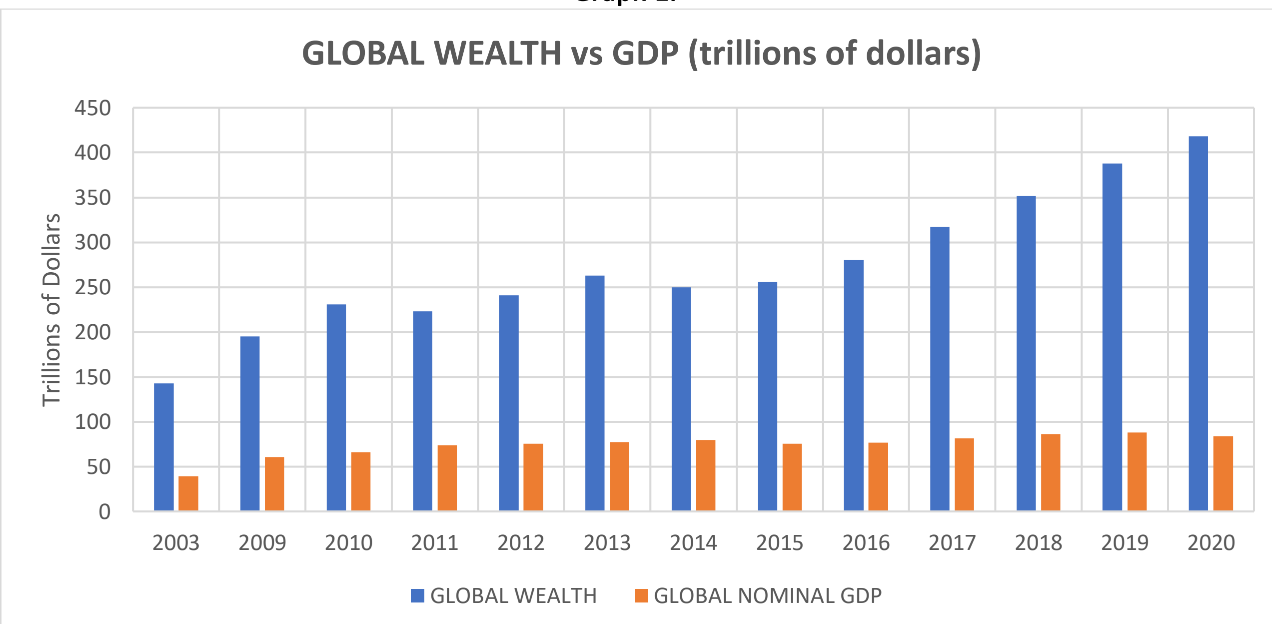
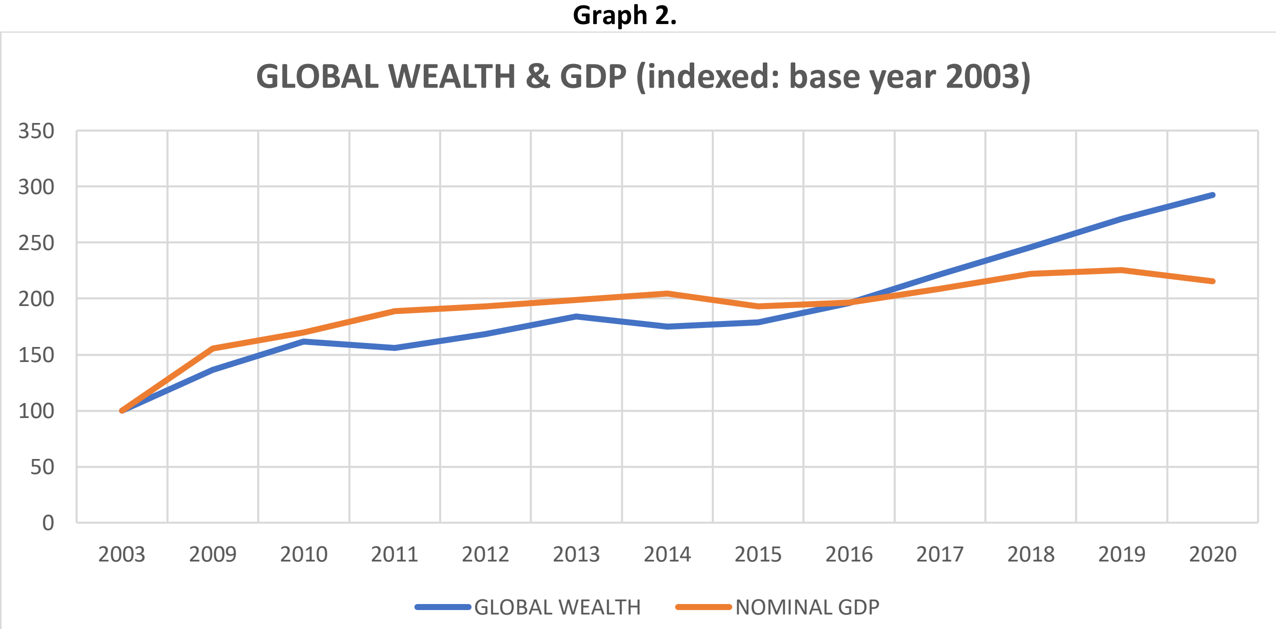
THE GROWTH OF FICTITIOUS CAPITAL RELATIVE TO NOMINAL GDP using data from the Credit Suisse Yearbook

The valuable data provided by this bank's yearbook on Global Wealth is usually used to plot the rise in inequality. This brief article seeks to do something different. It looks at the rise of fictitious capital relative to nominal GDP. It shows the effect of easy money on the prices of shares, bonds and properties. By default, it also shows a world at high risk from a severe correction. Data on GDP, World Bank. https://www.credit-suisse.com/uk/en/articles/media-releases/global-wealth-report-2021-202106.tag*article-topic--latest_news.html The graphs appear first, the commentary follows.

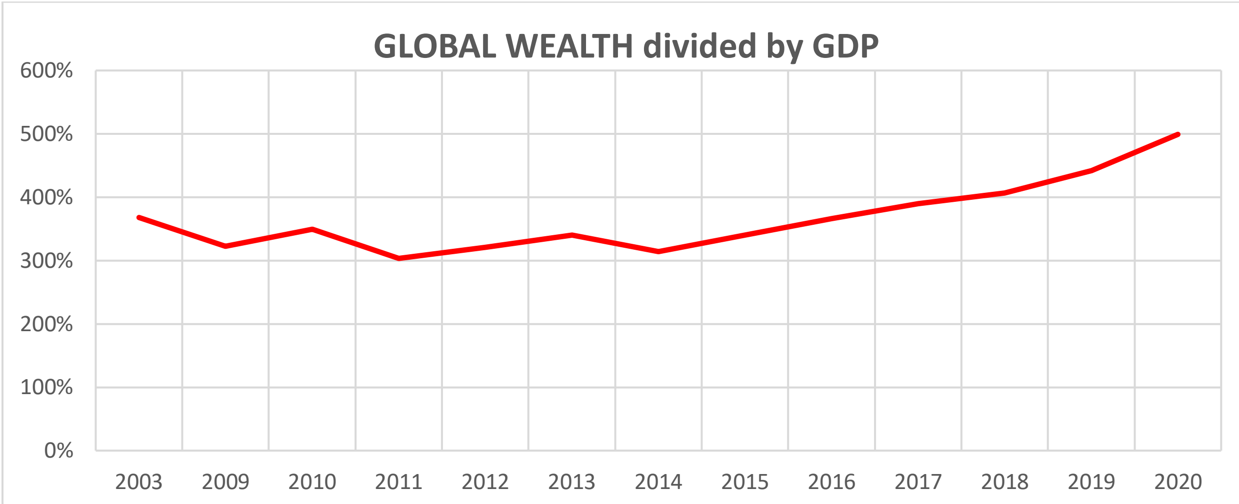
Graph 1.



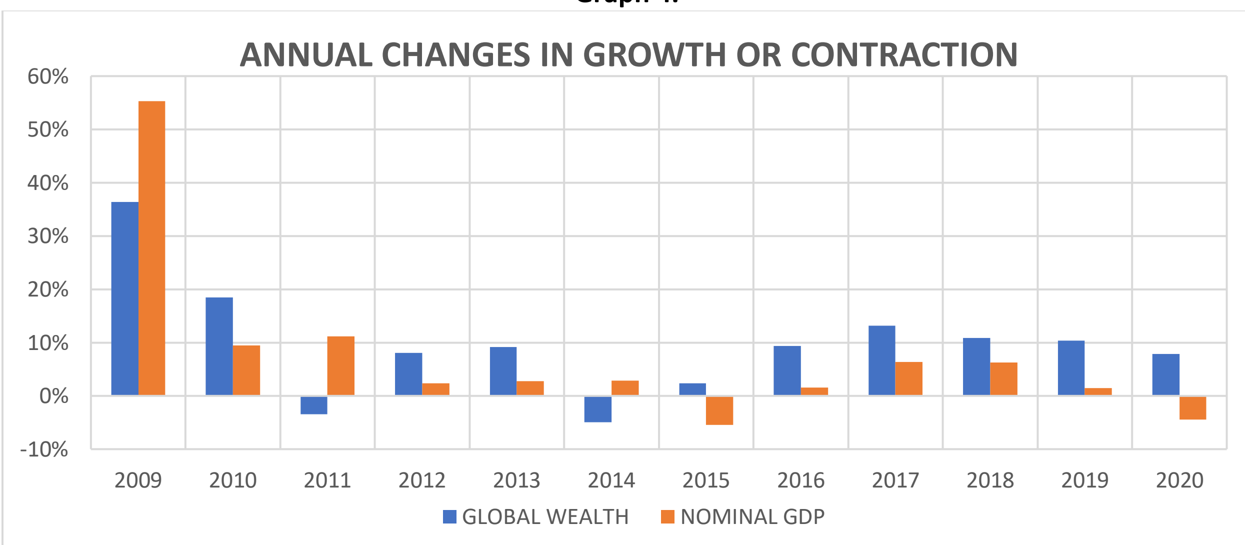
Graph 2.



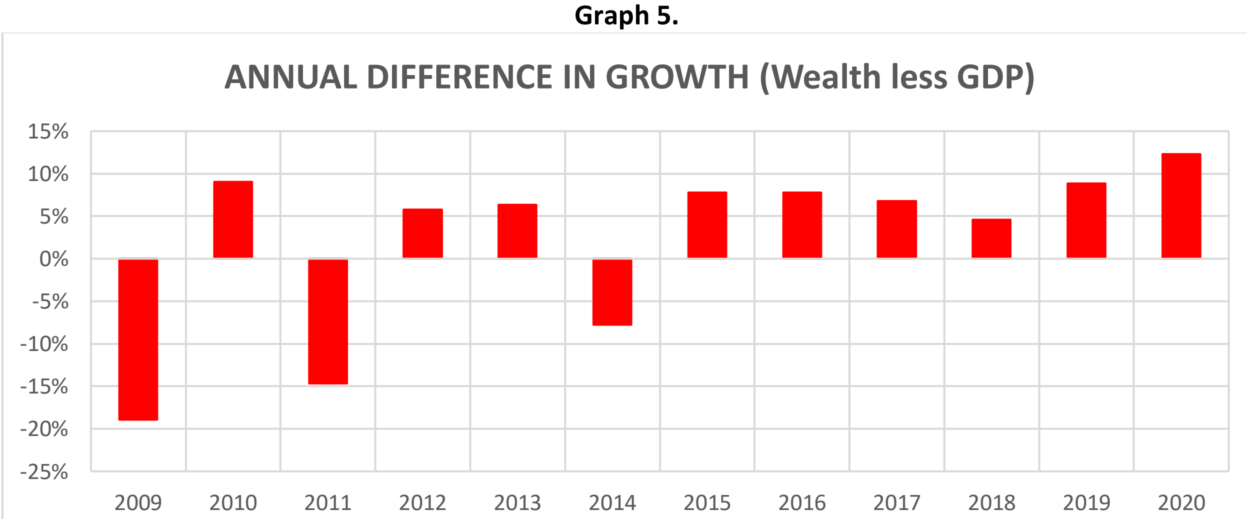
Graph 3.



Graph 4.



Graph 5.



Commentary.

The earliest data I was able to find was 2003. The next year found was 2009 from which time the series is continuous. All data is in nominal dollars, thus both GDP and Global Wealth is affected by movements in the exchange rate of the dollar. Fortunately because both GDP and Wealth are affected proportionately this does not affect their relative movements. (Global Wealth is estimated by Credit Suisse through deducting debts from total household wealth.)

Graph 1 shows by how much Wealth and GDP have grown nominally. Global wealth reach $418.3 trillion in 2020 compared to World Bank based nominal GDP at $83.8 trillion. Between 2003 and 2020 wealth grew by 293% vs GDP growth of 215%. These respective growth rates can be clearly seen in Graph 3.

The most important observation is the split in the ratios between 2003 and 2014 and between 2014 and 2020. In the first period there is a contraction of 3% (Graph 3) with GDP growth exceeding Global Wealth. This contraction is a legacy of the financial crash which wiped out trillions in fictitious capital and which continued to depress 2013. However in the second part, post-2014, there is a reversal in relative growth rates. Global wealth growth exceeds that of GDP by 59%.

2014 is most significant. It represented the peak in the rate of profit. Since 2014 the global rate of profit has fallen consistently driven mainly by falls in the USA and China. And yet global wealth has increased at its fastest rate in the series. Clearly this wealth has not been the product of profitability, instead it has been the product of easy money policies by the major central banks which have driven up share prices, bond prices and property prices.

To fall from its elevated current rate of 499% (Wealth divided by GDP) back to its longer-term average of 350%, household wealth needs to fall by 30%. This would amount to $125 trillion or 18 months of global GDP. It will dwarf the losses exacted by the pandemic. This is a stunning reversal and of a size that will concuss the capitalist class. And it will happen.

Brian Green, 24th June 2021.