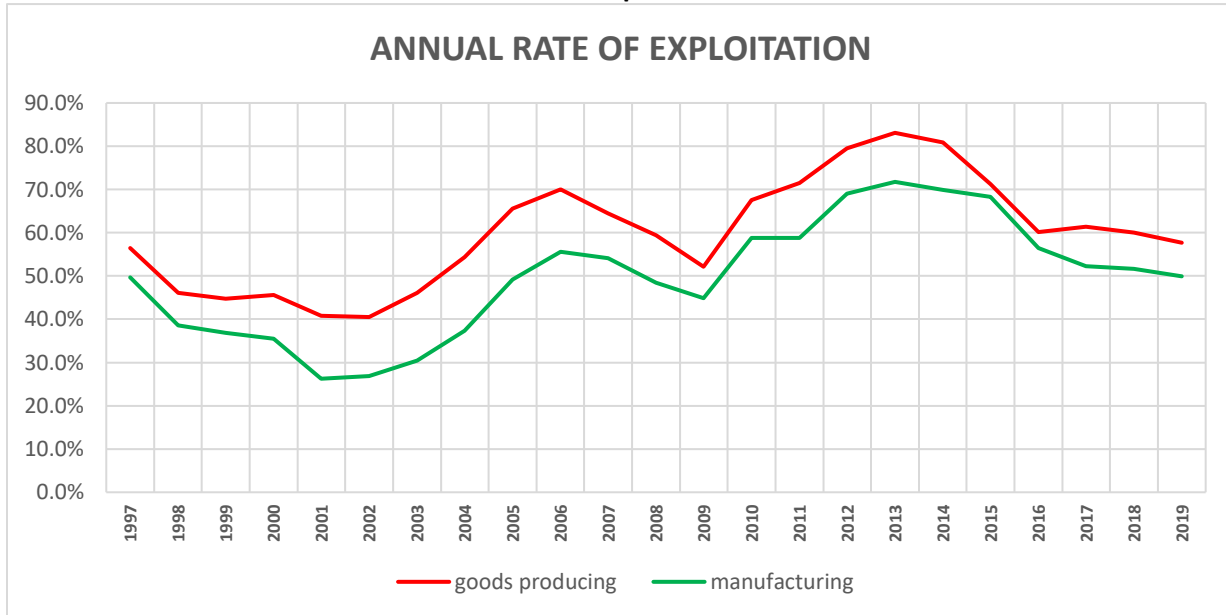
Graph 1.



Source: Attached spreadsheet KLEMS 1997 – 2019)

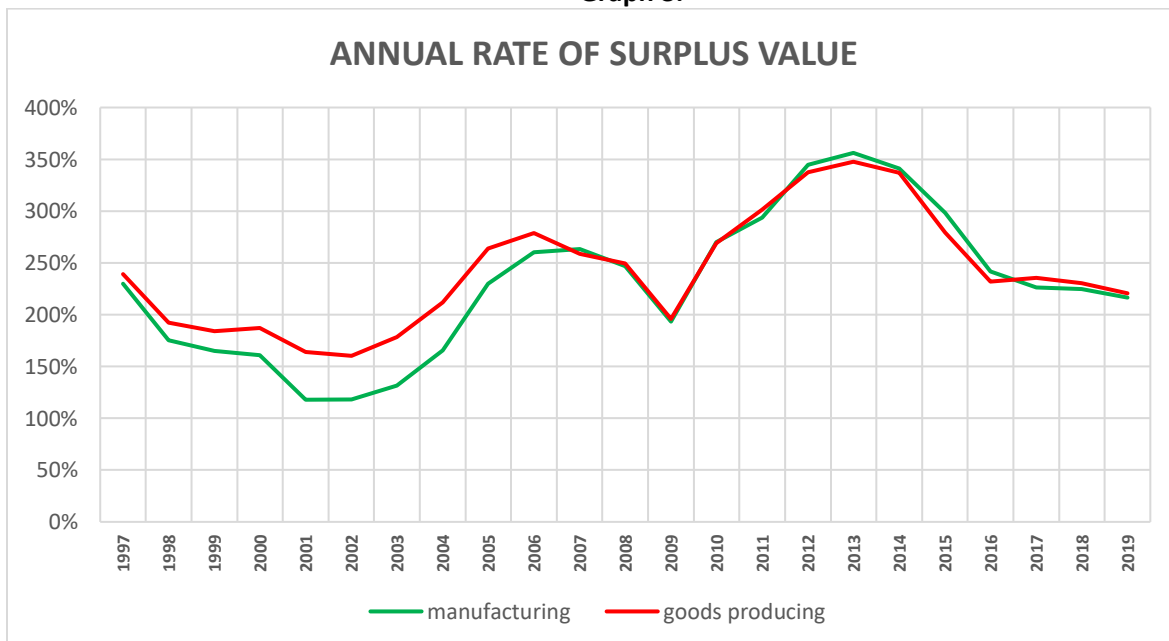
This fall in turnover is associated with a fall in the rate of exploitation as well. Again, it indicates an economy, where a recession needed to flush out excess capital and labour, has been absent. Capital without the capitalism.

**Graph 2.**



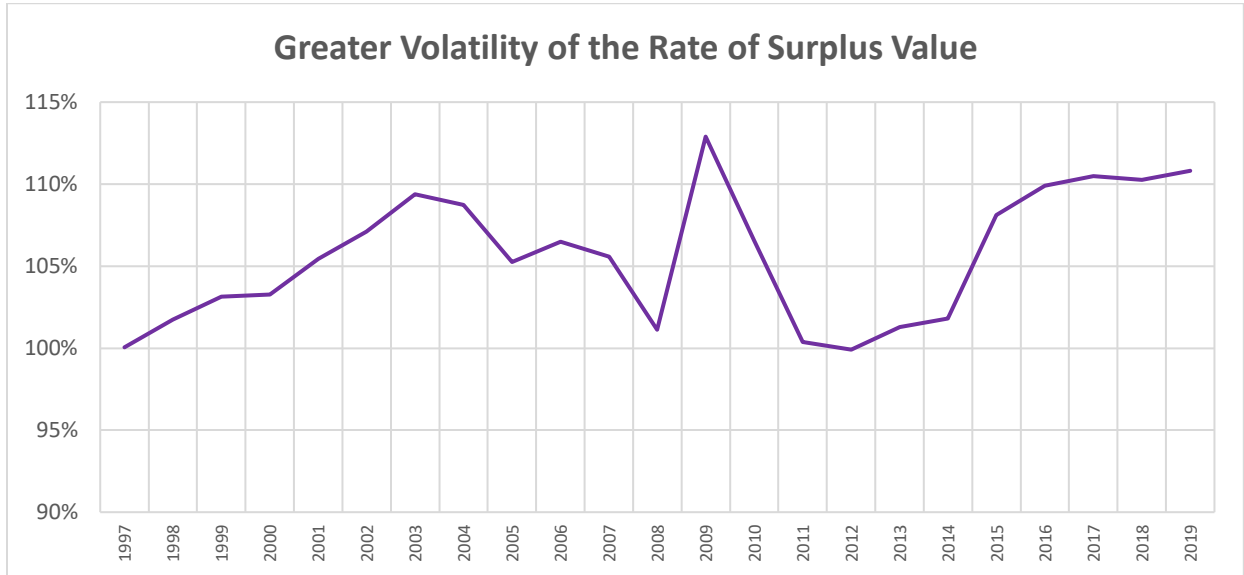
Of course, it is not the rate of exploitation that feeds directly into profitability, but the more complex rate of surplus value which includes the multiplier effect formed by movements in the rate of turnover. The result is that the rate of surplus value, absolutely, is a larger number, and relatively, it is more volatile because of the effect of the acceleration or deceleration in turnover. The formula for the rate of exploitation is  $s/v$  and for the rate of surplus value it is  $s^n/v$  where  $n$  stands for the number of turnovers.

**Graph 3.**



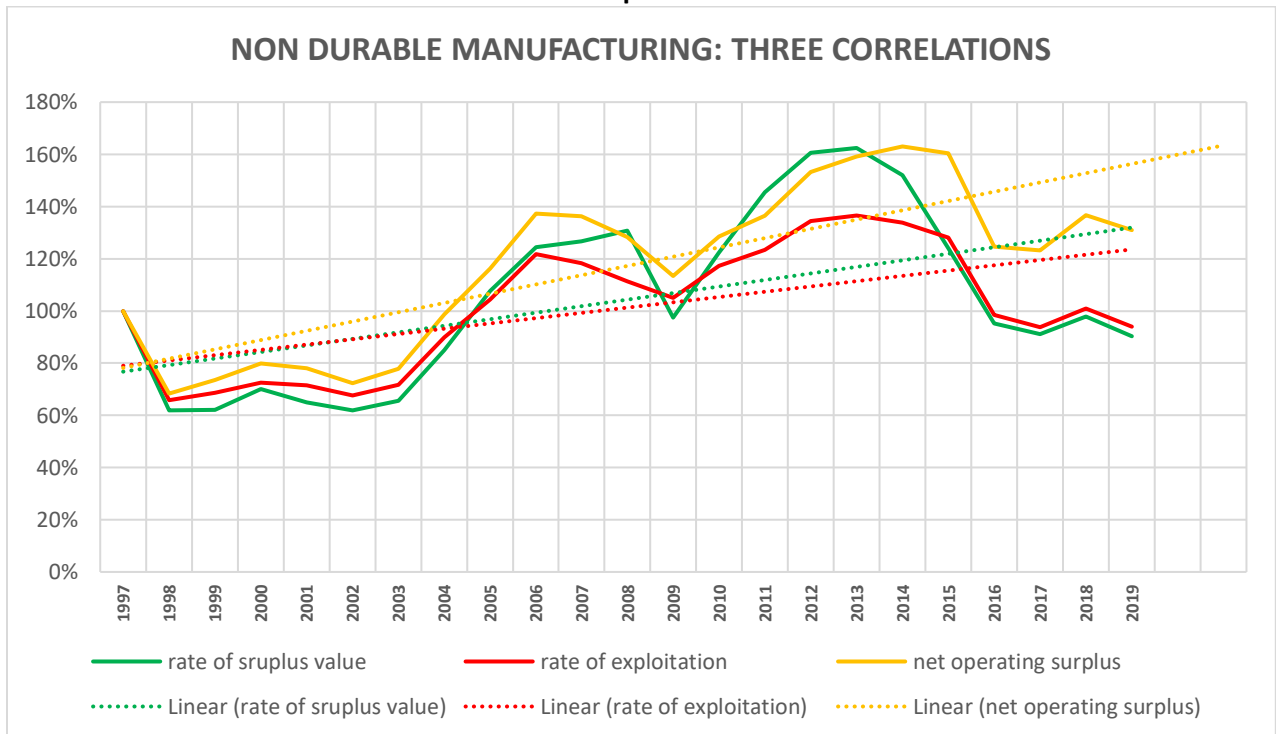
This greater volatility can be seen in Graph 4. The movement in the rate of surplus value is up to 10% greater than that of exploitation because turnover accelerates in the up phase of the industrial cycle only to decelerate in the down phase.

**Graph 4.**



The importance of the distinction between the two rates is brought out when we compare their movement to that of the Net Operating Surplus or what is the same thing, undivided profits, profits before the deduction of rent, interest and tax.

**Graph 5.**

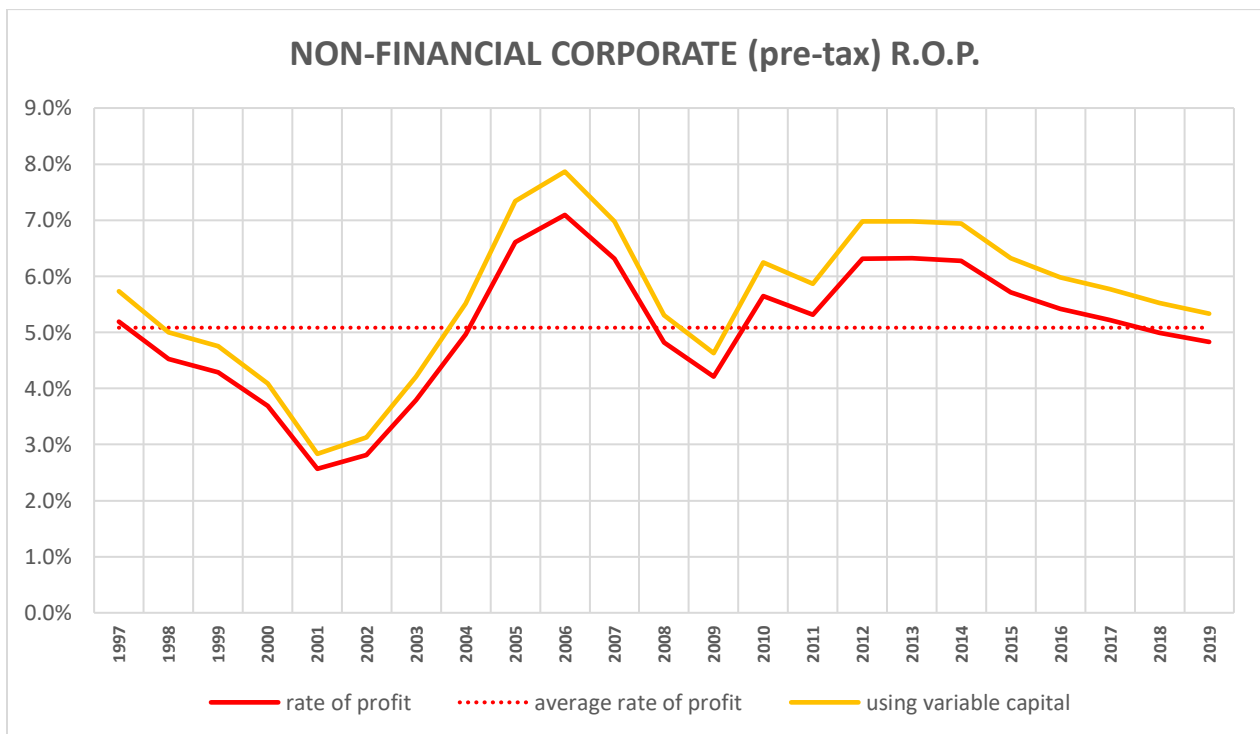


Visually there is a closer correlation between the orange and green graphs compared to the red graph which represents the rate of exploitation. This is brought out by examining the trend lines which shows that the rate of surplus value trends closer to that of the movement of profits.

The second point to observe is that when the rate of surplus value trends above that of exploitation, profits tend to rise, and, when it falls below the rate of exploitation, profits tend to fall. Thus, beginning in 2003, the rate of surplus value rose faster than that of exploitation, popping above it in early 2005 causing profits to rise. The same happens in 2009. However, in 2013 it starts to fall more steeply intersecting the rate of exploitation in 2015, then settling below it from that time on. Consequently, this inversion has dragged the net surplus down by 30% which will not recover so long as the rate of surplus value resides below that of exploitation. I wrote about this phenomenon as early as 2017 [r-o-s-determines-profitability-pdf.pdf \(wordpress.com\)](#) Non-durable manufacturing has been chosen because it has a high rate of turnover, is not as subject to international competition as is durable, and it contains less Intellectual Property to distort the rate of turnover.

As a result of the fall in exploitation and turnover, the rate of profit has sagged from 2014 onwards. This has endured for an unprecedented 7 years when 2020 is included. Again, the effect of the absence of a corrective recession is seen. Two rates are used. Pre-tax unadjusted profits are measured against fixed and circulating capital (red graph), while in the orange graph, pre-tax unadjusted profits are measured against constant capital plus variable capital. (Constant capital is fixed capital plus inventories and variable capital is annual wages divided by the annual rate of turnover.) These rates of profit are more accurate than those usually shown which either use a denominator comprising only of fixed capital (the rate of return) or fixed capital plus annual compensation.

**Graph 6.**



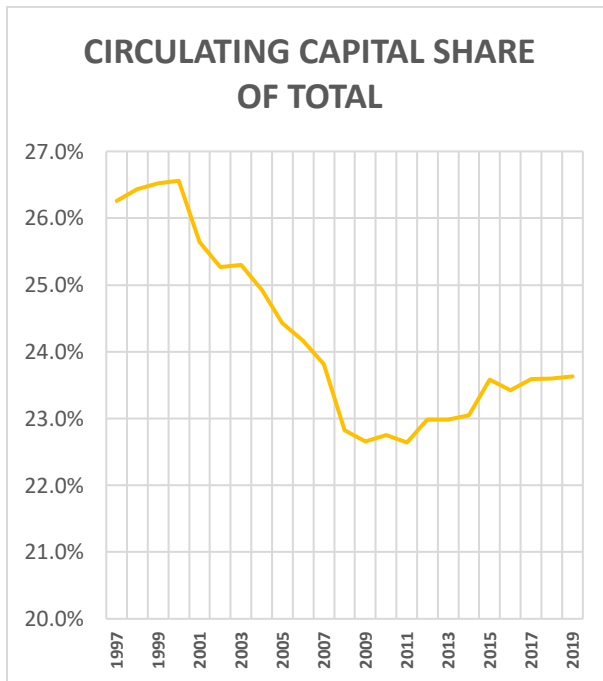
(See accompanying spreadsheet 'Table 1.14 1997 – 2019')

My preference is the red line graph based on fixed and circulating capital. Modern corporations use many more inputs which boosts circulating capital, as for example when a company outsources its accounting or cleaning services. Outsourcing of services tends to boost inputs while reducing payrolls and hence variable capital. This explains why the rate of profit (red graph) is lower than the traditional rate of profit based on variable capital.

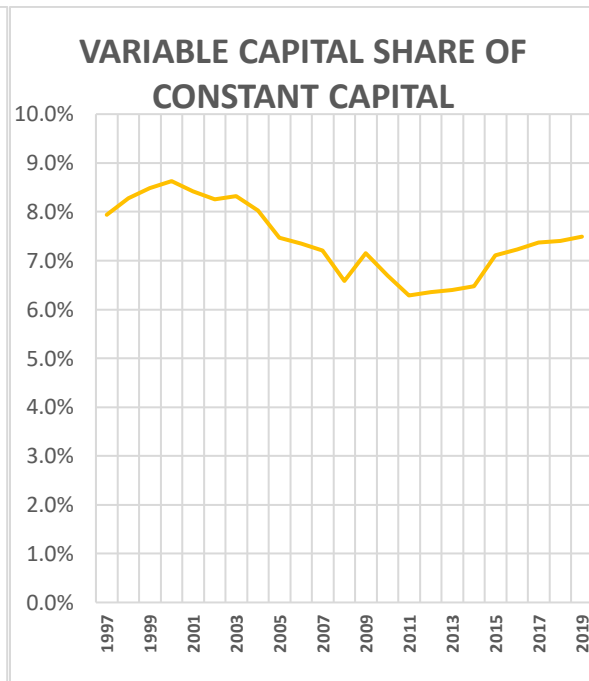
**2008 aggravates the abnormality.**

In the two graphs below, we note that the subsiding in fixed asset investment following the financial crash in 2008 has had a profound effect on the composition of capital. The fall in the share of circulating capital (Graph 7A) up to 2008 fits the normal profile generated by a rise in the technical composition of capital. However, in the period after the financial crash there is a marked increase in the employment of labour power. And this is continuous up to 2014 despite the acceleration in turnover which normally has a depressive effect on the mass of variable capital. This can clearly be seen in the second graph (7B) which shows a slightly different profile only ticking up from 2015 when decelerating turnovers forces employers to add to their variable capital as a result of the elongation of the circuit of capital.

**Graph 7A**

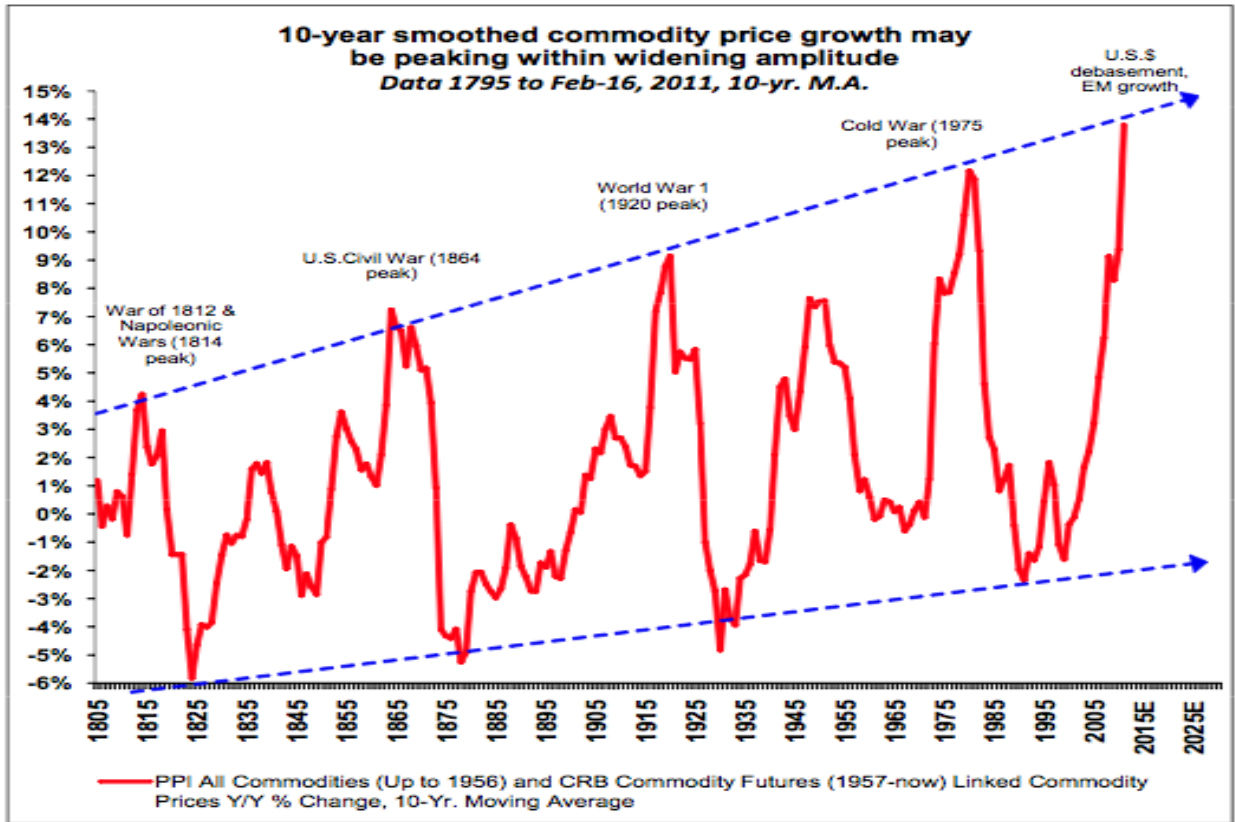


**Graph 7B**



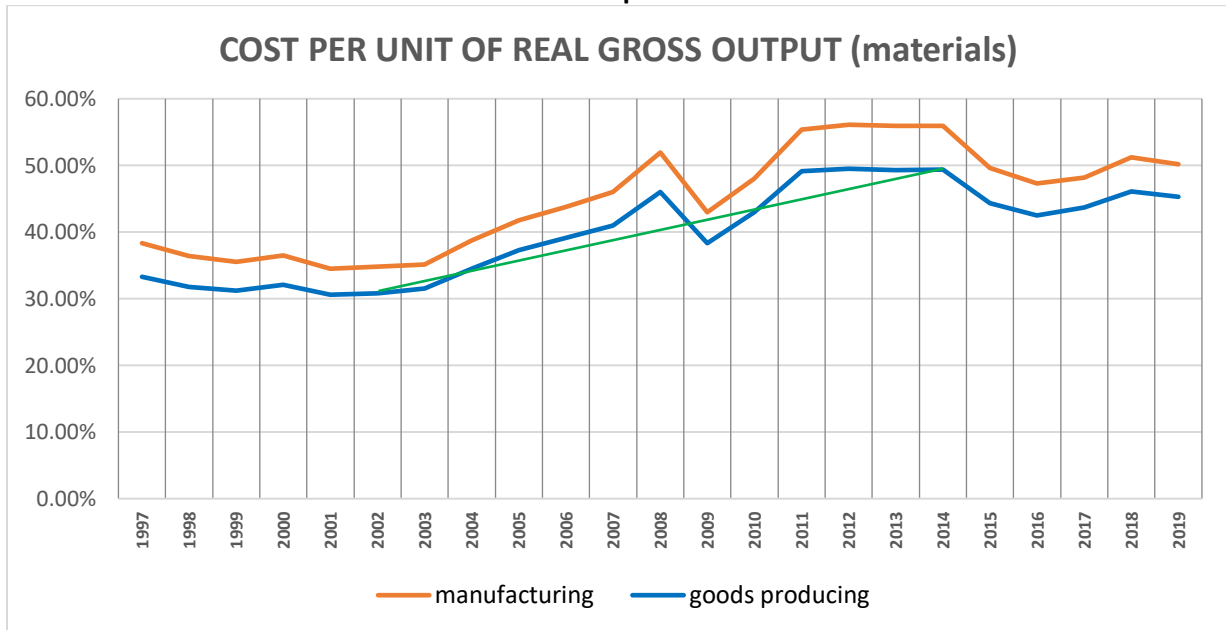
One of the reasons for the increase in circulating capital post 2008 was the surge in Chinese fixed investment which generated a commodity super cycle ending in 2014. The price of oil and the prices of “hards” (minerals) all soared due to the insatiable demand of Chinese industry. The scale of this price surge can be gauged from the interesting graph below taken from *businessinsider.com*. The price of oil for example, which peaked in 2008 was only trading down by \$5 in 2014 before halving the following year.

Graph 8.



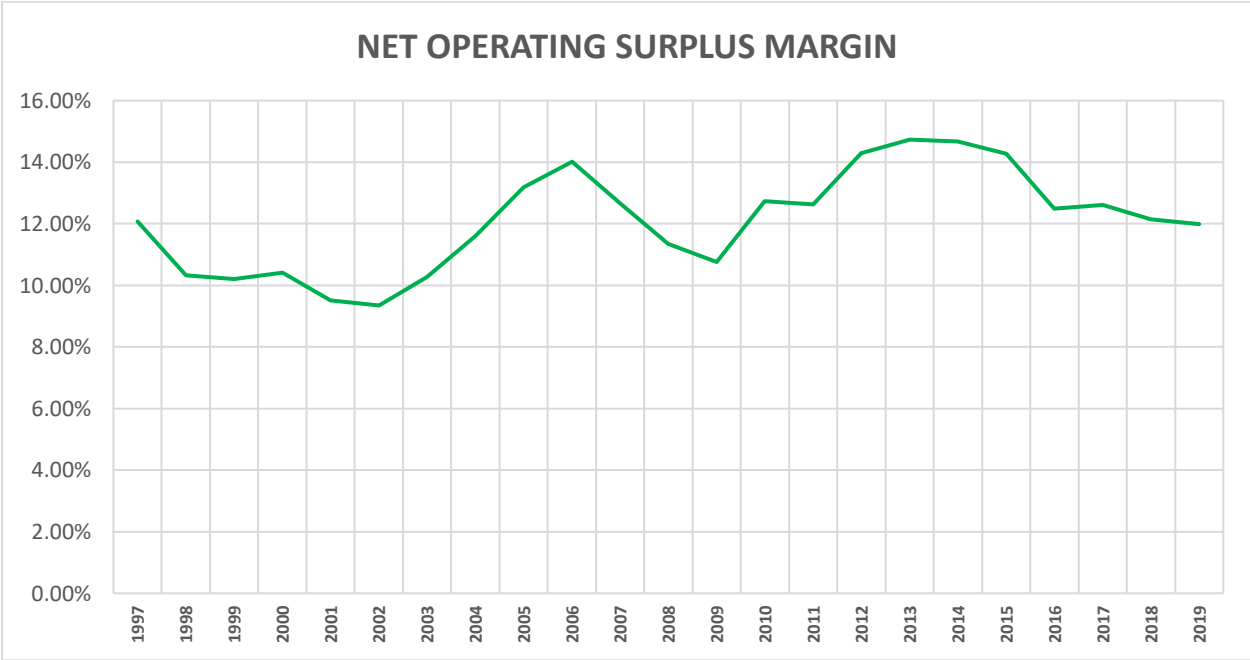
The effect of the rise in the price of materials during the super cycle can be seen in terms of the cost of inputs. Clearly, materials' inflation will result in an increase in the share of input prices relative to output prices which can be seen in the graph below. The data is drawn from the KLEMS spreadsheet attached.

Graph 9.



In Goods Producing it rises from 30% in 2002 to 50% in 2014. It then falls to 42% in 2016. We could expect this fall in cost prices post 2014 to have improved profit margins, except that it did not. Graph 10 shows the opposite effect. Profit margins peak in 2013/4 at the peak of the commodity super cycle and fall as the super cycle ebbs. This coincidence suggests something profound occurred at the end of 2014, something global in nature, which effected output prices as well as input prices. That something can only come about through a global deceleration in investment, which is why I mark this period as the definitive end to the 20-year period of globalisation which began in the early 1990s. It marked the transition from a dynamic period of production to one of growing malaise. It is only against this background that we can understand Trumpism as well as the rising tensions between the USA and China. From 2014 the global profit cake stopped growing and fighting for slices got more difficult and problematic. (Graph 6)

**Graph 10.**



Nor was it due to rising wages. (Note 1)

**A methodological note on working capital.**

Before moving on it is necessary to digress. The formula for working capital is (gross output less net operating surplus) divided by turnover. One of the reasons that turnovers fell post 2014 was the reduction in input prices for materials. These count as intermediate sales. The greater the mass of intermediate sales relative to final sales, the more gross output is elevated above final sales. The more gross or total sales are elevated above final sales, the faster the rate of turnover.

An example will suffice. If intermediate sales rise from 3 to 4, while final sales remain at 2, then gross output will rise from 5 to 6 or 3+2 compared to 4+2. Consequently, turnover will increase from 2 to 3. It could be argued that this increase in turnover is an artifact, an arithmetical result emanating from pure price changes or more precisely the movement of relative prices. These asymmetric prices are rare because generally the rise in input prices feeds into output price rises as was clearly the case up to 2014.

Even so, should they occur, would that not rob the formula for working capital of any validity. The answer is no. True the rate of turnover could be artificially depressed but the reason for this depression would be the depression in sale prices itself. This in turn would reduce the value of gross output in the formula for working capital therefore cancelling the effect of a lower rate of turnover. Working capital would remain a realistic number.

### **Bringing it all together.**

The economic malaise is traced back to post-2014 when the Chinese investment boom began to peter out. It was this investment boom, probably the largest and most intense in capitalist history, which revived the world economy after the Financial Crash. Central Bank manipulation of interest rates played only a secondary role.

China's investment boom altered the global relation between Department one and Department two production. Although fixed investment within the US, the EU and Japan was muted, much of their exports comprised products emanating from Department 1 - high value industrial goods, machinery and equipment. In turn, China's exports comprised mainly Department 2 products, consumer goods priced more cheaply than before. (This is why we can only understand the world economy as a world economy not a compilation of national economies.)

The result was that productivity stagnated in the US, EU and Japan, while it rose in China which was the recipient of these Department 1 goods. Or alternatively it could be said that the US, EU and Japan exported their productivity to China. Fortunately for the US, EU and Japan, the inward flood of cheaper consumer goods tended to offset the effect of stagnant productivity at home through its effect on the value and price of labour power (the basket of consumer goods sustaining standards of living).

This enabled the new employment practices in these countries which had become increasingly labour intensive. The fall in the value of labour power enabled companies to reduce wages and improve profits, that is up to 2014. (See Graph 11 at the end) However, the cost of services such as housing and health did not follow the trajectory of consumer goods due to financialization. While the latter fell, the former rose, particularly in the USA. Once the prices of consumer goods began to level off, the further increase in the cost of services ate into workers' standards of living and led to increasing hardships.

This was particularly true for what is know in the Red States in the USA, the hinterland, home to traditional businesses, and in the UK to the North South divide. Neo-liberalism intensified the divide for two reasons. Firstly, the reduction in state capacity which went hand in hand with privatization meant less public support for workers in crucial areas such as housing and education. Secondly, the reduction in the taxation of the rich meant less means to redistribute, thereby intensifying inequality.

### **Conclusion.**

We have now seen the end of Trump and his family. Trump will now vacate the White House quietly. His political brand is toxic. His aides are deserting him as well as his wife en masse. His son may have boasted on Tuesday that the Republican Party now belongs to his father, how wrong he is. The Republican Party is weaning itself off Trump.

If Trump is to have any political future he will need to split the Party, walk off with some of its base, and go all the way, including growing a black (no not orange) moustache. We recall the Poll on Tuesday night



which showed 45% of Republican supporters felt it was right to storm Congress. Such a party will have to be avowedly racist because recent events have shown that most of his supporters have acted in the name of keeping the white man and woman in charge. However, on Thursday Trump rejoined his class by stabbing his supporters in the back when he condemned them for assaulting Congress and added they should be punished. His supporters will feel betrayed and disarray will set in as the glue holding them together, Trumpism, is now dissolved.

The capitalist class has closed ranks against Trumpism and its leaders as a result of the events on Tuesday in Washington. This includes senators like Ted Cruz who have attached themselves to the Trump banner. In an interesting article in the FT titled *US Business Turns on President's Backers* the extent of this shift in opinion is detailed. Even the Koch Brothers, the world's richest family, and bagmen to the right, realize they have created a movement which is out of their control and increasingly anti-Semitic. In this they follow an illustrious line of financiers whose pet political projects have turned round and bit them.

Let us be quite clear, the holy ark of the capitalist class is their electoral system. The working class must remain trapped within the ballot box. This is their chosen means of control. They will never forgive nor forget a politician who challenges this as Trump has done. Sure, Trump's supporters are facing backwards and seeking to recapture the past, rather than facing forward and seeking to conquer the future, but the very act of their direct action has frightened the ruling class through revealing a door they wish to keep hidden.

Talking doors, it seems that Biden will be pushing at an open door. A capitalist class which now recognizes it has been far too greedy and primitive for its own good. They now recognise the dangers of running a country for only the top 10% of the population, especially when the bottom 80% are getting increasingly restless. Neo-liberalism is now a dead parrot. The capitalists and their entourage now realize the need for national unity. They will be more amenable to more taxation, more regulation, more state capacity and more re-distribution. Of course, such largesse will be inadequate, and will represent a dilution of the bold promises the Democrats made leading up to the election. Having won the Upper House, Biden no longer has the luxury of hiding his betrayals behind the back of the Republicans.

As the lead up to 2019 shows, global capitalism is suffering a deep malaise, a malaise which made society vulnerable to Covid-19 and which in turn has been further harmed by the ensuing pandemic. Truly, capitalism is bent out of shape. Despite the OECD warning countries that any austerity will lead to social unrest, the options facing capitalism are stark. Those who argue that the capitalist system need not do that, it can do this, show their ignorance of the inner nature and workings of capital. Bankrupted countries need to replenish their coffers, and this requires either austerity or bleeding the rich. But why make the rich poorer when the purpose of capitalism is to make the rich richer.

Capitalism enters the next period far weaker than it was prior to 2008. The damage done to the economy is far greater than 2008. The only ones not to see this are the over-paid speculators on Wall Street. Wall Street is like the jilted lover, the last one to learn of their partners infidelity, in this case the economy's infidelity. On the 6<sup>th</sup> January, the day Congress was stormed, was the first day when over 4000 people died of COVID-19, the same day hospitals buckled, and yet the Dow Jones rose 450 points. Trump may have his followers enthralled, but it is nothing compared to the hold the FED has on Wall Street.

This article has shown the legacy of interest rate manipulation. A manipulation which ensured the pseudo recession in the last quarter of 2015 did not turn into the full-blown recession which was needed to sweep

away the old to make way for the new. Instead, the economy continued to chug along an increasingly steep gradient with the fenders up front pushing a greater pile of debt. Capitalism always learns post-factum and to its cost that recessions are not optional. They are as integral as the period of expansion itself.

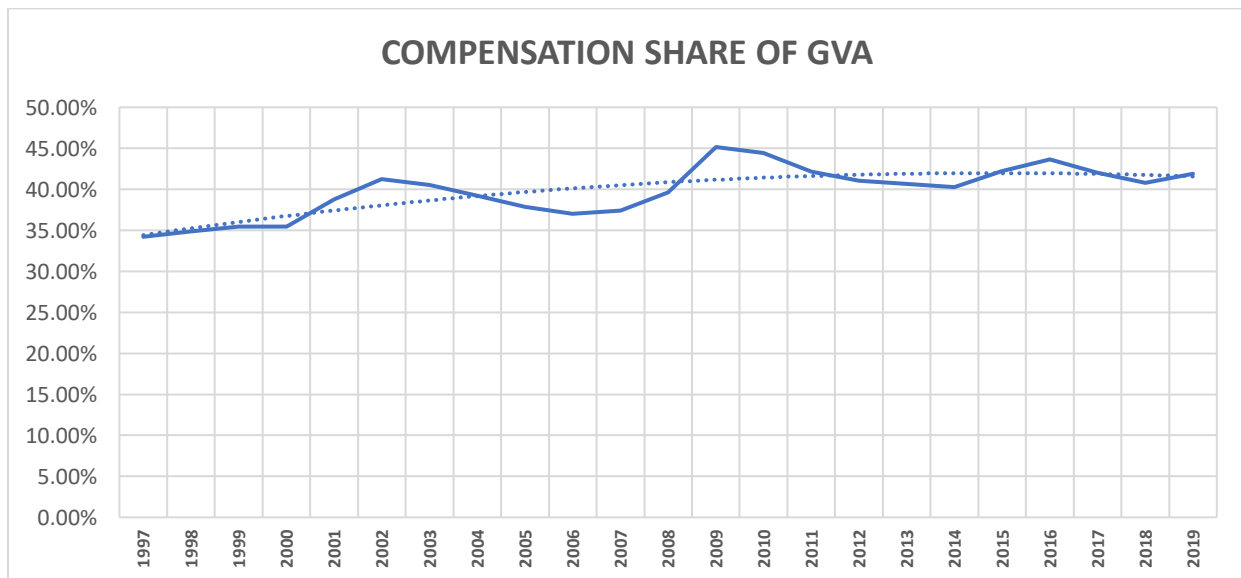
However, it can also be said that perhaps the capitalist class has a premonition of its own mortality. It is conscious that it is a tiny minority in society, literally a speck amongst the urban working class. It worries that a recession will unleash social unrest which it cannot control. Thus, recessions are to be avoided even if this means buying time at the expense of deepening the eventual economic reckoning.

The events around Congress, itself not a huge assembly of protestors, but one whose numbers were compensated for by a racist police hierarchy, nevertheless shows the ground the left needs to make up. Many of these protestors were workers angry at the establishment but hoodwinked by a member of the establishment who claimed to be on their side. Despite it all, the age of populism is drawing to a close. Populism was neo-liberalism's last gasp dressed up as its opposite. Capitalism will try and veer back to reformism in order to co-opt the working class. Biden may not be Trump, but he remains an enemy of the working class in the USA and abroad. His purpose will be to stifle working class opposition to capital in what will be the most eventful decade in the history of our species.

**Note 1.**

This graph shows compensation as a share of GVA. Gross Value Added is chosen rather than Net Value Added because it includes depreciation. I have written elsewhere that the miscasting of depreciation because of the capitalisation of Research and Development as well as in-house software has distorted profits in addition to intermediate sales and this is one of the reasons for the reduced accuracy of the turnover formula. Setting this aside, compensation is not the reason for the fall in profit margins as the graph below shows.

**Graph 11.**



Brian Green, 7<sup>th</sup> January 2021.