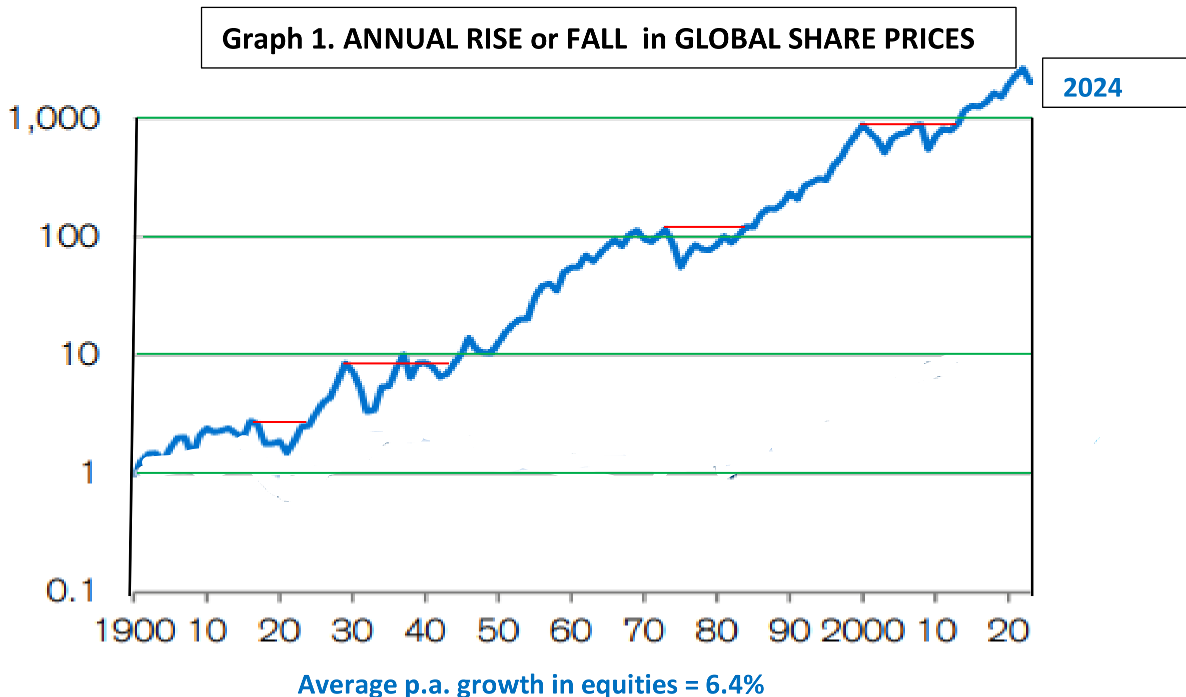
ANALYSIS OF THE CREDIT SUISSE GLOBAL INVESTMENT YEARBOOK 2023.

Bank Credit Suisse to its credit provides valuable global and historical data. Its two outstanding Yearbooks are its Global Wealth Report and its Global Investment Returns Report linked here: Credit Suisse Global Investment Returns Yearbook 2023 Summary Edition & Press Release The Yearbook covers the period from 1900 to the present day which provides a long term perspective yielding valuable insights into the changing face of capitalism globally and that of imperialism.

In this article I will be looking at Long Waves inspired by this Yearbook and Michael Roberts review of Professor Jason Hecht's paper entitled: *Are long waves 50 years? Re-examining and updating economic and financial long wave periodicities in Kondratieff and Schumpeter*. I have two concerns about long waves. Firstly, the metrics used seem to include everything but the movement of profits. Secondly Professor Hecht confirms the length of the cycle to be fixed at fifty years. As capitalism develops technically it kinda speeds up history, so I would not expect consistent cycles, but cycles which decline in length over time.

This throws the theory into question. That there are cycles, there can be no doubt. Otherwise the bourgeoisie would not be obsessed with the spectre of "*boom bust*". The business or industrial cycle as Marx categorised it, or the inventory cycle as the FED categorises it, is a definite visible cycle ranging from 7 to 10 years. However, arching over this is a structural cycle of longer duration often described as a wave or more recently as a secular movement which is the subject of this article.

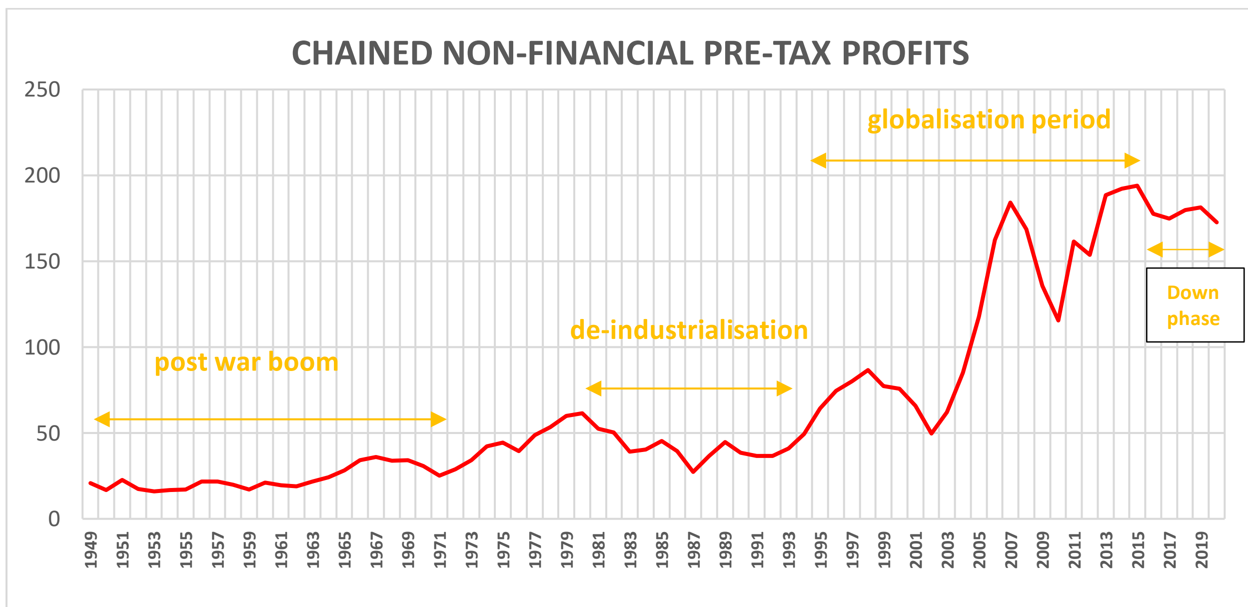


I examined the data provided by *Credit Suisse* which covers over 120 years from 1900 using annual increases or decreases in share prices to determine whether or not there is a pattern. I have redrawn a graph found in the Yearbook as original graphs need permission to be reproduced. I will also test whether or not share prices can act as a proxy for movements in profit itself which will illuminate issues that go beyond the investigation of long waves.

But before proceeding to do that, it is clear that share price movements are acting as a barometer for these longer period waves, although I would question if the shape is indeed a wave form. In the 120 years there are 4 periods of downturns marked by the red lines. In each case the red lines must extend beyond two years thus ignoring the shorter zigzags associated with the business cycle. These red lines link the previous peak in share prices to the point in the new upturn which has subsequently risen above the previous peak. This gives a periodicity of 30 years rather than the 50 years though Professor Hecht's examination covers many more years than the 120 being investigated here.

What then of the movement of profits itself. The profits below are inflation adjusted pre-tax profits produced in the non-financial corporate sector as found in NIPA Table 1.14. I have attached a spreadsheet with all the data and calculations.

Graph 2.



Paradoxically the movement in profits shows a less clear picture compared to the movement of share prices. There are 3 periods identifiable. The post war boom which many hold ended with the global recession in 1973 or on the basis of the mass of profits it ended in 1979. Then there was a profit trough from 1980 to 1995 before the mass of profits recovered back to 1979 levels. And this was followed by the period of globalisation which ended in 2015 (or 2016 when we take into account developing countries other than China). Taken together the first two periods ending in 1995 do add up to almost 50 years. The third period adds up to 20 years which is shorter than the post war boom. But that is not a problem because it is expected to be shorter as technical accumulations speed up history.

Time to sum up the difference between the picture painted by share capitalisations and profits. The former is more descriptive, while the latter is more predictive. The difference being that share capitalisation is complex which includes factors other than profits. However, for our purposes, the predictive quality of profits is the more vital currently. Of course it can be argued that the mass of profits is not the rate of profit. However, the mass of profits does stand on its own feet, because as long as it is rising, the rate of profit, if falling, is only falling relatively. For it to fall absolutely the mass of profits must fall, and it is the absolute fall in the rate of profit that is the trigger for recessions, not the relative fall.

According to the above analysis we are now heading for the down phase, which in turn will be shorter but much sharper. Clearly it was interrupted by COVID monetary assistances pumped into the economy but it is re-asserting itself once more. However, there is one new and powerful factor which was absent in the past, violent weather related down drafts. This means this down phase could turn into a monster. The next three summers together with the heat they will bring, is going to raise cost prices significantly eating into profit margins that are already being squeezed.

Interestingly enough, those Marxists who hold onto the traditional long wave theory based on a wide range of metrics other than profits seem to have turned the world on its head. Here is an extract from Michael Roberts article linked above. *"While Shaikh and I reckoned this downphase would end in 2018 at the latest, Tsoulfidis and Tsaliki reckon the current cycle downphase would last until 2025 – and they seem to be right."* I would point them to the picture of profits this century (Graph 2) which are double that of the 1990s and triple that of the 1980s. This new downturn which began a few years before 2018, catalysed by a fracturing global economy, will see profits plunge to their lowest level this century, below 2008, despite all the hype about synthetic chemistry, tailor made medicine, artificial intelligence (whatever that is), quantum computing (whatever that is), the fourth industrial revolution, nuclear fusion and so on.

Examining the association between share prices and profits.

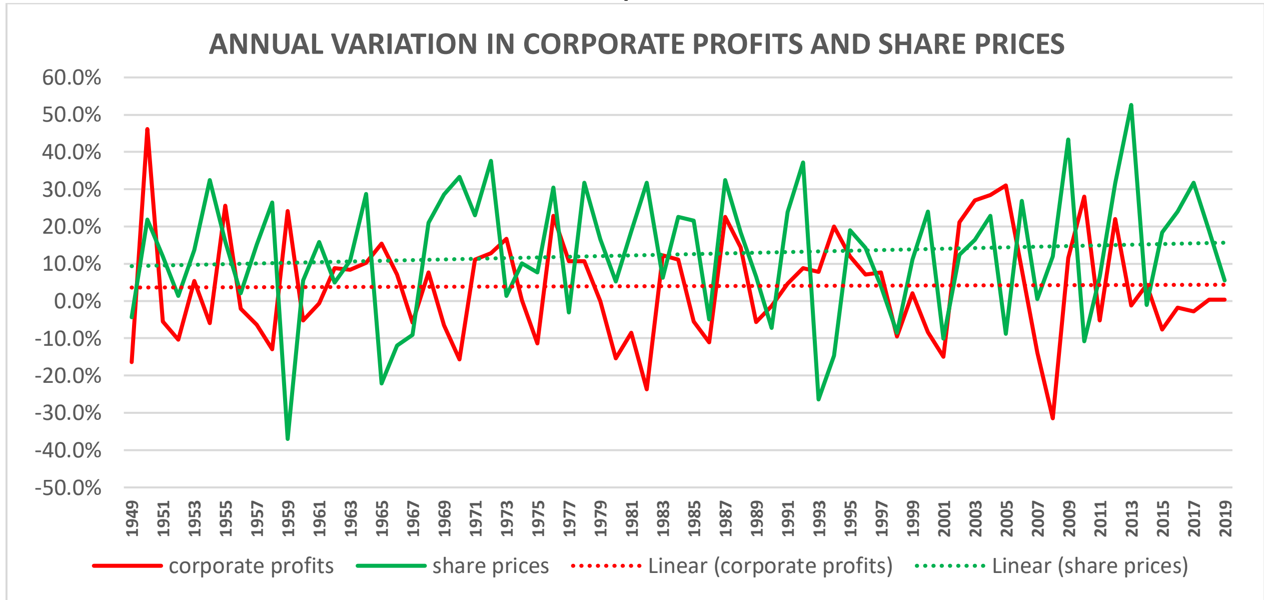
In Graph 1 we noted the average capital gain in shares since 1900 has been 6.4%. In the attached spreadsheet the annual inflation adjusted rate of increase in non-financial corporate profits from 1948 in the USA is 5.1%. This coverage at 74 years is 60% of the 120 years covered by the year book. This represents a 20% difference compared to the increase in equities. (The real return in equities for the S&P 500 going back to 1957 is 6.2%, not dissimilar to the 6.4% figure quoted above.)

This shortfall is predictable because of the issue of dividends and share buy backs which when reinvested boosts share prices ensuring they grow ahead of profit growth. Looked at separately, the dividend return compared to the price return per year averages 20%. This begins to explain the gap. The Yearbook's data thus includes an element of reinvestment of previous dividends and latterly share buy-backs. Companies paid out $3.8 trillion in dividends in the period from 2010 to 2019 vs $5.3 trillion in share or stock buy backs. And if every cent or penny from dividends were reinvested, then beginning in 1950 89% of the capital gains in share prices would have originated from this source.

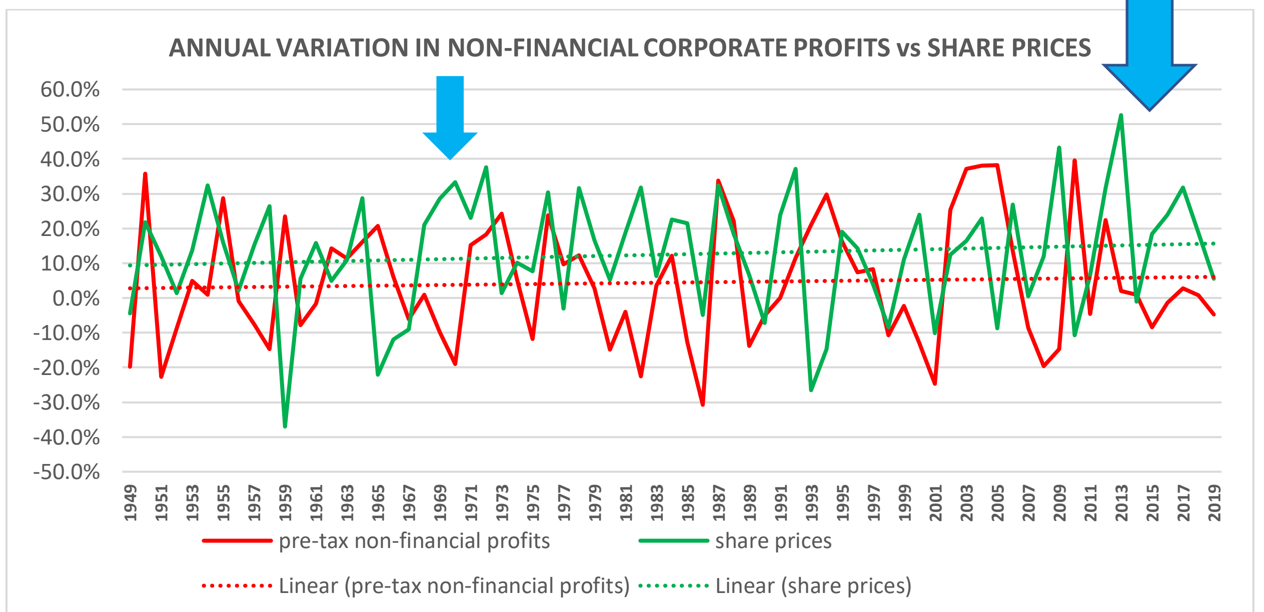
Thus taking the Credit Suisse data over 120 years there is a reversion to mean. Annual share gains adjusted for dividends lies within 10% of profits averaged out. This has implications for those who make a meal out of financialisation and speculation. Like Case Schiller and his Q there is a tendency over the long run for share prices to track profits. Of course, as we are about to see in the graphs below, this may not hold over the shorter run.

I have prepared two graphs to match the growth or decline of profits and share prices. I used both the total corporate and non-financial corporate sectors. The results are interesting. It shows that there is discordance between share gains and profit gains and vice versa. This shows there are other factors at play particularly interest rates. Thus in the short term there are counter-vailing factors. In the case of the USA, the recent secular wave of low interest rates especially during the period of Quantitative Easing has unleashed so large a speculative wave that it has affected the long-term inter-relationship between profits and shares. This can be seen by examining the linear trends found in both graphs. In both cases the linear graph for share prices rises faster than for profits. (Share prices are derived from the S&P 500 index.)

Graph 3.



Graph 5.



Sources: Slickcharts.com for the graphs above plus Table 1.14)

The two light blue arrows point to periods when profits and share prices diverged. In both periods the rise in share prices was accompanied by a fall in profits. This implies other factors at work not only technological innovations. They include the issue of class struggle and the issue of the resolution of inter-imperialist rivalries. Thus the duration of the post war boom speaks loudly to the triumph of US imperialism. The resumption of stock price growth in the early 1980s speaks loudly to the Reaganite repression of the working class rather than innovation as strictly speaking the information-internet age matured only in the early 1990s. While the ongoing rise in share prices since 2015 speaks to the speculation induced by free money or what is the same thing interest rates that are zero in real terms.

Additionally, Graph 1 speaks to the convulsive growth of capitalism revolving around the rate of profit, the level of class struggle and inter-imperialist rivalries (more on this later). The saw tooth graph shows that capitalism is riddled with contradictions and antagonisms which have to be continuously overcome otherwise the system fails. It is a picture of interrupted growth rather than cyclical waves as the upturns always exceed the downturns both in duration and elevation, forming the shape of a angled J rather than a U.

The final “asset class” which Credit Suisse deals with is commodities both softs and hards, mainly oil and metals. Table 15 shows that the return on commodities was negative over this period despite the undulating prices of commodities during the business cycle. Again this is not a surprising despite the boost to demand from China this century. All it shows is that over this period, the price of these commodities fell more than general price levels, because the extractive industries lend themselves to mechanisation.

Inter-imperialist rivalries.

The Yearbook provides ample evidence of the rise and fall of imperialisms. Figure 2 provides an excellent graph to demonstrate this. The first pie chart based on share markets in 1899 locates the four biggest share bourses in the four major imperialisms at the heart of the First World War. London’s share was the biggest at 24%, compared to New York at 15%, Berlin at 13% and Paris at 11.2%. Together these four bourses made up 75% of all share caps globally.

The right hand pie chart which represents current values shows a dramatic change. The absolute domination of the USA is clear to see. At 58.4% of all global share values it dominates Japan at 6.3%, the UK at 4.1% and China at 3.7%. These three represent less than a quarter of the value of the US markets. Paradoxically this no longer reflects the size of their industrial economies because China’s is much larger than the USA. But share prices as we said above respond to profits. In 2022 China’s industrial profits compared to the US equivalent pre-tax profits (mining + utilities + construction + manufacturing) was $1.22 trillion vs $0.84 trillion for the USA. However, profits were much more centralised in the USA within private companies making super profits, and it was these factors which drove share prices in the USA.

It was not always thus. The USA did not dominate the world economy all the way through the post war period. “*Figure 3 shows that the US equity market overtook the UK early in the 20th century and has since been the world’s dominant market, apart from a short interval at the end of the 1980s, when Japan briefly became the world’s largest market. At its peak, at start-1989, Japan accounted for 40% of the world index, versus 29% for the USA.”* (page 11) Thus in the 1980s when Japanese industry dominated the world economy, examples being Toyota and Sony, the Tokyo share market at 40% of the global total, was the biggest in the world. Corresponding to this, the Japanese Banks in terms of assets, overtook the banks in the USA as well. What China has in common with Japan today is that as a result of its huge industries it

too has the world largest banks. The connection is not accidental. However, its share market is the anomaly due to much of this production taking place in state owned enterprises. The changing shares of global shares traded in the major bourses over this long period can be seen in Figure 3 in the *Yearbook*.

It is also worth turning back to Graph 2 and the period of de-industrialisation in the USA. That trough in profits was not only due to the write downs formed from scrapping plant and or bankruptcies, it was not only due to fewer US industrial workers producing profits, it was also due to competition from Japan. This was a time when Toyota, which twenty years earlier had been laughed at, having General Motors and Fords by the scruff of the neck. It was only through the *Plaza Accords* in 1985, when the USA used its slipping hold on the world economy and its military presence in Japan to wrench monetary policy out of the hands of the Bank of Japan, driving up the Yen, that the Japanese economic miracle was undone.

If anyone wants to understand the nature of the war in the Ukraine, review the current pie chart in Figure 2 where the USA's supreme domination of share markets is seen. A 58% market share is worth defending by all means possible. But the USA can only dominate through monopolising the means of technology. Those profits which prop up those share prices depends on the USA sewing up the commanding heights of the value chain. If China topples the USA from this perch, then no amount of dollars will cushion its fall. The USA knows this, the Chinese know this, the Japanese know this, the Germans know this, the British know this, the only ones who don't are the ones leading the main anti-war groups around the world. A restructuring of the world economy by China in which these countries no longer dominate or benefit as junior imperialist partners will cost them trillions in lost profits, for which they are willing to sacrifice millions of lives to preserve.

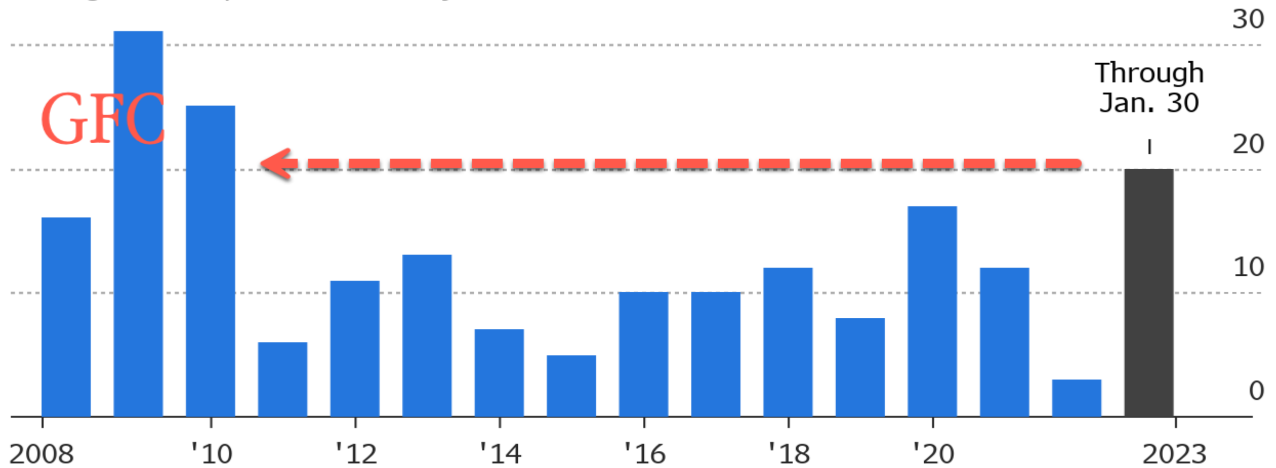
Now it begins.

Downturns are associated with, and accelerated by financial crises, which have been absent in the USA up to now despite huge losses. "*Global bonds lost 31 per cent in 2022, the worst annual performance for fixed income in data stretching back to 1900, Dr Mike Staunton and professors Elroy Dimson and Paul Marsh wrote in Credit Suisse's latest Global Investment Returns Yearbook."* In addition the much larger global share market lost 20% of its value equal to $14 trillion. Unusually both share and bond markets fell together. Usually when the stock market falls the bond market rises. This dual fall thus compounded the losses suffered by investors and speculators raising the spectre of insolvencies.

There are two counter-vailing factors. Firstly, cheap money allowed corporations and borrowers to bulk up on finances and to roll-over or extend the maturity of their debts. Secondly, Covid funds, and here we are not discussing only the funds paid directly to companies, but the heightened demand which elevated prices and therefore profit margins (profit gouging) and which was an indirect source just as large as the direct infusions. Together, many zombie firms and investment companies were recapitalised.

But this is coming to an end. Sub-prime auto loan defaults are now back to 2009 levels claiming their first but not last victim, when *American Car Center* with 40 dealerships in 10 states closed its door and fired its workers. So too with companies filing for bankruptcy holding over $50 million in liabilities. (See graph below.) By the end of February that total had risen from 20 to 39 compared to the total at the end of February 2009 of 63. At the end of February the amount of dollar-denominated corporate bonds and loans trading in the Americas at distressed levels amounted to $237.2 billion. And this does not include the >$800 billion in share and bond losses held by major US banks yet to be written down.

Graph 6.



In the UK, the weakest of the G7 economies, corporate failures began to occur earlier, by mid-2022. "*Total company insolvencies in England and Wales in the second quarter of 2022 reached their highest quarterly level since Quarter 3 (July to Sept) 2009, driven by Creditors' Voluntary Liquidations (CVLs).*" By August 2022, one in ten businesses were in danger of bankruptcy. 2023 is the year when the zombie companies globally run out of blood marking 2023 as the year when corporate liquidations reach crisis point.

Conclusion.

Yes, there are cycles and there are cycles. There are the industrial cycles within the longer term structural cycles. For example within the 20 year period of globalisation, there were two recessions, 2001 and 2008 but neither abolished the longer term cycle. It was only when global profits began to fall systemically due to the rise in the global composition of capital resulting from the largest wave of investment in the history of capitalism, occurring in China, that this longer period was ended. In turn the rise of China in the form of a new economic competitor, amidst a landscape of falling profitability, served to aggravate this development. It is clear that the USA in responding to this development is willing to fracture and thus end globalisation in a manner not dissimilar to the protectionist policies which marked the depressed 1930s.

In the end it is profits and profits alone which point to the future. And the future is one of downturn, a downturn of sufficient magnitude to put capitalism on notice. I would not describe long waves as waves as their shape is irregular and their amplitude and duration varies. Let's just settle for the fact that capitalism from time to time destructively lays the foundation for a longer period of growth in which 2 to 3 shorter term cycles are found. Let us also settle for the fact that the final short term cycle also coincides with the end of the longer term growth period making it the most convulsive recession of all, as in 1973 or 1980.

Brian Green, 3rd March 2023.