

THE UK RATE OF PROFIT FROM BLAIR TO JOHNSON. (Or the 127 Drive Again.)

Restructuring an economy in the tailwind of a pandemic is never a good idea. Promoting higher wages in an unprofitable economy is never a good idea for capital. Doing them together is disastrous. This article analyses the underlying profitability of the UK economy.

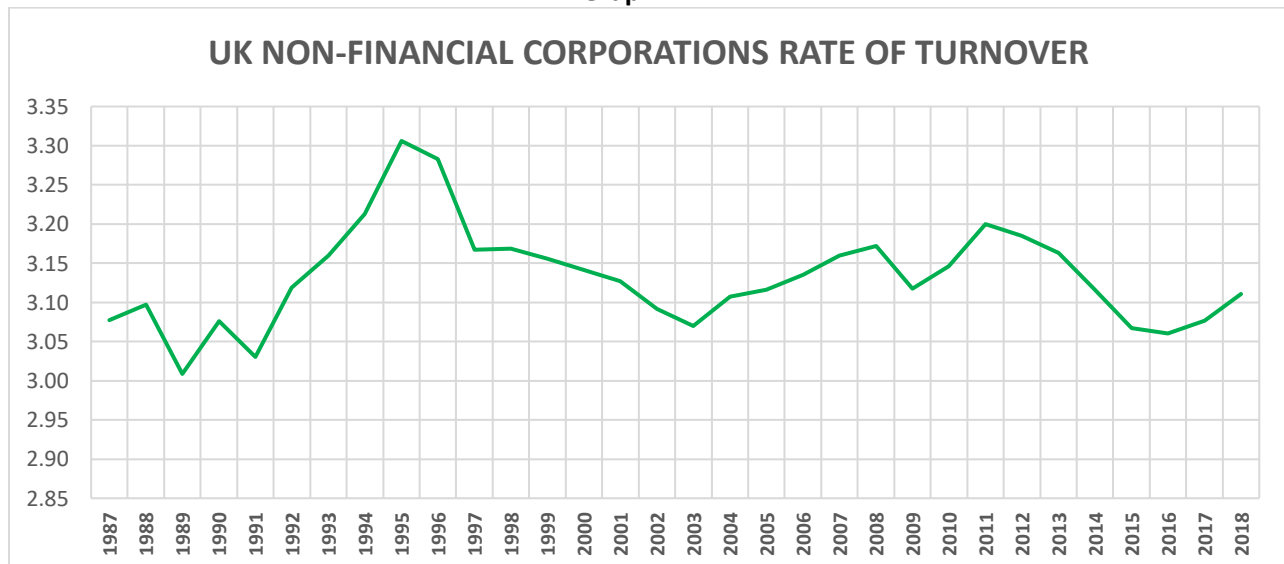
The Brexiteers claim that the current problems besetting the economy are the growing pains of Brexit which will soon turn into a growth spurt. They bemoan the pre-Brexit economy beset by low wages and low productivity. They have challenged the capitalist class to invest, invest, invest.

They attribute the malaise of the economy to the effect of being in the EU. To having their hands tied. But in effect Britain is part of the world-wide capitalist malaise caused by that peculiarly capitalist bacteria *M.leprae* and *M. Lepromatosis* which attacks investment and is transmitted by the falling rate of profit. All around the world the rate of profit has sagged, and being the heart rate of capital, this arrhythmia has dire consequences.

In trawling through the tables produced by the Office for National Statistics I came across a series of spreadsheets which enabled the preparation of annual rates of turnover as well as rates of profit. These spreadsheets are attached to this post ('UK GO & GVA Table 3.1.1') All calculations are found in Table 3.1.1 and all the data applies to Private Non-Financial Corporations. At 55% of GDP in 2018, these corporations occupy a larger share of the economy than that found in the USA which is around 48%.

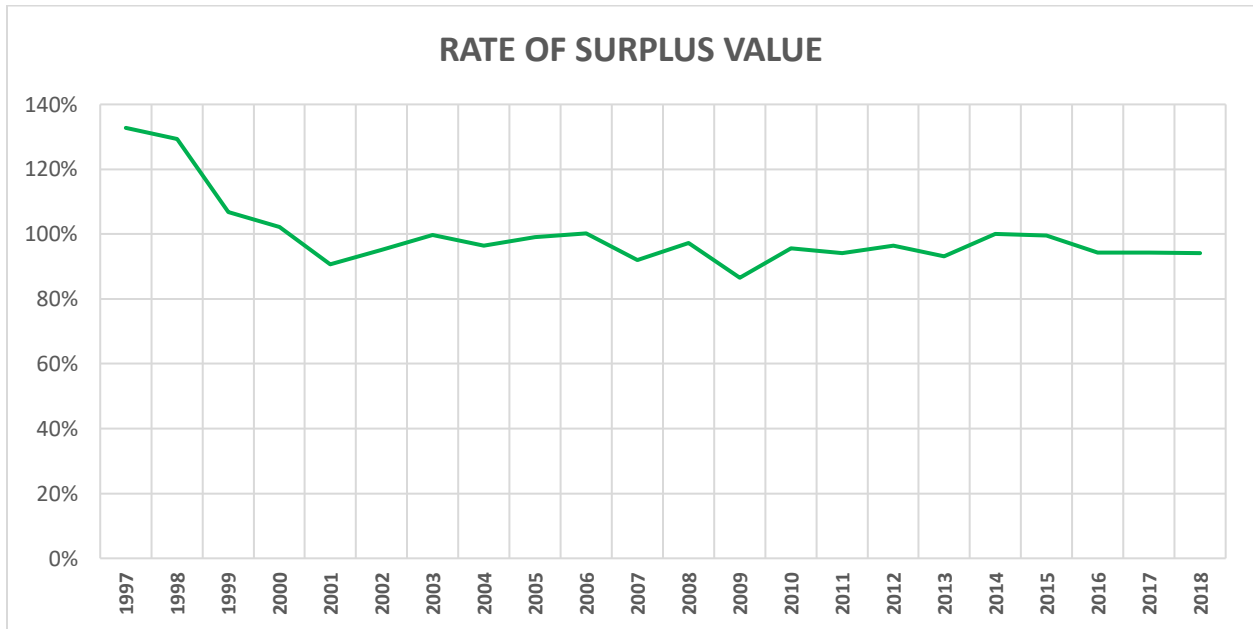
In addition, Table 3.1.1 unlike the NIPA Table 1.14 provides Gross Output. Therefore it is possible to estimate the annual rate of turnover directly. The annual rate is found in Graph 1. It shows a different profile to that found in the USA. In the UK the rate peaked in 1995-6 when the rate of profit also peaked. They are connected. In conjunction with the USA it rose between 2003 and 2008. In the USA while the rate revived from 2008 to peak in 2014 in the UK it peaked earlier. Finally, in the UK the rate of turnover rose into 2018 which may have something to do with Brexit, though more research is needed.

Graph 1.

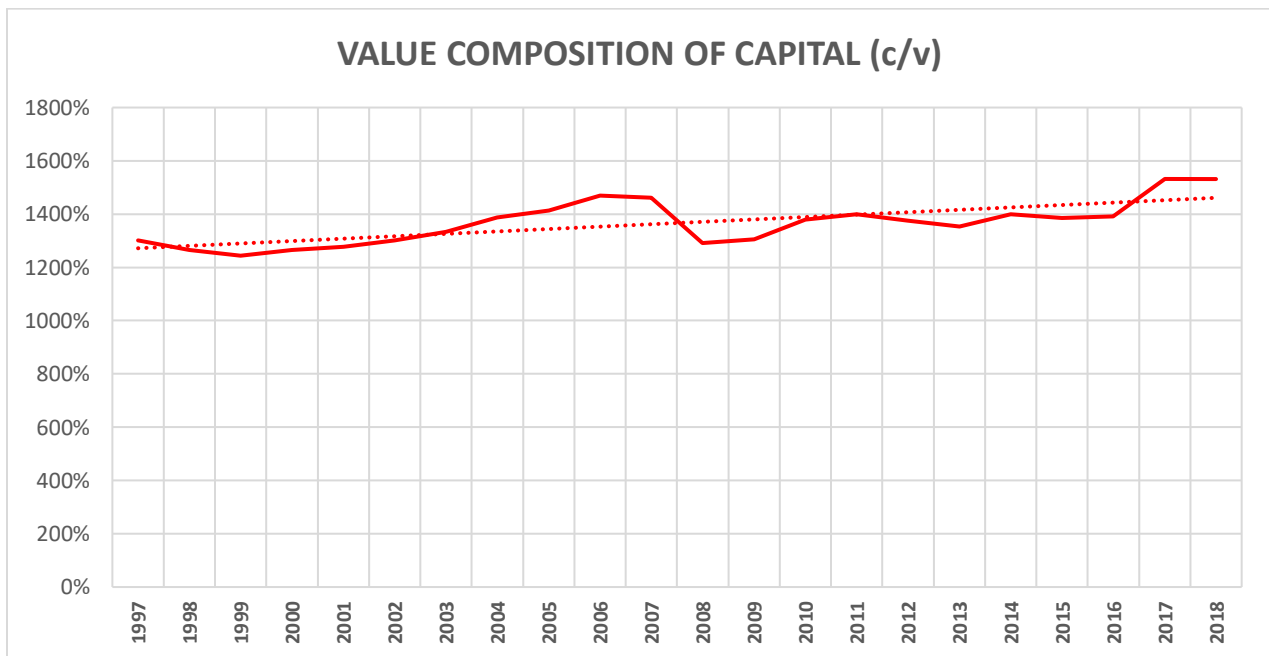


Next we turn to the rate of surplus value. Unusually, having fallen from its peak in the mid-90s, it has flatlined for the last 20 years. Perhaps the Tories have a point. Clearly this is a product of the flatlining of productivity in the UK economy. This is confirmed by Graph 3 which shows that the ratio of means of production to workers in their respective value forms has risen by an average of three quarters of a percent a year. A really torpid rate.

Graph 2.



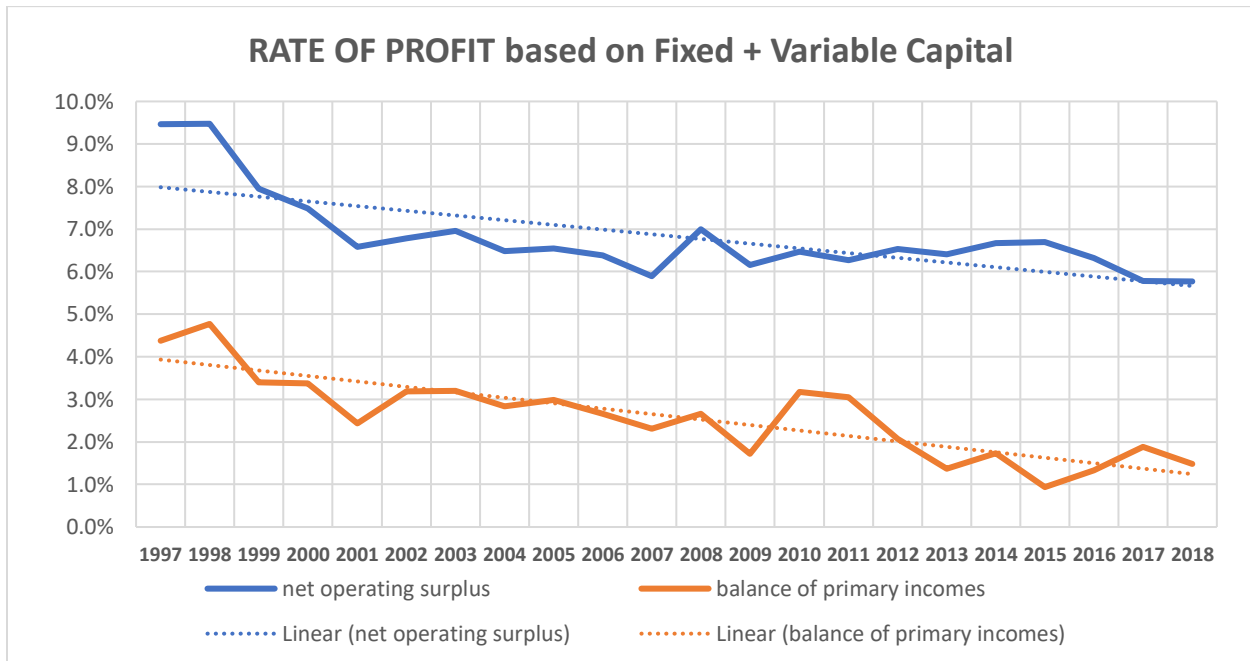
Graph 3.



In this article, the use of the above Tables precludes the use of circulating capital in determining profitability. The reason for this is that the non-financial assets taken from Table 3.3.11 includes inventories. Inventories are a large component of circulating capital. The Tables do not provide the means to adjust for inventory, so circulating capital cannot be added to these assets to form the denominator.

Given the sedate changes in the rate of surplus value and the composition of capital, indicative of an economy that has lost its dynamism, like a dancer tapping the dance floor with his or her shoe waiting for the music, we can expect to find a rate of profit moving in a tight range.

Graph 4.

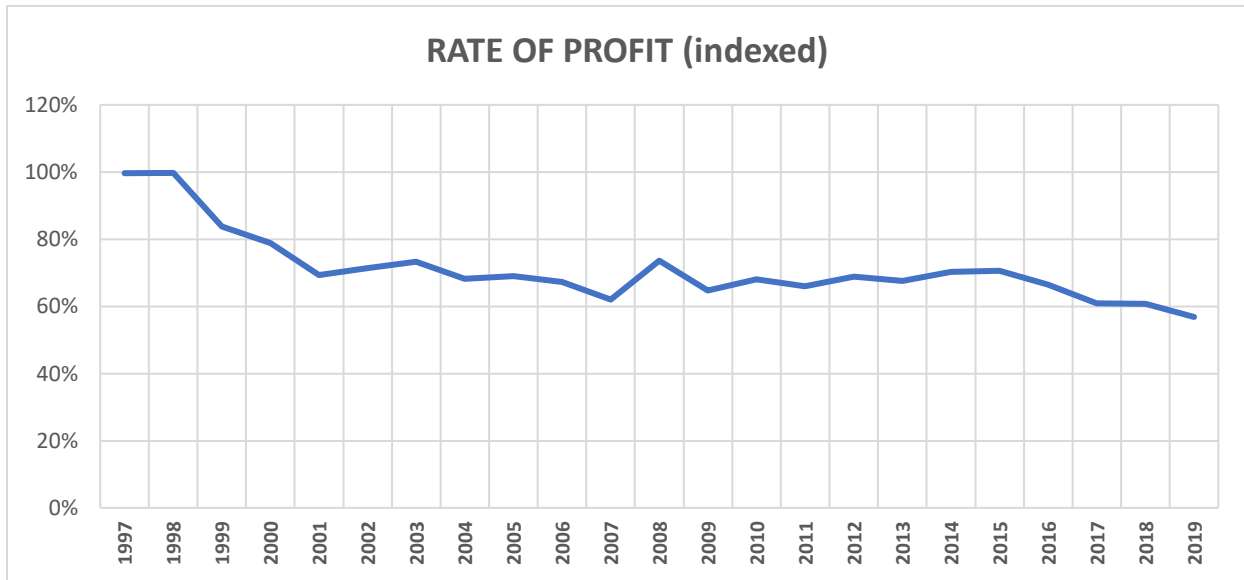


And that is what we find. This century, with few exceptions, the rate of profit has tracked between 6% & 7%. Unlike the USA it appears that Britain did not benefit from globalisation at least outside the financial sphere. In the USA which did benefit, the rate of profit both in 2007 and 2014 rose back to the levels found in the mid-1990s. Not so in the UK as the indexed graph below shows. The two mini peaks in 2008 and 2015 were at least a quarter down on the 1997 figure.

The profitability figure for 2019 which is not found here, but can be estimated from other Tables, is 5.4%. This puts it proximate to the figure found in the USA in 2019. Thus before the UK entered the pandemic, the rate of profit had fallen sharply to stand 20% below the last mini peak in 2015. Post tax profits before dividends, would have been around 4.4% which when compared to average borrowing rates of between 2.5% – 3.0% (cost of capital) leaves a wafer thin, investment discouraging, margin.

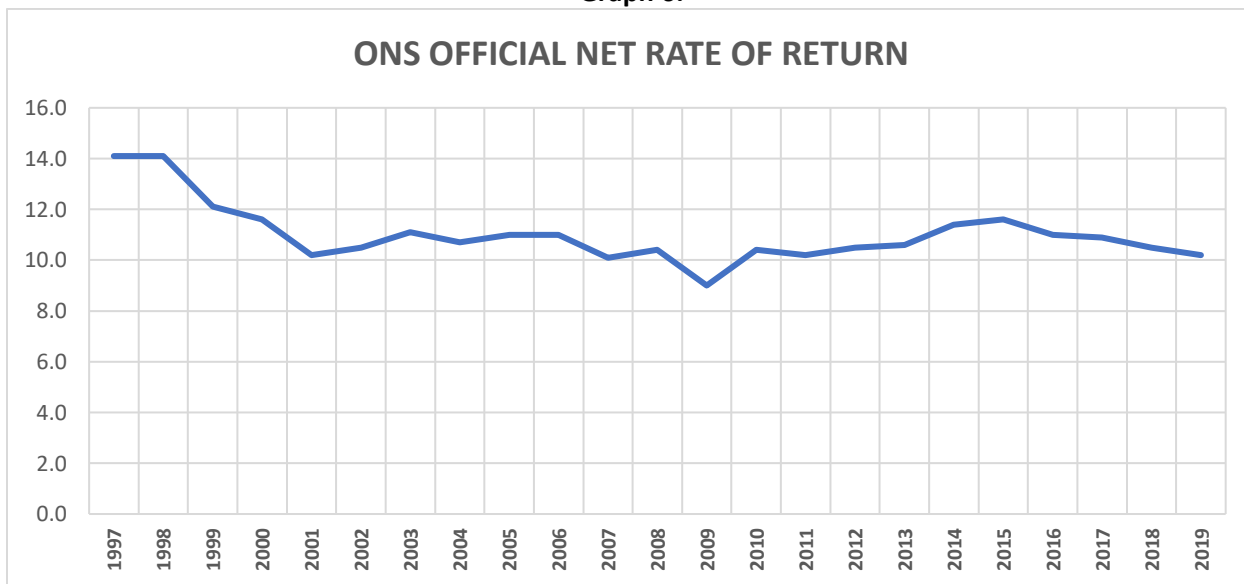
I have included the rate of profit with the balance of primary incomes replacing the net operating surplus. This rate is preferred by Central Banks as it is the free money left over after total outgoings are deducted from total incomings originating both in production and from investment, both nationally and abroad. This figure includes dividends paid on the outgoing side. It is not a Marxist metric but useful as it gives an idea of the capacity of these corporations to fund additional investment. In the timespan of this series that capacity has fallen by three quarters.

Graph 5.



The final graph, Graph 7 below is the official ONS 'rate of return' for comparison purposes.

Graph 6.

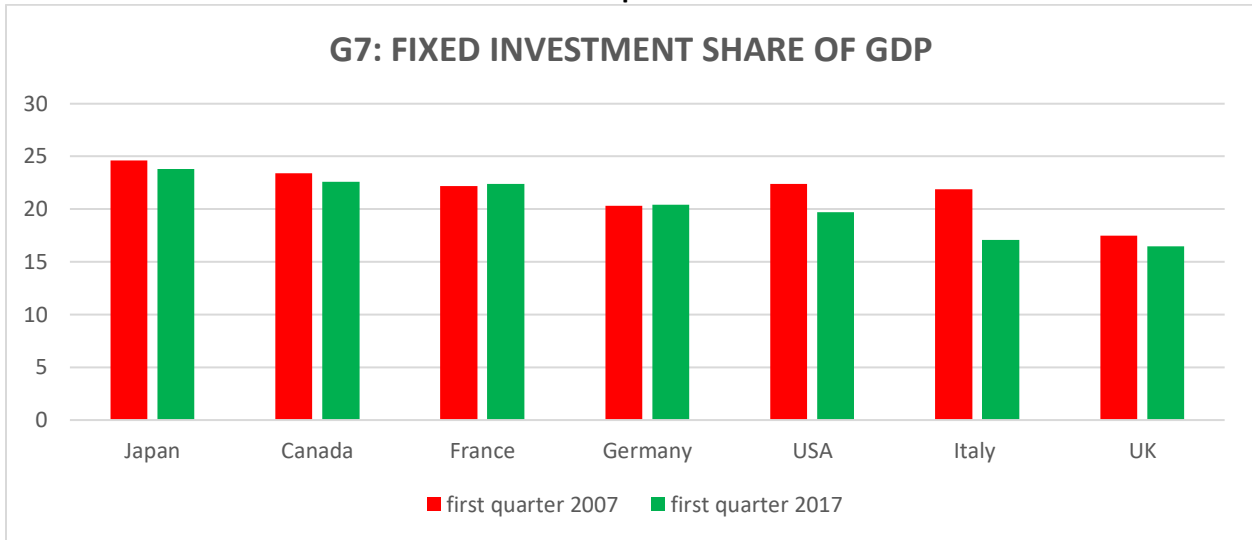


Annual Rates of Return of Private Non-Financial Corporations¹ - Summary²

The ONS rate of return is higher because it excludes inventory and variable capital. Where discrepancies arise, this is due to non-financial private corporate assets containing non-produced assets though they are not significant. To find the list of assets under non-financial private corporate assets, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/compendium/unitedkingdomnationalaccountsthebluebook/2017/nationalbalancesheet>

Low rates of profit are always associated with low annual rates of investment and the UK is no exception. Britain had and continues to have the lowest rates of investment of all G7 countries.

Graph 7.



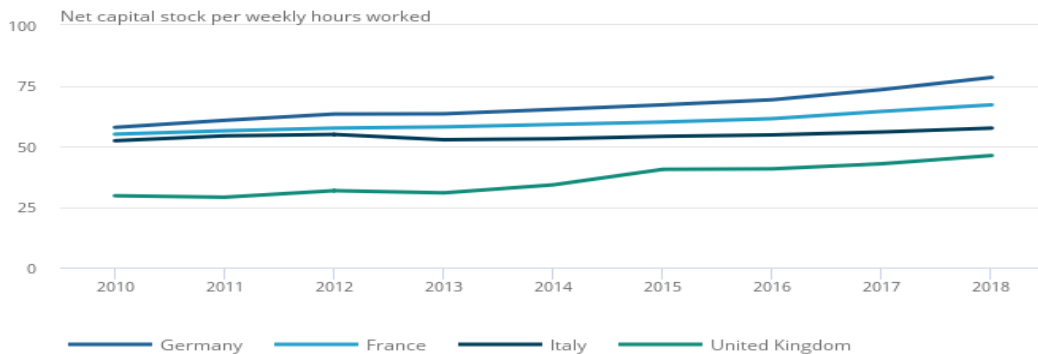
The UK's rate of investment is somewhat flattered by relatively higher rates of investment in structures given they are more expensive to build here than elsewhere, in part because of ground rent. Stripping this away reveals that the actual investment in machinery is stagnant. "The net capital stock of machinery, equipment and weapons systems demonstrated modest annual average growth of 0.1% from £609 billion in 2010 to £615 billion in 2019" according to the ONS.

This is further reflected in the technical composition of capital where the amount of capital invested per value added each hour is lowest in the UK. Although the ONS says the gap is closing that is only with Italy.

Graph 8.

Figure 6: The gap between capital per hour worked in the UK compared with other countries is closing in manufacturing

Net capital stock per weekly hours worked in the manufacturing industry in Europe, current prices, 2010 to 2018



Source: Eurostat

<https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/aninternationalcomparisonofgrossfixedcapitalformation/2017-11-02>

Discussion.

Johnson and Sunak have collectively said that UK employers have become drunk on cheap labour. They should choose their words, not only more carefully, but knowledgeably. The cost structure of net output (v+s) or Net Value Added shows compensation is a larger component of NVA here than is found in other major economies. It shows that compensation has risen to around three quarters of NVA this century despite the UK's status as a low wage economy.

Graph 9.

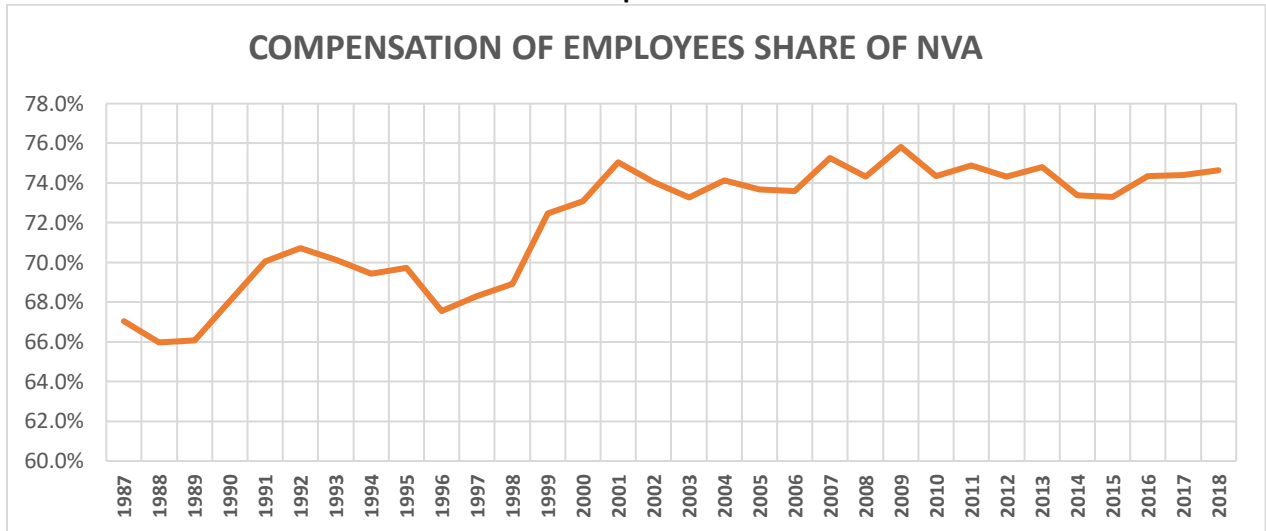


Table 3.3.3

However, before the unfamiliar jump to the wrong conclusions, this jump was not due to a rise in take home pay, but to a rise in National Insurance Contributions beginning with the Blair government, the very tax the chancellor is going to raise next year. In fact the trend line for wages between 1987 and 2018, has been stuck between 63% and 64% of NVA for the entire period despite annual fluctuations.

Graph 10.

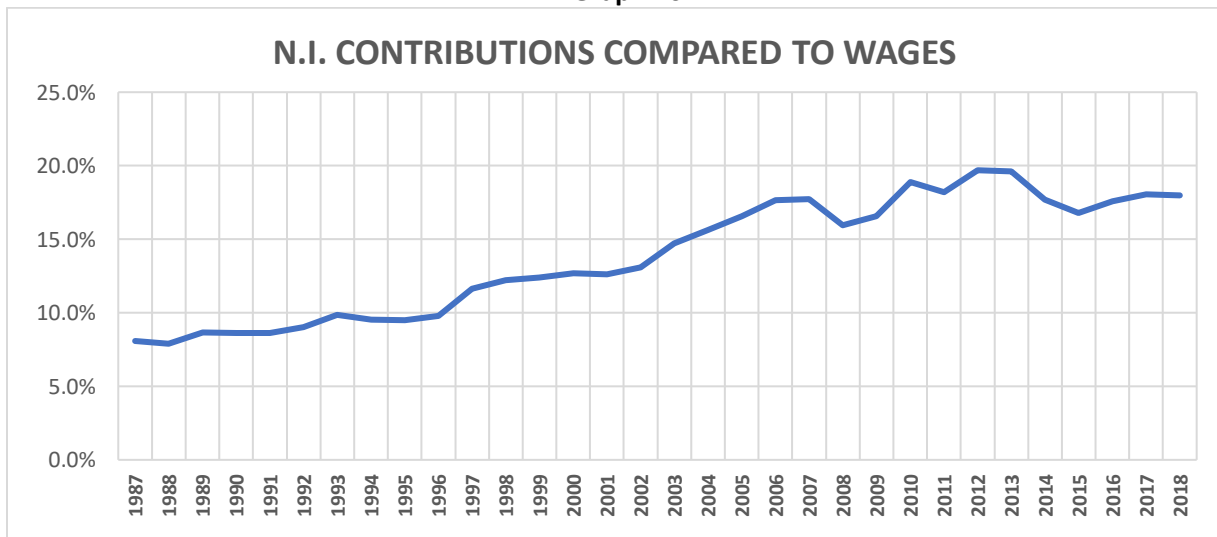


Table 3.3.3

A combination of pay and tax rises will thus be devastating for the rate of profit which is already inadequate to spark investment. And this will be on top of higher input costs resulting from disruptions to the global supply chain and Brexit. Far from the emergence of a higher productivity, higher pay, lower tax economy emerging, the current pressures on profit margins are overwhelming, and this represents an insurmountable barrier unrecognised by this demagog.

It is not unheard of for governments to shake up business and the financial world. We need look no further back than the 1980s to Reagan, Thatcher and Volcker. But what Johnson is doing is not in the longer-term interest of British capital though he claims it is. The capitalists must be gnashing their teeth at Johnson's behaviour. One cannot transform a low wage economy into a high wage economy without crashing the economy in the process. Single-handedly he has alienated those at the top of society and those at the bottom. He diverts attention away from his mishandling of the economy due to his lack of foresight, by saying he is the first prime minister to embrace the big decisions. And he blames everyone else for the intensification of the problems, which while not unique to Britain, are of a higher order here.

His self-congratulatory speech to his Conference audienced by the adoring mediocrity, was appalling. In 50 minutes he re-wrote history in his own image. Instead of the good, the bad and the ugly it was the good, the better and the best. Reality was not allowed to intrude. No honest accounting of how his government mishandled the pandemic resulting in the third highest per capita deathrate amongst the richer countries. No honest accounting as to why Britain had the deepest contraction in its economy of all the major economies. On the day the DWP forced their most savage cut in benefits onto the neediest, he had the gall to speak about levelling up. At a time when the NHS is underfunded and its staff underpaid, facing escalating inflation and additional taxes, he had the gall to praise their efforts during the pandemic. And his audience lapped it up like champagne on a sunny cloudless day.

He personifies a party which is increasingly out of touch with reality. Many delegates in Manchester say they no longer recognise their party. If the Tory Conference has not been riven by conflict that is only because it is so highly stage managed. And yet perhaps there was a hint that all was not well. Cabinet speaker after cabinet speaker were drowned out by the hubbub going on in the common areas which echoed in the tent where they were speaking. It seems the real debates may have been taking place away from the formal areas.

Johnson may claim to be speaking for workers when his vision sets out higher wages. But history teaches us that whenever there is a general rise in wages, which squeezes profit margins, capitalists invest in labour saving technology or they export jobs. To see this in action we should view warehousing rather than transport which has had such a bad press, the difference being that warehousing has gone driverless whereas the roads are still too complex and dangerous for driverless trucks. Take Ocado, since 2018 there is hardly a worker to be seen in their new warehouses where pallet trucks, stackers and pickers have been fully automated. This is the vision of the future where wages may go up, but jobs will go down. This is the experience of the USA where it is automation, rather than Trump's China, which is mainly responsible for the loss of jobs since the 1980s. <https://www.sciencetimes.com/articles/30881/20210427/fleet-3-000-robots-working-ocados-automated-warehouse-making-online.htm> (Alas, highly automated warehouses with all that electronics do tend to catch fire more easily.)

It could even be the case that capitalists like Lord Woolf of *Next* who supported Brexit are having second thoughts as the barriers to immigration and goods, results in unexpected consequences. Profit maximisation, and the promise of lower personal taxes always clouds thinking and judging the future.

Conclusion.

If one were to reach for an analogy about Johnson's tenure as P.M., this one would fit. Johnson has thrown away his umbrella in the middle of a thunderstorm (his Brexit deal) but this has not dissuaded him from changing his clothes in the pelting rain. Having taken off his old clothes (low waged reliant on immigration) he reaches for his new clothes only to find they have not yet been stitched together (slogans instead of planning). Is that blue light in the distance an ambulance or lightning? Johnson may dismiss the pain he is putting the country through as mere teething problems, but in the end we need to ensure it is Johnson who will be gumming his food.

Brian Green, 6th October 2021.